

# The Permanent Crisis, Decline and Transition of Capitalism

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*Capitalism has become progressively more unstable since the welfare state became attenuated and the Cold War ended. Finance capitalism was restored, and monopolistic competition has been rejuvenated. Economic control is more concentrated than ever. The reserve army of labour has been partially restored, and investment controlled. In turn that led to vast accumulations of money in banks, private equity and other forms of money holding, while the economy ultimately fell into its crisis. Austerity has failed to hold the fort, leading to a combination of concessions to the far right while maintaining austerity. There have been no concessions to deal with the overall stagnation, real mass unemployment and low productivity. The logic of the situation leads to increased disintegration combined with repression and a slow-growing mass movement of the working class. There are no more intermediate stages to socialism.*

*Keywords: Stagnation; Crisis; Transition; Decline; Capitalism; Ruling Class; Austerity*

## Introduction

At the present time, the overall consensus, as reflected in reports in journals and newspapers, is that there is a modest upturn. However, it is unclear what that means, other than the ending of quantitative monetary easing and a rise in interest rates. Official unemployment figures show relatively low unemployment levels in the UK, US and Germany. However, more detailed examination may lead to a different conclusion. Wages remain low, compared with 10 years ago, and the percentage numbers in the workforce are down. In the UK, the numbers of so-called self-employed have gone up, the vast bulk of whom are struggling to survive.

The main indicator which causes worry or is proof of continued downturn is the relatively low levels of productivity per worker. In parts of the third world the situation of many, if not most, people remains dire.

Crucially, policy remains tied to austerity and investment is relatively low. Alvin Hansen's term—secular stagnation—now used by Lawrence Summers, is a more

orthodox term for what would have been called a depression in the 1930s. In that period, the economy went down and recovered to a degree but remained at a low level until the Second World War. That appears to mean that the world will remain at a low growth level, with ups and downs and odd crises in parts of the world. For a Marxist, however, we are in a global crisis of the capitalist system, for which the only real solution is the movement to socialism.

This article tries to disentangle some of the forces involved in the current crisis, possibly most profound of the political economic crises that has hit capitalism.<sup>1</sup>

How do we explain the situation? The contemporary crisis has now run a decade or more, depending on the start date preferred. It cannot be explained as an extraordinary mass banking fraud from which the world is taking a long time to recover, given its extensive interconnections. Nor can it be understood as a rather deeper cyclical downturn than normal for the post-war years. Most people would probably agree that there is something more involved. Some Marxists have pointed to the falling rate of profit or overaccumulation or both. Keynesians are holding out for underconsumption, and so secular stagnation. The problem with these arguments is not that they may not have an element of reality about them, but that they usually separate the economic from the political-economic or socio-economic reality. This article tries to disentangle some of the medium- to long-term forces now showing themselves as the political economic determinants of contemporary history.

Trump and Trumpism do not come from nowhere, nor will the forces involved disappear even if Trump does vanish for one reason or another. There has never been an analysis of the possible forms of defence and offence that are available to capitalism as it tries to avoid its overthrow. Direct force, mass imprisonment and execution, as in pre-war years, are not the only way. The structures of capital can be adapted in known and yet unknown ways. So, for example, we are now seeing a return to protectionism, nationalism and xenophobia and their economic consequences. Their turn came as a result of the failure of the turn to austerity, which in itself was a hardening of the earlier shift to mass unemployment and commodity fetishism. The latter, in turn, was consequent on the move to finance capital as the dominant form of economic control.

When Marx spoke of capitalist crisis being a period when all the contradictions of capitalism come to the fore, he obviously implied that there were more contradictions than the cyclical forces involved in a downturn: falling rate of profit, underconsumption and disproportionality. In the first place, there are three political economic forms involved. The minor cyclical up/down movement of 5–10 years as from 1945 to 1989 is the first. The medium- to long-term tendency to seize up with overproduction–overaccumulation (including underconsumption and disproportionality) or possibly with

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<sup>1</sup> 'Political Economy and the End of Capitalism', *Critique* 41, *Critique*, 35:1 (April 2007), pp. 67–77, 'A Marxist Political Economy of Capitalist Instability and the Present Crisis', *Critique* 47, *Critique*, 37:1 (February 2009), pp. 13–29; 'The Crisis and the Capitalist System Today', *Critique* 53, *Critique*, 38:3 (August 2010), pp. 355–373, 'The Permanent Instability of Capitalism', *Critique* 67, *Critique*, 42:1 (February 2014), pp. 127–138.

a falling rate of profit is the second and a failure of the system itself with supersession or destruction is the third. Civilisation faced that reality during the First World War, with the Russian Revolution and the uprisings in Europe in 1919. The present crisis is a genuine crisis of the capitalist system, not just part of a minor or major cycle, which had been functional to the system for centuries. The systemic crisis in turn is not new. It has existed for a century on one interpretation—since the First World War—and for 150 years on another—since the Long Depression or the beginning of the imperialist Epoch. In past articles I have argued that the end of the Cold War has been crucial in causing the capitalist system to enter a long-term crisis. That, in turn, cannot be understood without referring back to the fundamental break caused by the Russian Revolution of 1917. There is no way to understand the present without extracting the crucial historical elements underlying the contemporary scene.

### **The Transitional Period—Contradictions, Confusion, Chaos and Malfunction**

In the first instance, the Russian Revolution posed the question of continued ruling class power over the working class, and consequently the hegemony of the imperial powers over the global economy. It directly threatened imperialist control over a large part of the world. The world moved into a transitional period between capitalism and socialism. In this period, the ruling class could and did use both concessions and repression as a means of control. They consciously accepted a form of political democracy, albeit limited and distorted as it is, which placed critical restraints on the operation of capital. The mass unemployment of the Great Depression was limited by protectionism as in the British Empire, and through the New Deal in the US. The alternative was to drop democracy and impose dictatorial control as in Fascist Germany and elsewhere.

It also led to direct repression of the left or working class activists. The ruling class was aware of the shift in the nature of the Soviet Union with the rise of Stalinism and hence were able to use the Cold War, with a nod from the Stalinist elite, as a means of economic and political control. As a result, capitalism obtained a new lease of life, in which capital was strengthened, even though the actual form appeared to be one in which capitalism was threatened with extinction by the USSR.

During and after the Second World War, the nature of capital in its operation, in developed countries, became progressively more socialised with nationalisations, free or partly free education for all, and free/partly free health services for all, but also increased role for regulation, state participation in strategic industries, a crucial role for defence and government assistance for research and development. It led to the form of the welfare state, to more or less full employment in the 'developed' countries, and the capitalist economic/investment cycle was controlled. Finance capital was subordinated to industrial capital. Imperialist extraction of surplus value from the third world countries continued, although independence reduced the level of imperial control and a local ruling class and 'middle class' were allowed a part of the surplus value, or obtained higher salaries.

(Trump's demands for other imperial countries to bear more of the costs of the hegemonic imperial power is joined with the need to reflect the pain being suffered by sections of the US working class, blue- and white-collar. However, the ruling class has no alternative strategy to its current strategy of finance capital joined to austerity, automation and so-called globalisation or transfer of industry to East Asia.)

Since the switch to finance capital in the late 1970s, the process has deepened. Production became globalised with vast supply chains in which the parts of the product would go and up down and back and forth through the networks over a number of countries. This process made great strides with globalisation and its decision to go for a decisive shift of industrial capital to underdeveloped countries, particularly China.

The late period of capitalism, as Mandel calls it, or the transitional period between capitalism and socialism had been characterised, after the Bretton Woods agreements, by a sharpening of the process of socialisation as argued above but also by a rear-guard counteraction by the bourgeoisie. In reaction to the increased integration of the economy, improvement of the means of communication, rapid development of the means of travel, mass provision of education and health, which required nationalised forms, and increased regulation, the ruling class privatised what it could, when it could. The proto-socialist forms do not have the necessary conditions to function properly within a capitalist society so they malfunction. However, the capitalist forms, most obviously in health and education, do not work optimally either. The result is a more generalised sense of malfunction which feeds into the crisis.

The crisis, however, is not a simple objective process. Austerity is not the only possible policy for governments, although practically all governments have adopted some form of austerity since 2007. The failure to invest is in large part a conscious choice of big business. Low productivity in its turn is in part a result of the poor investment record of capital in the last 20–30 years

The increased interaction between the poles of the contradictions in the society raises the tensions within the system, reflecting the fundamental crisis of the capitalist system. It compels both managerial and working personnel to try to get a deeper understanding of the evolution of events. In other words, the crisis moves from being objective to being subjective as well as objective. The capitalist class has become increasingly conscious of the crisis as a crisis, and not just as a class but also as individuals. So-called high net worth individuals are looking for places in the world where they will be safe if the world turns upside down.<sup>2</sup> Apart from questions of individual safety, the class can act consciously as a class, and not just leave government to bureaucrats. Unlike the ruling class, the working class are not protected by their wealth, and nor are they helped by the absence of powerful defensive

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<sup>2</sup> Jamie Smyth, Lake Hawea Station, a 4,605 hectare property in Central Otago, is one of a growing number of self-sufficient estates on the market in New Zealand. They are typically pushed to offshore buyers and, according to some commentators, are the latest craze for a global super-rich hedging against the collapse of the capitalist system', *Financial Times*, 3 February 2017, <https://www.ft.com/content/d25d9024-e9cb-11e6-893c-082c54a7f539>.

organisations, whether political parties or strong unions. The shift to finance capital and the transfer of industry outside the developed countries combined with the delayed and apparently painful birth of a new and genuine socialist party has thrown sections of the working class into a period of misery. Because the defeat of the October Revolution was not anticipated or even understood in the 1930s, the left was thrown into disarray and the forces of the right and extreme right took over in a large part of Europe in that period. We are still struggling with that issue, and the forces of the right are able to show themselves again, in the post-Cold War period.

With or without the Cold War, modern society has been shaped by the outcome of the Russian Revolution. However, the bourgeoisie has found various ways to survive in this transitional period, recovering from the threat of overthrow, ideologically, socially and militarily. Today, however, Trump epitomises its failure, not that the central bourgeoisie is entranced with him. However, the Trump regime has some of the bourgeoisie's leading lights and its explicit and implicit political economic programme may be representative of their views, or of an important component of the class. Their programme effectively smashes the element of compromise which allowed the transitional period such a long run. It was already on its deathbed but they have taken the initiative.<sup>3</sup>

In short, in the transitional period, the political-economic process has become increasingly conscious and socialised, even if the bourgeoisie pretends it is entirely objective. They declare that a debt is a debt and austerity is absolutely necessary. There is less point in investing under conditions of considerable uncertainty. Capital is self-expanding value but when its pathway is deliberately blocked it is no longer capital but money.

### **The Cold War and the Period 1945–1979**

The present has been shaped by the Cold War itself and its termination. In particular, there were five features of Stalinism and the Cold War which were crucial in contributing to the stability of world capitalism and so propping up the global economy. Their disappearance has been crucial in creating the present less determined and more chaotic class relationship.

- (1) In the first place, there was the *ideological disciplining* of the population, with the doctrine of anti-communism, a doctrine which relied on the reality of the atomisation and repression of the Soviet and East European working class. It was clear that the position of workers in the Stalinist countries was considerably worse than in the US or Western Europe and that they were subject to high levels of both oppression and exploitation. Their civil rights were sharply curtailed and their

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<sup>3</sup> Edward Luce, 'Trump Creates Field Day for the 1 per cent', *Financial Times*, 26 February 2017, <https://www.ft.com/content/7dec9a66-faa2-11e6-9516-2d969e0d3b65>

access to literature, information and historical knowledge was very limited. As Western propaganda was supported by evidence of escapees, refugees and the odd uprising and as much of the so-called left supported the former USSR, they, the left, were marginalised and prevented from having a significant political influence.

Partly as a result, workers accepted the taxation required to support the Cold War. They also accepted the disciplining of the workforce that went with the Cold War. In some countries they even rejected the left as enemies. This was much less true on the continent of Europe, although this ideology was sufficient to cause splits in the trade unions and allow the emergence of (often dominant) Christian Democratic Parties. Wages were contained, while taxes were raised or maintained in order to support the Cold War.

This form of ideological control has gone, as shown by recent political events. It is still possible to argue that a socialist programme will necessarily lead to Stalinism, but it is less convincing. The events of 1968 in France set the ball rolling, although the ending of the Soviet Union in the period 1986–1991 was critical.

- (2) The second feature of the Cold War and Stalinism was the direct political control over the organisations of the workers through Communist Parties and Social Democratic Parties which became increasingly dependent, even if indirectly, on Stalinism both internally and externally. This applied largely to Western Europe but even where Communist Parties were small they often had disproportionate influence on trade unions and various popular struggles. As their chief function was to protect the USSR, they generally tended to sell out the various struggles in which they were engaged or else take an extremist and hopeless position. The Social Democrats always prevented any working class struggle going beyond certain limits. At first they served as adjuncts of the American ruling class, often financed by particular US institutions, but often their lack of a working class base forced them over time to interact with the Stalinists, with whom they shared a common authoritarian viewpoint. The two-camp theory, propagated both by Stalinism and the US, made opposition to both Moscow and Washington a lonely affair.

In addition, such non-threatening parties, essentially sheep in wolves clothing, buttressed the whole political system by providing an apparent opposition to the more dominant conservative parties. The historically young Parliamentary democracy was given a new lease of life, appearing as the democratic alternative to the Soviet Union, albeit with two or more parties with little programmatic difference. Stalinism thus created political stability under capitalism. One element of that was the defacing of Marxism to the point where many turned away from it.

Both Stalinist parties and right-wing social democratic parties have either disappeared or lost their appeal. The contemporary election in France shows the polarisation, where the two left presidential candidates would get up to 28 per cent of the vote in the unlikely event that they combined, while the far right

candidate is expected to get around 25 per cent. The centre-left candidate, projected to win, is doing so by pretending to be above party.

- (3) The Cold War functioned to provide an apparently unlimited demand for military goods, which in turn propped up demand for all goods, but particularly for heavy industry or producer goods. Hence the sectoral imbalance between producer and consumer goods industries was overcome and underconsumption was greatly reduced. The rate of profit was raised through the public sector setting buying prices for the military goods that were above the price of production.<sup>4</sup>

The use of the military sector as a means of raising the level of employment and GDP has been a standard ploy of the ruling class. In general, the latter prefers all production to be done through private enterprise in order to ensure as limited a state as possible. However, the military sector is different as it is naturally a ruling class preserve, in which hierarchy, subordination and ideological indoctrination is part of the order of the day. Nationalised industries have a built in tension between hierarchy and industrial democracy. However, with the end of the Cold War, expenditure on the military sector dropped rapidly to less than half the previous percentage of GDP in the US. It is no accident that Trump has included a substantial increase in military spending in his first budget.

- (4) The Stalinist countries acted as a limited countercyclical source of demand for wheat, machinery and other goods. This is no longer the case since they no longer exist in the same form.
- (5) The ruling class established its own cohesion on the basis of avoiding its possible future demise, allowing it to organise the world economy in a way it had not been possible to do otherwise. It could impose its will on refractory sections of the capitalist class and it could take swift measures to deal with economic or political problems. A hierarchical structure was established with the American ruling class being dominant, using both official economic and military organisations as well as regular conventions of the ruling class itself. The US took over global hegemony from the British Empire in the name of anti-colonialism and democracy.

The elements of a common ruling class form were established, which helped to provide a guide to action for the ruling class. It helped to provide it with a collectivity, which assisted them in controlling the workers, raising the rate of profit and undermining any challenge to its authority.

The US ruling class established itself as the global ruling class, which had overall hegemonic political economic control over the world, using the structure of the Cold War, with the demise of the USSR. In fact, the UK had yielded its Imperial role to the US while the USSR after the war was more reactive than pro-active.

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<sup>4</sup> The British Socialist Workers Party viewpoint, which emphasises the role of military spending, is very different from this interpretation. It tends towards mysticism in that it derives the role of the Cold War from the view that the USSR was capitalist and from Kidron's arcane interpretation of the transformation problem.

Without an apparently powerful enemy, the structure began to dissolve before the end of the Soviet Union and lost its *raison d'être* after that event.

### *The Crucial Role of World War and Imperialism for Stability*

Under this system, the working class was disciplined and order was maintained in the world economy. In the immediate post-war years, labour was also disciplined by the after-effects of the world war, the historical legacy of the depression and of fascism. But these effects became less and less important with time and, as Stalinism declined, the world order was increasingly under challenge, even if in an inchoate way. 1968 was a critical year in this scenario. Although the old order remained in place, the bourgeoisie could see the trajectory of events if no action was taken.

At this point, it is necessary to take a step back to further discuss the historical importance of war, and hence its surrogate, Cold War, for the stability of the capitalist economy. Effectively the UK had reached a crisis point in the 1870s, with the Long Depression of 1873. The downturn did lead to a period of creative destruction, but it was politically dangerous. The political alternatives included concessions to the skilled working class and Imperialism. The export of capital and the movement of workers to the colonies combined with colonial wars like the Anglo-Boer War of 1899–1902 and preparation for a bigger war to ensure stability. The UK saw to it that it had twice as many warships as the next power. The standard of living in the UK, and other colonial powers was maintained or raised. The 1914–18, First World War, appeared as the means to continue the policy of containment of the working class. It acted to raise the rate of profit, and the demand for consumer and producer goods as well as providing the necessary propaganda.

Put another way, capitalism could only survive using Imperialism and Wars. This was not a technical inevitability but a result of the dictatorial form of the economy colliding with the needs of the majority. The economic tendency towards crisis was itself closely related to the undemocratic form and its alternative. Capitalism has its barriers:

Rising productivity will necessarily lead to excess means of production so disproportionality between the producer goods sector and consumer goods sector and ultimately to excess consumer goods. This is because there is no automatic relation between wages and totals of goods produced, or of producer goods and demand for it in the consumer goods and producer goods section. This is the accidental aspect but it is not just accidental in modern conditions. In principle Department 1 could produce for Department 1 alone, at least for some time, as Tugan-Baranovsky argued, but society would not allow it, and capitalists would regard it as an impossibility, so restricting production in that sector. Secondly capitalists do not want unrestricted rises in wages or genuine full employment. That does two things create automatic underconsumption and real subordination. In other words, the overaccumulation in capitalism is not an accident remedied every few years but a necessary feature which comes to the fore at the point where abundance is possible, and where democracy demands equal power at work. The bourgeoisie did gradually concede more democratic forms as a result but their problem was that it made their economic control more difficult. They could not easily, therefore, allow mass unemployment, or the reserve army of labour, without both mass discontent and the formation and success of anti-capitalist parties. War and Imperialism, therefore, became integral parts of the whole capitalist political-economic



system. Imperialism has had its time and War its limits but they remain as integral parts of the capitalist system, even if less central than they were before and during the Cold War.

Paradoxically, the end of Stalinism appeared as the total victory of US hegemony as the global capitalist power, in an eternal capitalism. The truth was the opposite. Stalinism and the Cold War, were crucial to all other mechanisms of control over the working class. Once it began to crumble, the various other forms of political and economic control began to crack. Since the bourgeoisie began to face direct political and trade union opposition, or the threat of it, they changed strategy and went for a switch to finance capital. That in turn meant an emphasis on efficiency and short-term profits, the use of industrial policies like just in time working/manufacture which led to mass lay-offs as in the UK under Thatcher. The lean and mean industrial approach segued to globalisation or the shift of industry to the third world, particularly China, after the end of the USSR.

While the result after 2006 has been one of economic failure, this was not anticipated. With the process of détente and then the deal with Gorbachev and later, the USA drastically cut its arms expenditure from 1986 onwards. Both the efficiency drive to raise profits for finance capital in particular, and the transfer of production to China could only mean a rise in first world unemployment, much of it hidden in the statistics, in workers withdrawing from the employed workforce, at least as formally defined. The rise in production coupled with a reduction in labour time spent per unit could only lead to over production or over accumulation. However, the crucial feature of the present long term crisis is that formal overproduction is limited. Firms do not need to overproduce when they know their markets. They can restrict production, maintain prices and bank their profits. For a period of time, the individual finance capitalist can make money through speculation on the stock exchanges, at least in principle. They are helped by the current prices for software and for fashionable objects like phones.<sup>5</sup>

### The Pre-history of the Crisis

Capitalism has not been visibly collapsing, but it was true that the stock exchange collapse of October 1987 followed by the downturn of 1989–1993 was not followed by a strong upturn. On the contrary, there was first the East Asian crisis then the Long-term Management Capital fund, which imploded. They were not isolated events but expressions of the increasing instability of the system.<sup>6</sup> At that point, the dot-com bubble was itself about to burst. In March 2000, the stock exchange and the global economy turned down. Central Banks had been careful in raising interest rates in the 1990s, aware of the frailty of the system. The 9/11 attack occurred in September 2001. Thereafter, President Bush and Prime Minister Blair went for a war in Iraq in

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<sup>5</sup> The point being made is that smartphone makers are individual monopolies in themselves, since the buyer is not just buying a phone but a brand—an Apple phone for instance- because it provides prestige or whatever in itself, so allowing prices to be monopoly prices. One illustration is given by: Techwalls: The Real Production Costs of Smartphone: <https://www.techwalls.com/production-costs-of-smartphones/>. The profits cited are around 60–74 per cent, which is around 5 times the average rate of profit in the USA.

<sup>6</sup> Roger Lowenstein, *When Genius Failed* (London: Fourth Estate, Harper Collins, 2002).

March 2003, which is still going on. Between 9/11 and the invasion of Iraq, the incipient crisis in the economy was subsumed into the new (limited) war economy. Under Reagan, war expenditure had reached a peak of over 8 per cent in 1986, as mentioned above, but with the end of the Cold War, and with an administration determined to reduce government expenditure, the US government went on a deliberate and rapid reduction in arms expenditure. By the mid-1990s under Clinton it had more than halved in budget percentage terms to around 3 per cent.

That in itself would not have brought the country to its knees. It was the move to finance capital which was the fundamental cause. The capitalist class deliberately chose to move its capital to finance, finance-capital, in the form of banks, hedge-funds, private-equity funds, etc. Finance capital is capital derived from productive capital, surplus to immediate needs, turned into fictitious capital in order to retain or increase its nominal value for a time, which can then re-enter the productive market in order to further expand its value. It then acts as a form of control over productive capital. Hilferding calls it abstract capital, in the sense that it is abstracted from concrete capital, i.e. productive capital. Its freedom from concrete investment gives it its particular power. The particular features of finance-capital as opposed to industrial capital are that it is short-termist, and unproductive in itself. In other words, it wants returns quickly, as in 18 months, but it has ultimately to get them from outside finance. The banks of the 19th century as in Germany, although not in the UK, did lend on a long-term basis—say 22 years, to industrial firms. They had to do so in order to sustain the process of industrialisation and the need to compete on a world market dominated first of all by the UK. UK finance capital was short termist, and remained short-termist, but it invested externally, whether in Europe–US or in the third world. In the US, after the First World War, by the 1930s US industrial firms could finance themselves from their returns from investments in their own firms. However, the separation of finance capital in such a manner as to make finance capital both independent and short termist was only complete after the 1970s.

The difference between the two forms consists in the control over the source of profit. In the case of long-term investment, profit is seen as resulting from successful production of a competitive product, particularly as mass production, in order to produce large returns to capital. In the case of short-termist finance capital, there is no faith in long-term profits. The aim is quick extraction of profits from whatever source. The shift to finance capital itself was a deliberate manoeuvre to outflank the working class activity of the 1960s and 1970s.

The logic of such a situation as it developed, particularly in the US and UK, after the 1970s was one in which productive investment in Europe and the US was shifted to areas with lower wages and higher rates of exploitation, particularly China. Profits rose but they then found that they had trouble re-investing at the rates of profit required—hence the various bubbles as sections of the capitalist class sought one nirvana after another, as briefly mentioned above. Whether the falling rate of profit played a role here is a matter of empirical investigation, not a question of theory.

## The Crisis

The Capitalist structure declared crisis officially in 2008, with the Lehman debacle. In fact, the system had begun to unwind, without solution, from the point at which the mortgage crisis showed itself in mid-2006.<sup>7</sup> In the UK, the crisis became official with the de facto bankruptcy of a succession of banks beginning with Northern Rock in 2007, followed by the Royal Bank of Scotland and HBOS, bailed out directly or indirectly through state intervention. The nadir was reached with the collapse of Lehman brothers in October 2008, but the Royal Bank of Scotland has continued to announce a net annual loss on its accounts for the last accounting year in 2016. Other large banks were either propped up by government or 'saved' through mergers and takeovers. The crisis was above all Anglo-American in form. Although continental banks were affected, some badly, the larger banks did not suffer the same immediate threat to their existence until later, as in the case of Deutsche Bank. Thereafter the crisis was treated as a pure banking crisis with a spill over onto the wider economy. The US and British governments tried to save Lehman Brothers by getting Barclays to take it over, but they would not give the necessary money or guarantees. Had they done so, the immediate crisis need not have been so profound. Alistair Darling, the British finance minister at the time, argues that the amounts were too great for the UK to provide the necessary backing, given the situation with its own banks.<sup>8</sup> However, the US could have helped and it did not. The result was the worst of both worlds. It amounted to a partial bailout in that the crisis was triggered, but both the US and British governments then helped to bail out a series of banks and insurance companies like AIG. While banks were merged, only Lehman Brothers of the big banks suffered such an ignominious fate. In effect, the classic period of an in-depth downturn with mass bankruptcies and extensive mass unemployment, as in the Great Depression, was avoided.

The right-wing politicians and the Hayekian economists were in favour of a period of 'creative destruction', arguing against the salvaging of the banks and other financial institutions. In reality, had the financial system been allowed to fail, the panic and the fallout would have gone right through the economy. It is not at all clear if they understood what they were demanding. The result might have achieved their object in that the economy would have suffered a period of destruction, leading to a gradual return to a functioning economy of some kind. From the point of view of the bourgeoisie that would have been a gamble both economically and politically. In the first instance, there was no guarantee that the economy would not take a long time to be resuscitated and in the second place, they knew that the population could well turn to the left and far left after a relatively short period of time.

The elimination of the period of 'creative destruction' is not a technicality. It effectively means that there can be no recovery either for a long time or at all. This is not

<sup>7</sup> <https://www.thebalance.com/subprime-mortgage-crisis-effect-and-timeline-3305745>

<sup>8</sup> Alistair Darling, *Back from the Brink* (London: Atlantic Books), pp. 121–124.

just because the existing potential is so great, but also because the forces of production are being rapidly developed. Economic journals and magazines are not short of articles describing the future automation of plants. With the mass unemployment resulting from ‘creative destruction’, absent workers need to be assuaged politically. The obvious solution would be one in which the number of hours commonly worked could be reduced, perhaps halved, and all persons over 18 receive an automatic wage for being a citizen. However, this is not a solution easily adopted by capitalism. Paradoxically, in some countries such a wage would save money now going on welfare benefits. The issue is much broader than can be analysed here. I am concerned at this juncture to point out one more aspect in which the future society is demanding entry and refusal produces threatening political results.

The initial decision was effectively taken by the US ruling class as the global hegemon, with its British antecedent accepting it. The UK ruling class accepted its fate, losing its hegemonic Imperial role, as early as November 1921,<sup>9</sup> when it conceded to the American ruling class, at the Washington conference at a conference on the world situation after the First World War. The different countries were effectively given ranks in numbers and the UK appeared as joint equal with the US. Talk of a special relationship has been correct in that the British ruling class accepted its subservience to the US and duly allowed its empire to transfer. It is special but not based on equality of relations. It has been a long, drawn-out process, which still continues. The shared intelligence framework of the four English-speaking countries, the US, UK, Canada and Australia, is obviously a paradoxically clear form of ‘collaboration’.

### **The Importance of Finance Capital**

The question was not simply one of saving the odd bank but of saving global finance capital itself. At the same time, in the present post-1979 period it has expanded beyond its earlier incarnation.

Private equity,<sup>10</sup> hedge-funds, etc. are particular finance capitalist entities with more concentrated ownership and a greater leeway in dealing with their funds. Their aim, in turn, is to get the quickest and highest return compatible with the stability of their enterprise. Banks can do the same thing but usually have a dispersed shareholder base, with some responsibility to a wide variety of customers. The result is that they tend to be more cumbersome, and more supervised. There is, therefore, a variety of banks ranging from the staid and responsible to those which do not differ from true finance capital firms. In the UK, there was a division between merchant banks and the standard type of bank, before the former were bought up by US capital.

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<sup>9</sup> Adam Toze, *The Deluge, The Great War and the Remaking of Global Order* (London: Allan Lane, 2014), pp. 11–12.

<sup>10</sup> ‘In finance, private equity is an asset class consisting of equity securities and debt in operating companies that are not publicly traded on a stock exchange. A private equity investment will generally be made by a private equity firm, a venture capital firm or an angel investor’, <http://www.definitions.net/definition/private%20equity>

The orthodox economic theorists cannot explain why the downturn has lasted so long, and why it so easily transferred to a more general non-banking crisis, with low to negative growth. The Japanese economy now appears as an outlier or perhaps as a forerunner in 1989 onwards of the more general crash to come. The Canadian and Swedish economies also suffered a serious downturn in 1989, which limited their exposure in 2007–2008. The current Japanese Prime Minister, Abe, has clearly failed in his expressed intention to return Japan to a period of prosperity. The unexpressed paradox of officialdom is the way in which they cling by every fibre in their being to ‘the necessity’ of private enterprise while at the same time using state intervention, and even ‘planning’, as the methods being used to prevent the global economy touching still lower rates of growth. The current era is one in which conscious planning is demanding an entrance, and the bureaucrats as consciously ration its use. In reality one ought to talk of negative planning to avoid the raising of state benefits and of wages in the private sector. Donald Trump, and the far-right parties of Europe, as many have noted,<sup>11</sup> have leaned left to attract support. The right uses globalisation as a whipping boy, when the immediate problem is the real capitalist downturn, combined with the weakness of the working class itself. The word ‘depression’ has been slowly creeping into everyday descriptions of the present—from crash, to crisis to recession, the Great Recession, secular stagnation and depression.

### *Long-term Over-accumulation*

Apart from the re-emergence of finance capital and the strengthening of monopoly, first theorised by Hilferding and Lenin in 1910 and 1916, respectively, capital had maintained a balance between supply and demand for consumer goods and for producer goods from 1940 onwards through the use of the state, most particularly through arms production, as in the US, but also through the payment of welfare, including health, and the maintenance of full employment or near full employment, particularly in Western Europe. As mentioned above, the Cold War played a central role in assuring balance in the different sectors of the economy. Capitalism was regulated or administered rather than planned. One might call it pseudo-planning or use some other term bracketed with the word ‘planning’. The re-introduction of finance capitalism went along with mass unemployment and more limited welfare benefits. This was done both through legislation and by removing subsidies and tariffs in the name of globalisation. The replacement of nationalised forms by private enterprise served to lower wages and the number of workers involved in the enterprise.

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<sup>11</sup> John Weeks, ‘Trump’s Victory Represents the Fulfilment of Neoliberalism, Not its Failure’, [http://urpe.org/?page=articles&side=2017&sub=trumps\\_victory\\_represents\\_the\\_fulfilment\\_of\\_neoliberalism\\_not\\_its\\_failure](http://urpe.org/?page=articles&side=2017&sub=trumps_victory_represents_the_fulfilment_of_neoliberalism_not_its_failure) and Andrew Torre, ‘Fascism: A Dated Paradigm for Capitalist Control’, URPE, [http://urpe.org/?page=articles&side=2017&sub=fascism\\_a\\_dated\\_paradigm\\_for\\_capitalist\\_control](http://urpe.org/?page=articles&side=2017&sub=fascism_a_dated_paradigm_for_capitalist_control)

These changes had the further effect of widening the level of inequality in the society both in terms of the extremes and by working towards the elimination of the middle layers. Classic capitalism, or the unrestricted market, would tend to go this way, but modern capitalism has tended to do so faster and in a more extreme form than anticipated by its supporters, orthodox economists. One can understand this process either as the capitalist class exacting its revenge for the post-war Keynesian settlement or the ruling class switching policy because it was threatened with its overthrow. The strikes and discontent in the 1960s and 1970s with demands not just for higher wages but also for greater control from below would point to the latter explanation. One could say that both explanations came together in that period.

However, the result was to merge the contradictions of finance capital with the classic contradictions of capitalism itself. Interestingly, Lenin in *Imperialism, the Highest Stage of Capitalism*<sup>12</sup> rejects the idea that finance capital will lead to a long-term downturn or a crisis as we understand it. He writes of there being upturns and downturns. Lenin clearly did not foresee the Great Depression of 1929 or the present Depression. It is interesting to consider why he and other Marxists did not anticipate it. After all, they might have taken a hint from Marx, who put great store on the downturn of 1857, not to speak of all his writings on crisis, particularly in volumes 3 and 4 of *Capital*. Lenin, in fact, was arguing in *Imperialism* that the First World War was a method of avoiding crisis, which itself, however, led to a crisis of capitalism and hence a future beyond capitalism.

The classic Leninist view is that capitalism reached its limit by the 1870s, at which point it turned to monopoly, Imperialism and global war. This was facilitated by the new form of finance capital. The flow of investment into the third world, as well as the US and Western Europe, raised the rate of profit and allowed a rise in wages and employment for a period. The two World Wars that ensued were followed by nearly a half-century of Cold War. Governments planned and where necessary rationed supplies. The market was held in check. Given the constant destruction of weapons, vehicles, airplanes and the means of weapons and troop delivery both disproportionality and underconsumption were held in check. The situation of the organic composition of capital has not been properly explored over all that period, covering the global economy.

It is crystal clear that war, particularly large-scale war, performs the task of ensuring sufficient demand for product and services while ensuring full employment. Through the discipline imposed on the citizenry, the working class is compelled to accept the controls over supply and so a lower standard of living than was and could be the case. The problem for the ruling class arises at the point where the working class both at work and in the army revolts against that discipline, refusing to fight and rejecting their low standard of living while accepting orders from a privileged ruling class.

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<sup>12</sup> V.I. Lenin, 'Imperialism, The Highest Stage of Capitalism', [www.marxist.org/archive/lenin/works1916/imp-hsc/ch01.htm](http://www.marxist.org/archive/lenin/works1916/imp-hsc/ch01.htm)

Capitalism has been in a permanent crisis, or what a bourgeois economist would call disequilibrium, since the long depression of 1873, which lasted 20 years in the UK. Its fundamental solution was war, Cold War, or expectation of war plus imperialist wars combined with exploitation of conquered territories. One cannot talk of a peace time economy as if it was separated from this process. There effectively was no peace time for the military and its economic operations.

### The Transitional Period

For Marxism the Great Depression is part of a world which had a good chance of not existing. It was not the old world, pre-1914, but a world in transition from capitalism to socialism. Trotsky formulated the point clearly in terms of a world that was in transition from capitalism to socialism, in a manner parallel to the transition from feudalism to capitalism. This concept is beyond the earlier formulations of Marx and Lenin, although a number of points follow from their arguments. A transition necessarily involves the decline of the old and building of the new. The question of the nature of decline shows itself in the move to finance capital, monopoly, limits on the law of value, decline in productivity and the increasing inability of capital to deal with the contradictions of the society, while the increasing socialisation expresses the other side of the transitional process. The complexity of the issue lies in the fact that the socialisation is always partial outside its necessary environment, while the decline is not absolute, with positive growth, although lower than is possible in a future society.

Marxists have discussed the causes of economic crises in terms of the three aspects—falling rate of profit, underconsumption and disproportionality for close to 150 years—but the reality of capitalist crisis in a time of transition and its forms has not been formulated.

It ought now to be clear that capitalism is at a turning point which is not simply one of low growth. The issue first arose with the 'long depression' and then in the Great Depression of 1929–1940, and it is one where it is not in a catastrophic situation, even if the Keynesians may call it secular stagnation, but it has hit a barrier not removable through the ordinary life-cycle of capitalism. The two forms, imperialism and World War, which were critical in maintaining capitalism can no longer perform the service required without destroying humanity. This is not a question of the environment, although it is no accident that the parallel threat from that source comes at the same time.

It has taken some time for the official forums like the International Monetary Fund and the Organisation for Economic Co-operation and Development to come forward with the obvious truths that productivity is rising only slowly, that such a slowdown in productivity predates 2007–2008, and that the reason for this phenomenon is at least partly due to lack of investment, under conditions of a surplus of investment funds.<sup>13</sup>

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<sup>13</sup> Sam Fleming, 'FED Eyes Lasting Impediment to US Growth after Rethink on Outlook', *Financial Times*, 17 June 2016. The article talks of 'growth in productivity being torpid' ... even in frontier companies such as IT and

'Productivity growth has been sluggish since the financial crisis and had been slowing before it'.<sup>14</sup> I have made this point in previous articles,<sup>15</sup> but the issue has not come to the fore in such a manner until now. In effect, the article quoted is blaming monopolistic competition for the problem either wholly or partly. The article refers to structural factors impeding growth and makes the point that Summers's thesis of secular stagnation is gaining ground. All of this could have been said years ago.

Under conditions of limited competition or straight monopoly, used in the Marxist sense, production can be limited, and surplus value redirected as indicated in the article cited or simply left unused. It can also be used unproductively rather than productively. The result is that department 1 goods and services can be restricted to the point where there is no immediate oversupply, even though the firms involved are able potentially to expand their output to a multiple of several hundred per cent of the items actually produced. Research and development is similarly contained, resulting in lower gains in productivity. Likewise, the same applies mutatis mutandis to consumer goods and services. The reality is that both departments have to struggle to sell their total output, using advertising, expansion of credit facilities, etc., but their potential output is vastly more than they are actually producing. This is most obvious in the case of automobile production. This necessary failure to invest leads to an accumulation of money or 'fictitious capital', which can flow into finance capital itself, or simply be held in banks.

It is a feature of the current crisis that there are low levels of investment, which obviously helps to lower the rate of growth of productivity, and its condition lies in the monopolistic nature of the economy. The problem is not the low level of profits, but rather that further investment is not perceived as increasing profits. The situation is not helped by the fact that previous joint enterprise with government directly or through subsidies has been reduced. Furthermore, employers are worried that too great an increase in employment will lead to a demand for higher wages or greater control on the shop floor. The control of the size of output, depending on the market, is critical in maintaining profits. Indeed, profit rates during the crisis have tended to remain at pre-crisis levels.

(Of course this avoidance of overproduction contrasts with the needs of the majority of humanity. Clearly, even developed countries need a vast expansion of housing, for instance, to cope with the genuine needs of the population but the ruling class is not about to raise wages to that point, or provide more than a modicum of nationalised housing to the working class. In spite of the claims by

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pharmaceuticals. It then refers to the fact that business is tending to go for higher dividends and share buybacks. It explains this by referring to lower levels of business startups and 'growing market power for industry leaders'. Apart from the FED, the article is citing a recent OECD report, <https://next.ft.com/content/e1863b54-33c9-11e6-bda0-04585c31b153>

<sup>14</sup> Ibid., <https://next.ft.com/content/e1863b54-33c9-11e6-bda0-04585c31b153>

<sup>15</sup> See in particular, Hillel Ticktin, 'Critique Notes: The Crisis of Capitalism and the EU', *Critique* 75, *Critique*, 44:3 (2016), p. 199.



orthodox economists and market-supporting politicians, capitalism is inefficient when judged, *inter alia*, on its capability of providing for the needs of the ordinary worker.)

This point in the history of capitalism is unique. During the Great Depression, there was overproduction and share prices collapsed. That has not happened this time, or at least to anywhere near the same degree. The reason is partly because enterprises were 'planning' production so that their losses were limited, and partly because governments as with the G20 took steps to ameliorate the situation. The financial institutions were bailed out, whether through government subsidy or through mergers. In turn, industrial and commercial firms could get loans in order to survive. Unemployment and wage decline were limited. While this meant that economists and some of the left could talk of a downturn or a recession, rather than a depression or major crisis, reality was more draconian.

### **Current Ruling Class Policy**

The right wing, like followers of von Hayek and Von Mises, or the followers of their modern incarnation, Milton Friedman, objected to the bail outs. In general, the right wanted the downturn to go to its natural end, as it were. Some of the left agreed on the principle that the capitalist class ought not to be bailed out. This thought pattern had a thread of truth in what amounted to a draconian viewpoint to allow the economy to hit bottom together with the population. The truth lay in the fact that both theoretically and historically crises had to deal with the surplus of goods and services before demand and supply would balance. This would require that a series of firms, including financial firms, go bankrupt. By creating a clean board, so to speak, for the surviving firms, this would allow them to claw their way back to prosperity through Darwinian selection. It would take some time during which the working class, *i.e.* the vast majority, would suffer through unemployment and low wages. The working class would thus be disciplined and only too grateful for re-employment in the reinvigorated economy.

The idea that capitalism itself is a self-healing mechanism is inherently far-fetched but the right has managed to get a substantial section of the population to believe that doctrine, in whatever form, not to speak of the economists. The right has successfully put a gloss on an aspect of reality. During a period when the capitalist class was still in formation, the crises were more limited in scope, given the relative size of agriculture at the time. Furthermore, the franchise remained limited to a minority of the population until after the First World War. Hence unemployed workers were perhaps more threatening but less able to achieve change without direct action. Finally, most importantly, the size of the enterprises and the competitive nature of industries meant that they could not limit production. This all meant that crises could be regular and relatively short. Hence they could be regarded as cyclical, as innate in the system, without threatening its existence. In the depths of the depression, a substantial section of Capital was wiped out, the poor emigrating, leaving the labour force or finding various unrecorded means of survival. Balance was restored. This is

a description of the process of creative destruction of which Marx spoke and Schumpeter publicised.

Once, however, Capital reached its full form in giant monopolistic firms, they could 'plan' their sales and diversify their product in kind, time and place. However, this meant that they would save money in one form or another, rather than invest, while 'planning' and so limiting accumulation and production. The ultimate logic is not necessarily deep depression but limited growth, with spurts and downturns. As the modern economy is closely tied in with government regulation/control/'planning' there is a particular form of economy involved. The additional aspect here has been the way Capital expanded rapidly into the third world, particularly into South Korea, China and Latin America from 1993 onwards.

The logical policy of a ruling class in a declining capitalism is one of what has become known as austerity. It is a form of 'planning' to avoid 'planning'. Given that the enterprise management wants to maintain stability rather than growth, the ruling class goes along by ensuring that taxes do not go up, while the welfare state is cut back. This reinforces the message from the 'downturn' itself. The labour force is further weakened and ideologically restrained. In this way, the ruling class takes the opportunity to reinforce the classic forms of control.

Abstractly considered this might appear unnecessary or unlikely. The crucial factor is that the Russian Revolution of October 1917 remains alive, in however a distorted form, giving hope of an alternative, especially as it won its battle against enormous odds and survived, albeit only for a short time in its original form.

The argument is not one of secular stagnation, although it overlaps. The difference lies in the Marxist historical-theoretical conceptions of imperialism, decline and war as the feature of post-1870 capitalism, to return to the earlier point about finance capital. In this respect, the crucial change is in the nature of the economy itself in its movement towards monopolistic competition. Since there are relatively few industrial or other monopolies consisting of just one firm, the term monopoly as used within Leninist theory amounts to the same as monopolistic competition. Lenin in his work, *Imperialism*, indeed insists on the concept of monopolistic competition. The question of monopoly is explored next.

### *Monopoly and Competition*

The orthodox Marxist argument on the nature of the economy from the time of Hilferding in 1910, as encapsulated in Lenin's work on Imperialism assumes that economic relationships are governed by the form of monopoly. Orthodox economics adapted their view of economic reality, from the time of the Great Depression. However, with the repudiation of Keynes, they reverted to the denial of monopoly. Anwar Shaik has argued against the Leninist view and that of the Monthly Review<sup>16</sup>

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<sup>16</sup> John Bellamy Foster and Robert W. Chesney, *The Endless Crisis: How Monopoly-Finance Capital Produces Stagnation and Upheaval from the USA to China* (New York: Monthly Review Press, 2012).

school, which developed a theory of monopoly capital.<sup>17</sup> In particular he points to the assumption of perfect competition inherent in their work, which they refute in some detail. Paul Krugman has pointed to the fact that it was Milton Friedman who reversed the orthodox view and he quotes him to the effect that monopoly has little economic effect.<sup>18</sup> Krugman was trying to find the reasons for the failure of the economic revival after the crash of 2007 and raised the question of monopoly.

Clearly Marxists cannot accept the perfect competition argument, either implicitly or explicitly, because its foundation rests on orthodox economics in itself, quite apart from the issue as to whether it has ever existed. In other words, the starting point for Marxists is the political economy of class relations and not the isolated individual struggling in that society in order to survive. Capital is necessarily value in process of continuous and continual expansion as capital, both through selling its products and by absorbing other capitals. Capital makes its own arena, and in a sense, it always strives to become a monopoly, even if it seldom achieves a situation where it is the sole seller or the wholly dominant force in the market. Lenin, unlike Bukharin, does not posit a single firm in the market but long term relative dominance of a few firms which is upset by new entrants and a battle for dominance.<sup>19</sup>

*In the first place*, the present market is not the same as in the time of Marx. He does not posit perfect competition but a number of firms competing, in which the most innovative wins. There is an assumption that there are enough profitable firms for continuous competition over time. The driving force within capitalism is competition among a number of capitals or collections of capitals to increase their extraction of surplus value. In so doing, they raise productivity for the sector and for the society as a whole. That was capitalism's contribution to humanity. This simple form has not been the case for many years. In the case of small business there may be cut-throat competition with few surviving beyond a short time. Alternatively, they may be part of a chain or network ultimately dependent on a large enterprise. The nature of manufacturing itself has changed.<sup>20</sup> Today there are a network or chain of firms working on the product which is ultimately assembled in its final form. The idea that there would be a considerable number of competitive networks in which there would be one or two victors, which would either fold or live to fight another day, depending on their innovative abilities, is simply not true.<sup>21</sup> The global cost of such a form makes it an impossibility but that is not the only issue.

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<sup>17</sup> Anwar Shaikh, *Capitalism, Competition, Conflict, Crisis* (Oxford: Oxford University Press, March 2016).

<sup>18</sup> 'And here's the thing: it's obvious to the naked eye that our economy consists much more of monopolies and oligopolists than it does of the atomistic, price-taking competitors economists often envision'. Paul Krugman, 'Challenging the Oligarchy', *New York Review of Books*, 17 December 2017, <http://www.nybooks.com/articles/2015/12/17/robert-reich-challenging-oligarchy/>

<sup>19</sup> Lenin, op. cit.

<sup>20</sup> 'Schumpeter, Manufacturing, The Factory of the Future', *The Economist*, 30 October 2013, <http://www.economist.com/blogs/schumpeter/2013/10/manufacturing>

<sup>21</sup> 'Bosch says that at least one of its parts is built into almost every new car sold anywhere in the world'. Henry Foy, 'Carmakers' suppliers hold the whip band', *Financial Times*, 15 May 2014, p. 19.

In the second place, the modern context of competition involves a system in which advertising of different kinds is often crucial. Today advertising involves an enormous apparatus both in the original firm and in its designated advertising firm. The modern concept of brands effectively creates a limited monopoly around each product, depending on the particular product. Thus Apple phones are bought precisely because Apple phones have their own prestige. A percentage of Apple phones are bought purely and simply because they are branded as Apple phones, irrespective of their functionality.

In the third place, the customers may often be government agencies of different kinds, who are themselves necessarily monopsonistic. In fact, government regulation, government subsidies and general government interaction is the order of the day, whatever the firm. The obvious result is that there is a close relationship between the most important firms, civil servants and politicians. The same is true of producer goods firms which have become increasingly large. In other words, business or the market today involves an environment that is not conducive to simple competition based on the improved quality of the product for the task. Both in the case where the customer is an official agency and where there are few customers for a complex service, bribery or influence must be common. Even when it is absent, the close contact with administrative, governmental and political agencies means that competition is not primarily around innovation. Such competition as there is, is simply around getting the contract and fixing its terms.

Fourthly, as the recent court case involving Rolls Royce demonstrated, the customer may often be ensnared through bribery. There are any number of instances of corruption or bribery that can be cited, as in the case of the fixing of interest rates, and exchange rates, or of the selling of packages of mortgages combined with other known non-functional loans, or of Volkswagen's fixing of the exhaust gas test. In fact, unlike the practitioner of bourgeois economics, the heterodox or Marxist theorist ought to include corruption and bribery together with the use of contacts, reciprocal favours, etc., as normal means of competition, separate from the product itself. Clearly they do not necessarily lead to rising productivity.

### *The Nature of Capital and the Firm*

The bourgeois economic conception of the firm is not the same as the Marxist conception of the way in which individual capital operates, and one cannot map one onto the other. Capital as self-expanding value has its own drives but in the absence of substantial continuous competition, it malfunctions. Competition acts as a form of control but not as capital in itself. Capital in its declining phase is able to control its political economic environment to a greater or lesser degree and a great deal of its activity and its success depends on its ability to do so. To analyse the operation of the firm as if it is outside the influence of regulations, taxation and evasive and avoidance strategies, systematic bribery, personal abuse and discrimination, normal collusive measures with other firms explicitly or implicitly,

etc., is to discuss a bourgeois ideal which may or may not have existed in the time of Ricardo.

Today a large firm technically owned by shareholders is governed by a board of directors who employ a series of hierarchically organised white-collar employees to run the firm. This form has existed from the time of the emergence of the elementary joint-stock company in the 19th century. The owner-capitalist as permanent totalitarian manager could not last as the process of the concentration and centralisation of industry and capital proceeded. Two parallel processes were going on. The actual management and control over the blue-collar and white-collar workers required both technical and political skills. A bureaucratic apparatus formed itself around the top management whose job it was to establish, maintain and enforce control in order to maximise profits. At the same time, the salaries of the top management were increased to the point where they were getting the equivalent of interest on the wealth of lower ranks of the ruling class itself. In other words, the bourgeoisie rejuvenated itself, not least because some of these managers were able to use their knowledge, control and skills to turn their wealth into new fortunes, moving from millions into billions. A number also played, and are playing, political roles in managing governments, as now shown in the US today.

The bureaucratic nature of modern private enterprise parallels that of the state but is not necessarily controlled by the state. Of its nature, the modern enterprise has to be 'planned'. Modern production of complex products like cars, aeroplanes, buildings, computers, televisions, etc., has a series of inputs made by firms around the world, turning manufacturing into an interconnected chain of inputs moving from one point to another on the globe. Inspection and servicing have become integrated into the lifetime of the product. They are all subject to government regulation.

The bureaucratic-planning aspect is both part of the increasing socialisation of production and society and a conflictual part of the whole. The result can be overall failure or paralysis at this level. On the one hand, there is a high level of connection so there is an attempt to maintain the whole functioning in an integrated form as long as possible but on the other can it only be done at a mutually acceptable level for the ordinary white- and blue-collar employees. The management has to produce results that produce satisfactory profits and salaries for upper management and those in control while on the other they have to provide wages and a work atmosphere acceptable to workers. At the same time, they have to communicate and relate to other firms in the industry. There is no natural solution, and the relationships are always in tension. The bureaucracy simply produces the least bad solution.

Once ownership became divorced from full control over the firm, with all its legal consequences, management was placed in an impossible position. It had the right to organise, discipline, reward and dismiss but only within certain limits. The incentive system was necessarily blunted, whether through despair, deceit or uneven and unpredictable controls and rewards. The lean and mean firm may produce better profits for a time, but it seldom lasts. It is not just a question of monetary rewards and job security

but, under modern conditions, whether or not the job atmosphere is congenial and the white-collar worker feels fulfilled in the job. Faced with conflicting goals and signals, the bureaucracy can only produce a conflicted result dressed up to appear workable.

In any case, capital today takes more of a monopoly form than ever. Today, the US is the hegemonic power, in a manner befitting its time. It is the global finance capitalist power and the overarching military sovereign. It is also in decline, having assumed the role during the Second World War, although it was in preparation for that situation during the 1920s. It, therefore, leads the process of socialisation in itself both within the US and abroad. Its companies and its market play the crucial role in the global economy. Its finance capital, firms like Goldman Sachs, Morgan Stanley and JPMorgan Chase, and its private equity are critical.

A very recent series of articles in *The Economist* argues that there is a new assertion of 'monopoly' power within the world economy. 'A small group of giant companies are once again on the march, tightening their grip on global markets, merging with each other to get even bigger, and enjoying vast profits. As a proportion of GDP, American corporate profits are higher than they have ever been at any time since 1929'.<sup>22</sup> Further in the same issue they point out that the three biggest asset management funds in the US, Blackrock, Vanguard and State Street, hold the largest shareholding in 40 per cent of firms listed on the stock exchanges, which in turn 'account for nearly 80 per cent of the market'.<sup>23</sup> We have witnessed according to *The Economist* a double change—a turn to monopoly among firms in general and an increasing degree of control over firms. In fact, this might lead to the conclusion that the US is basically controlled, in economic terms, by a very few people, fewer indeed than most conspiracy theorists might have supposed. This is not necessarily the same thing, of course, as them controlling the whole country or the whole system.

The increasing socialisation of the capitalist form has shown itself in these semi-planned aspects of government, finance capital and monopoly, albeit still using capitalist tools. This is a long running process, discussed by Lenin in his work on Imperialism.<sup>24</sup> The society is continuing to become more organised, in part in order to deal with its crises. The alternative is disintegration, which is also a visible process at the present time, discussed below. The structure of the firm or enterprise has itself been through several phases. Some of those were deliberate ploys to reduce the power of the working class. Thus we have the planned breaking up of large firms, as in the case of car companies selling off various divisions, such General Motors disposing of Delta, its battery section, and moving parts to less militant parts of the country. On a larger scale globalisation is a form of moving production to other countries to accomplish the same object.

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<sup>22</sup> Adrian Wooldridge, 'The Rise of the Superstars', Special Report, Companies, *The Economist*, 17 September 2016, p. 3.

<sup>23</sup> 'Free Exchange, Stealth Socialism: Passive Investment Funds Create Headaches for Antitrust Authorities', *The Economist*, 17 September 2016.

<sup>24</sup> Lenin, op. cit.

The separation of ownership and control in enterprises has evolved and has its own descriptive history, from Berle and Means<sup>25</sup> to the academic study of organisation and theoretical discussion among Marxists. Today, however, it appears to be very clear. This can be illustrated in a recent article by John Plender, who argues that management of companies, firms and enterprises which are quoted on the stock exchanges is effectively independent. The number of 'direct individual ownership-type UK listed companies has gone down in the UK from more than 50 per cent fifty years ago to 12 per cent in 2014. For the US the figures for 50 years ago are 84 per cent and for 2014 37 per cent. The per cent of insurance companies and pension funds in controlling positions over quoted companies in the UK has likewise gone down from 43.3 per cent in 1998 to 8.9 per cent in 2014.<sup>26</sup> The obvious deduction is that the change in control is both an overall long-term trend and one speeded up by the contemporary long-term crisis. The nature of the firm itself is in a process of evolution. His point in the article is that the number of investors able to hold management to account is shrinking. He takes the example of the flotation of the firm Snap on the stock exchange without granting voting rights to investors.

Clearly this has not happened by accident. The interests of finance capital are different from the interests of management. The primary difference lies in the short-term interest of finance, as opposed to the long-term interest of management and workers. Indeed, if the merging of the particular firm with a second firm would lead to the layoff of the entire cohort of employees of the first firm, the investors would arrange the deal. Institutional finance capital, like insurance companies and pension funds, are clearly different from private equity, which is essentially predatory, but they are of lesser importance today.

We have had the evolution of the firm from de facto one-man management (the owner) to multiple investor financial control to a situation where the management can be both legally and de facto independent. On the one hand, therefore, there are the large agglomerations of finance capital as in the case of Blackrock, Vanguard and Standard, while on the other there are the industrial companies like the 10 largest automobile companies in the world. It is hardly surprising that the latter have set up their own financial arms.

The political economic structure of society today has three command poles: government, capital and management. Each is internally divided and each is divided from the others. The immediate struggle is around government, which in economic terms retains the right to regulate. Although there is a continual attempt to reduce regulations it is in the nature of an increasingly integrated economy that it needs to establish norms and defend forms of protection and rights of citizens. In general, however, they act in the interests of capital but when the system is under strain then their needs may diverge and their strategies differ. Without an immediate enemy, co-ordination is

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<sup>25</sup> Adolf A. Berle Jr, *Gardiner C Means Modern Corporation & Private Property* (New York: Macmillan, 1933).

<sup>26</sup> John Plender, *Financial Times*, 24 February 2017, p. 13.

more difficult and there may be periods of muddle and chaos. This form of disintegration may take some time and mirror events in the rest of the system.

We have, therefore to consider first the deliberate shift of the world economy, under US aegis towards finance capital, mass unemployment and so-called globalisation. This process is often called neo-liberalism but it is a misleading term. Finance capital is above all dominated by the hegemonic power, the US and its predecessor, and dependency, the UK, and industry has shifted to the third world. The headquarters and research divisions remain in the first world, usually. This well-described process has been going on for decades. What is different is the rapid shift of a substantial section of industry to the third world, particularly China of course. In this sense the industrial downturn in developed countries began before 2007, from the Reagan-Thatcher period, accelerating in the 1990s.

### **The History of Left Theorisation of Crisis**

During the post-war period, the Left went from expecting a crisis to follow the Second World War, to rejecting the idea of crisis itself, as part of the repudiation of the Leninist doctrine of the decline and decay of capitalism. Two of the major theorists of the time, Ernest Mandel and Tony Cliff (Yigael Gluckstein), led this view. Instead they argued that there would be a crisis of expectations, in which the demands of the population would exceed what the ruling class was prepared to supply. Eugene Varga, in exile in the USSR, made it clear that he thought that Keynesian tools would operate to prevent another depression. He was duly chastised by Stalin for this line but Khrushchev effectively took the Varga line when he came to power, even if the Soviet textbooks painted an absurd picture of a totally impoverished working class in Western Europe.

The particular role played by the Cold War, as outlined above, was well known. In fact, the importance of the war economy for the maintenance of the stability of capitalism was widely shared among right and left. The right to this day continues to demand more resources for the military, and more military adventures. The two World Wars undoubtedly helped to expand and develop capital, while at the same time threatening its continuation. The right can be excused their failure to anticipate the present situation but the left cannot. The right lives under the illusion that capitalism, or at least the market, has always existed and always will exist like the Cosmos.

### *What the Left Abandoned*

The left effectively lost hope that capitalism would increasingly show itself as less efficient and less able to raise productivity than the alternative. The socially planned and co-operative forms associated with the alternative, such as nationalisation, proved less efficient than the market, both in the Stalinist countries and in capitalism. Co-operatives could not compete with market-orientated shops, supermarkets and other enterprises. Nationalised industries often proved to be as oppressive as private firms. The



political climate was not easy to bear for someone who was on the left. The Stalinist control of the left was dying, but its twin pillars of reformism and defence of the Soviet Union took time to evaporate. They only went with the end of the Soviet Union itself. The Stalinist countries were able to industrialise but the working class was atomised and their products were generally inferior. Indeed, so far were they of lower standard that they became objects of derision. This was no more than a superficial understanding of reality, but the left was unable to provide a counter-attack of any worth. The critique of capitalism remained intact, if looking tarnished, but it took the last quarter of the 20th century and after to begin the process of critical analysis of contemporary capitalism. Those who continued to maintain the classic outline of modern capitalism put forward by Lenin, and effectively adopted by Trotsky and other Marxists from 1916 onwards, were condemned as catastrophists. Lenin had argued that capitalism was both in decline and decadent.

Effectively the Marxist left could only recuperate with the end of Stalinism, but it has taken a quarter of a century before a fighting, popular, non-Stalinist left could begin to appear, and then only in the distance. The point is that few Marxists were able to predict the crisis, and even when they saw it, they refused to believe it.<sup>27</sup>

## War, Cold War and Imperialism

### *Capital has no Solution*

The analysis of capitalist crisis cannot be turned into a technical discussion of the three aspects of disproportionality, underconsumption and the falling rate of profit as I have argued above. These aspects are part of a wider series of contradictions within the capitalist economy, which impact on these three classic forms. In principle, the full impact of mass bankruptcy of banks and major enterprises only takes place after the contradictions show themselves in their full form. This political economic nadir as indicated above has had the dual role of forcing both the losers among the capitalist class and the majority of the working class to accept that the system cannot function without major concessions on their part. In the first part of the 19th century these debacles did not have to last very long for the reasons given above. Today, however, without this period of mass unemployment and interrupted production, there is no obvious end. Its present logic is one in which the ruling class imposes austerity as the means of replacing the previous period of 'creative destruction' but there is no guarantee of success. On the contrary, we do not live in a period of mass unconsciousness.

In the period down to the 1970s, the standard of living rose consistently with the occasional government-organised halt to booms which followed after a period, but with low or no unemployment. Mass tertiary education helped form the so-called

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<sup>27</sup> This author actually had a debate in London after 2007 arguing that this was the 'big one' with a member of one Marxist group who said that the global economy was on an upturn. I had argued that the crisis was coming from 2000, at a talk in Dublin, and duly got told off by one member of the audience for repeating the mistakes of the Workers' Revolutionary Party.

middle class which effectively merged in income with the highly skilled blue- and white-collar working class if not in social terms. Thereafter there has been a long transition in which the 'middle class' has been broken by elevating a small section into the bourgeoisie, as highly paid managers, while the rest enter the higher levels of the proletariat.

Substantial levels of unemployment for the new proletariat became the norm, along with high levels of debt. The crisis has raised the levels of inequality, and hollowed out the middle layers to the point where it will make more sense to talk of the upper layers of the proletariat. Marxism does not make a distinction between white-collar and blue-collar workers, as both sell their labour power to an employer, and the period when there was a sharp distinction in status and pay has passed or is, perhaps, on its way out. Driven consciously or unconsciously the bourgeoisie has re-entered a period of increasing control by finance capital over economies in which monopolistic competition is the rule.

### **Conclusion: Planned Capitalism—The Paradox**

The historic crisis of capitalism, its decline and its transition period have led the system to take a series of forms. These three aspects of the present interact to create a complex reality. A full description amounts to a political economy of the last 150 years and an encyclopaedia to go with it.

There are four factors involved with crises today which lead to the conclusion that they have no point of termination. Firstly, the monopolistic form means that the crisis is one in which firms restrict production and investment rather than going bankrupt through oversupply or overinvestment. In the absence of creative destruction there is no immediate reason for the surplus to be destroyed by firms which are either solvent or supported to the point of solvency. The controlled form of the crisis allows for alternative 'organised' ways of disposing of the surplus. In the past, the main ways involved wars and the direct superexploitation of the third world, imperialism. Today, monetary solutions, in the form of either excessive inflation or deflation are too dangerous. Workers are not fooled and demand indexation. Finally, capitalism has become increasingly globalised with the result that the crisis itself is global. Global capitalism no longer owns colonies nor can it engage in global war, partly because the means of warfare, both nuclear and non-nuclear, have the potential for destroying the Earth. Globalisation of investment and warfare have reduced the unevenness which allowed crises in one series of countries to be compensated for by booms in other countries.

### *Contradictions of the Present Time*

Capitalism has no way out of its problem of stagnation. While it may stagger on with a low rate of growth for a time, its fundamental problem is that the system itself is in decline, within the transitional process. Aware or unaware of the movement or the

direction of movement of the system, the capitalist class is attempting to hold back that change and reverse it. It is not a just a question of insufficient competition, complacent companies, incompetent managers. Modern economies require long-term research and development, highly skilled workers with an interest in their work other than money, national and international co-operation, participation in decision making and a management which is part of a democratic and egalitarian ethos. The result is neither one thing nor the other.

The system tries both consciously and unconsciously to expel non-market forms, even as the socio-economic institutions malfunction under the market. Capitalist society is increasingly malfunctioning but attempts to solve the problems through co-operative methods, through planning, through nationalisation, though egalitarian forms come into conflict with the need to obtain profits to invest, and so depress wages and conditions of service. Usually, in this context, there is an element of competition with market forms, which compel the introduction of controls to ensure profits. The contemporary economy is structured to reward ruthless competition, regardless of the means, as long as they are superficially legal. Trust, friendship or long-term managerial partnerships can be hindrances. There is no way of squaring the circle. Afraid of losing their wealth and the capitalist system itself, the capitalist class has enshrined the need for private enterprise in state and inter-state bodies. The nationalised firm, in turn, can only use limited material incentives and a hierarchical bureaucracy of control. Co-operatives necessarily fail after a time and members are disillusioned.

On the other hand, Capitalism has conceded elements of democracy, which directly oppose the dictatorial forms of everyday work life in the market economy. Thus the capitalist firm finds trade unions striking and/or workers operating at below potential for which it tries to apply stick-and-carrot incentive systems. As industry becomes more automated unskilled work is limited in extent and highly skilled and educated blue-collar and white workers play an increasing role in the economy. The incentives for the highly educated lie in the work itself and the participation in its role in the wider framework. The managerial bureaucracy plays an increasingly contradictory role as a result.

In short, the capitalist system has tried for some 10 years to use austerity as a means of restoration of its past forms of control and it has failed. It has not galvanised the population to overthrow the system either, but the workforce is not more disciplined or accepting of the social order. The right has raised the nationalist banner, with considerable success. As the system continues to malfunction disintegration has set in, economically, socially and politically. Demands to break up the EU and various countries like Spain and the UK can be seen as a way out of the global crisis and where national minorities have been oppressed for centuries, they can see the demand for independence as part of the wider struggle against capital, at least for a time. In a period where people despair of real change such demands are inevitable.

The Keynesian type remedies of government expenditure, particularly on infrastructure, and on long term research and development are talked about but it is

unlikely that much will be done. Clearly, with enormous levels of savings running into tens of trillions it would make sense, but the bourgeoisie is afraid of the result in raising the level of employment.

On the contrary, conservatives are objecting to ‘regulations’<sup>28</sup> in general. In an increasingly socialised society, with private ownership, regulation is essential to ensure that everything is what it seems, functions as it ought and does not harm anyone, since, in principle, no one, or no corporation can be trusted, without some kind of supervision.

The capitalist system is looking increasingly incoherent, chaotic and mad. As the saying goes, whom the gods would destroy, they first make mad. The left is a small fraction of the population today, but that is progress, as is the fact that socialism is now supported, in principle, by substantial sections of the population in most developed countries. The permanent and constant vicious attacks on left Labour in the UK by the united press are an indication of the fear felt by the ruling class, as is the appalling treatment meted out to Greece in 2015. Of course, there is a precedent in the Russian Civil War where at least 7 million died in 1918–21. A century later it may be the beginning of the end.

### **Disclosure statement**

No potential conflict of interest was reported by the author.

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<sup>28</sup> Regulation is discussed in *The Economist* in connection with the continuing ruling class view that there is too much regulation. ‘Regulation: Grudges and Kludges: Too Much Federal Regulation has Piled up in America. Fixing the Problem Requires better Institutions’, *The Economist*, 4 March 2017, pp. 30–32.