Critique 32-33

THESES ON THE PRESENT CRISIS

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INTRODUCTION: AIMS AND METHOD

This article continues the work of the previous piece on the political economy of the present epoch. In that article I tried to sketch my view of the overall conditions of capitalism in the present time. In this article I concentrate on the immediate present and argue that the contemporary situation is unique in the period since the war and that the reason for its difference lies in the end of Stalinism and the Cold War.

Marxist Political Economists are in a difficult situation when examining a particular period, and most particularly a contemporary period. As I argue below, official statistics whether produced by orthodox economists or by governmental agencies, which use orthodox economic categories, are not transferable into Marxist categories. Even the best attempts to re-interpret those statistics are inevitably flawed. While anyone can argue that a downturn in profits among the top firms is important, that is not saying the same thing as that profit in the Marxist sense has declined or that surplus value has moved one way or another. If we simply remain at the level of official statistics we can, at best, only produce a neo-Keynesian account of the economy. It might be left wing but it is neither profound nor Marxist. This does not mean that we cannot use official statistics at all, but it does signify that they are of limited utility in understanding reality.

The banality and absurdity of much of modern orthodox or bourgeois economic theory, however sophisticated, rigorous, and complex, means that their discussions of the modern economy are of little significance. It has often been remarked that it is the economic journalists who do the real work in interpreting the economy. Unfortunately sections of the left are necessarily bound up with orthodox economics since they have to teach it and indeed publish in establishment economic journals in order to survive as lecturers and professors. It is no accident that Marxist economists are rarely in straight economics departments.

This means that the discussion of the real world economy remains in the hands of economic journalists while Marxist interpretations are limited in number and scope, even if they are pioneering. This article, therefore, takes the view that the discussion of orthodox economic views of the present crisis belongs to the history of economic thought and it will not be attempted here. Bob Brenner's well-known work on the US Economy in the last period has elicited many replies in different journals and there is brief reference below. Whatever one thinks of his work, it does mark the beginnings of a renaissance in Marxist political economy. This article, therefore, relies to a large extent on a re-interpretation of so-called economic journalists precisely because there is no other serious discussion.

THE CRISIS TODAY

That the present situation is quite different was sharply recognised in the period after the economic turmoil of August-October 1998 by the orthodox economists and politicians.[1] The recovery since that period may have led some to feel that the capitalist economy can weather any crisis. Whatever the view of the authorities it is remarkable how the Left can blind itself to reality. They expected a crisis after the war for many years and when it failed to come, after a decade or so, they gave up and concluded that capitalism had solved the question of crises. A minority in various groups adopted a religious attitude in which they expected the final crisis to come at any time. Such was the view of the late Workers' Revolutionary Party among others but they were in a minority even among the left groupuscules, many of whom saw capitalism growing onwards and upwards.

WHAT IS CRISIS?

Because of the incorrect expectation of crisis and the often ludicrous views of those who continued to expect the final crisis to come at any minute, most Marxists took a strongly critical attitude towards so-called 'catastrophism'.

[1] *Economic Report of the President*, transmitted to the Congress February 1999, together with *The Annual Reportof The Council Of Economic Advisers*, United States Government Printing Office Washington : 1999 ,p219.
"Those estimates indicate a deceleration of global growth to levels not seen since the pronounced world slowdowns of 1974-75, 1980-83, and 1990-91. The risk of such a global slowdown poses new challenges to economic policy. The widespread financial turmoil—perhaps the most severe experienced by the world economy during the last 50 years—followed a period of increasing global integration of goods and financial markets."

While catastrophism is necessarily incorrect, even where there is indeed a crisis, that does not absolve Marxists from explaining the absence of the crisis. It was Engels who argued that every crisis was more severe than the last and he was finally proved correct by the arrival of the Great Depression of 1929-40[2]. Marx was continually looking for a crisis, which would signal new difficulties for capitalism[3].

There can be no question that crisis stands at the centre of Marx's political economy. Its removal would leave little behind. [4] It is not a simplistic analysis arguing that capitalism must come to a mechanical end or, like Bakunin, that the worse the conditions of the working class, the better. Rather it is arguing that the contradictions of capitalism cannot continue becoming ever more acute without resolution. As I argued in the earlier Critique, a crisis results, in my view, when the mediations preventing disproportionality, underconsumption and a declining rate of profit can no longer hold. Which of these three appears, as the immediate cause is an historical accident. The point of this article is to follow the previous argument that those aspects of crisis have been fundamentally altered by Stalinism and the Cold War.

The resolution which mediates the antagonism between the polar opposites of use value and exchange, in the crisis, is not automatic. The opposites may be forced together within capitalism or superseded in a new society. Which of these two solutions occurs depends on the state of the class struggle at the time. When the working class cannot assume power the crisis drives the

[2] Engels argues that crises changed with the evolution of the world market from a ten year cycle to a more chronic and dangerous form. *Capital* Vol 3, p.489, Lawrence and Wishart,1959, London, footnote 8. He makes a similar point in his letter to Bebel on 20-23 January 1886. Simon Clarke runs through the history of Engels' remarks in his book,*Marx's Theory of Crisis*. Macmillan, 1994, pp. 19-20. He sees Engels as somewhat confused and as prone to wishful thinking. The point might be made that Engels was less precise than Marx but nonetheless, prescient if not prophetic but both Marx and Engels got the timing of the approaching crisis, as it were, wrong. . It is abundantly clear that modern Marxists have taken their cue from Marx himself, and not just Engels, in looking for crises which raise the level of political consciousness.

[3] This is most evident in Marx's discussions of the crisis of 1857. Before during and immdiately after 1857 he constantly returned to the question of the crisis. See the discussion by Simon Clarke: *Marx's Theory of Crisis*. Macmillan, 1994, p. 113-119. The intensity of Marx's discussion of crisis, in his letters to Engels, make it clear that he sees crises as central to capitalism and its supersesssion.

[4] Simon Clarke's work is an excellent exposition of this thesis.

price and conditions of labour power down to the level where the capitalist class can resume accumulation.

In other words, in principle the crisis leads either to the defeat of the capitalist class or to the defeat of the working class. That sections of capital are also wiped out and capital itself is devalorised only masks the class reality. That has been the historical reality but since the time of Engels new mediating forms have prevented such a stark choice. Imperialism, Fascism, War and the Keynesian-welfare state have shifted the locus of the contradiction within capitalism. We have to ask, therefore, whether there is not another force which prevented crises in the past fifty years.

There are today a number of contending schools of Marxist political economy, which, incidentally, gives the lie to the view that Marxism is necessarily dogmatic. Each of these schools has a different explanation of the current period, based on their own periodisation and analysis of contemporary forms of accumulation. The old Stalinist analysis of State monopoly capitalism, which dominated for some time after the war, has few followers today and is not worth discussing.

In the immediate post-war period Capitalism was compelled to go for growth and reduce the role of finance capital. This necessarily led to the elimination of the reserve army of labour in the developed countries and a massive rise in the standard of living. Both these aspects would, under pre-war circumstances, have rendered capitalism even more unstable than it had been because they both provided a degree of security to the working class, normally absent in capitalism. Without the stick of unemployment and the carrot of substantial increases in wages and salaries, workers have less difficulty in acting collectively to try to secure higher wages and ultimately control over the enterprise.

The reason why the ruling class adopted this strategy, variously known as Keynesian, welfare state, or full employment, had everything to do with their correct perception of their own instability, following on the Russian Revolution of 1917. Capitalism no longer ran spontaneously with large numbers of competing firms, with the state holding the ring. Large, multigenerational firms like General Motors in the United States and capitalist dynasties were crucial to the capitalist class, while the governmental administrations were critical to the capitalist economy. The capitalist class, as finance capital and so abstract capital, had become

conscious of its own role in the capitalist economy both historically and in relation to their working class. Because of their relative cohesion, with their monopolistic transformation, they had the ability to develop and execute a strategy of their own kind to ensure their own survival both as short term appropriators of profit and as long term owners of capital.

The initial strategy required full employment, which in turn needed growth and hence an emphasis on investment in industry, instead of finance capital. Full employment and industrial expansion led to an explosive growth in the standard of living unknown in a mature capitalism. Some Marxists see this period as typical of capitalism, whereas it seems to me to be quite exceptional, engendered by its own earlier defeat. An atypical capitalism needed atypical controls over labour. Full employment and rising real wages served the purpose in the initial post-war period, when combined with the necessary controls and discipline over labour. Workers were already disciplined by the history of the war, the great depression, Fascism and Stalinism and hence it was not difficult to put the necessary controls into place given the context. That context was Stalinism and the Cold War.

As a result, the post-war period was characterised by various political forms of control over the working class in the metropolitan countries[5]. These went by names such as prices and incomes policy and all amounted to political means of enforcing wage control. As long as the metropolitan working class was controlled through this mixture of history, and Stalinism/Cold War itself, capitalism was under no threat and profits could rise. The usual divisions in the working class based on ethnicity or sex were maintained.

Furthermore, the various metropolitan empires continued to ensure that superprofits were transferred to the imperial headquarters. Colonialism, however, was clearly on the way out, with considerable consequences for the old imperial countries like Belgium, Holland, Portugal, France and the United Kingdom. Although, so-called neo-imperialism ensured transfers of surplus value to the Europe and the United States, the United States appropriated an increasing and disproportionate share. The proportion of surplus value appropriated by European countries from the third world as part of total surplus value in those countries clearly declined. Not all countries were equally affected. Germany had lost her colonies and overseas

[5] The considerable changes induced by the altered economy of the post-war period are addressed in my article in *Critique* 30-31.

investments as well but its particular stability had another source-the forced immigration of around 9 million Germans from Eastern Europe who made up for the otherwise absent reserve army of labour.

By the mid-sixties, these various factors had become history. A new post-war generation did not see why it had to accept an alienated future as blue or white-collar workers, nor did they see why there should be race, national or sexual exploitation and oppression. The ending of empire contributed to the attacks on racism. Full employment enabled ethnic minorities to demand their rights and an end to superexploitation. The re-entry of women into the workplace gave them an independence at first denied after the war when they were sent back to the home. Thus the historic forms of control: Imperialism, War, Ethnic divisions, and Fascism and a reserve army of labour were either unusable or of much less use. Only the Cold War remained an unalterable feature of the landscape.

This outline of control over the working class is very different from that based on the workplace, where all emphasis is placed on so-called Fordism. It rejects the regulationist perspective. It also does not accept the view of the social structure of accumulation school which sees the internal social structure of a particular period as crucial to accumulation. These various schools are correct in perceiving the particular importance of the specific social relations of the period and the role of the capitalist class in developing and maintaining them. In my view, they go wrong in failing to integrate international and epochal perspectives into their theory, which I tried to discuss in the last issue of Critique. . The crucial moments of that perspective are the nature of a declining capitalism and hence the role of finance capital as abstract but parasitic capital and the political economy of Stalinism.

Put another way, I am arguing that as usual it is both the movement of the categories and the evolution of the class struggle that is important. Indeed it is their intersection which provides the nature of the particular mediation permitting relative stability within capitalism. In other words, the nature of a declining capitalism combined with Stalinism to create an epochal stability in the post war period but this ended as both capitalism and Stalinism evolved. The class struggle was pivotal in that evolution.

Clearly this viewpoint does not base itself on the declining rate of profit, whether caused through a rise in the organic composition of capital or

through competition, as seen by Bob Brenner in his influential work. [6] I put forward my own view of crisis theory in Critique 30-31 and I will not repeat the details here. Although, it appears to me that acceptance of value theory automatically leads to the adoption of a theory of a declining rate of profit, it does not mean that the rate of profit automatically declines at any one time, or that an empirical decline in the rate of profit must automatically be ascribed to the tendency of the rate of profit to decline In my view, Bob Brenner not only abandons Marxism in his by now infamous footnote attacking value theory, but he demonstrates his shift to economic orthodoxy in uncritically accepting the categories of official economic statistics. Value theory demands a different set of statistics since all the categories are different for orthodox ones. Nor is it possible, as Anwar Shaik effectively claims, to simply map orthodoxy to Marxism. The well known fact that surplus value includes not only the usual categories of profit, interest and rent but a series of other aspects of economic expenditure such as advertising, excessive depreciation, salaries for the executives, insurance, financial costs etc. means that all these items would have to be found and added up to get a result. This would require the work of a very large institute to discover all the sums involved. Furthermore, these figures do not necessarily exist neatly as sub-categories, on paper. Much expenditure to be classed under surplus value may well be hidden in order to avoid tax payment. We do not even know what we may find from a thorough scrutiny of the real accounts of the large companies. In the case of small companies, so much can be hidden that it is probably pointless examining the accounts.

It could still be argued, however, that there is a constant relation between declared profits and unknown profits. Even this is not proven, however. We know that modern accounting is deliberately "creative" in order to ensure that taxation is as low as possible and shareholders are satisfied. It may still be argued that if official profits have turned down in manufacturing, capitalists will be motivated in the same way whatever the reality. That is not at all clear. As long as the capitalist class has surplus value with which to turn into capital accumulation, it will tend to do so, provided that it can do so. Clearly, if investment will lead to negative returns, capitalists cannot accumulate but even then the matter is not clear-cut. It is normal for a new firm to expect negative results for a period of time and provided the source of its capital continues its funding, the process can continue. What is true of

[6] Bob Brenner, *New Left Review*, London, No: 229, Uneven Development and the Long Downturn, 1-265.

new firms is also true of old firms engaging in new sectors or reviving old sectors. Indeed, a capitalist might simply wait out a period of unprofitability on the ground that it is ephemeral. Clearly this is only possible if the capital is available but the point remains that the exact rate of profit is not a guide to capitalist action.

As depreciation or amortisation is a critical cost to the capitalist, he can continue to compete with his fellow monopolists as long as the value of the replacement of fixed capital remains relatively constant. It is only when replacement requires further investment that a problem arises or when profits become negative and there is no further source of funding. Such conditions do occur, but they are not the same things as a declining rate of profit. While companies might continue to operate, a substantial decline in profits might lead the capitalist class to withdraw its capital from production and seek other profitable outlets. The result is a surplus of capital. Under conditions of inflation, money cannot be hoarded. It must be accumulated in order to at least maintain its value, as interest rates are generally very low and only a last resort.

When, however, the capitalist class declares a capital strike because the conditions of accumulation are not conducive to investment, it is clear that profits are in trouble. Why they are in trouble is never so clear because the causation is so complex. The rise in the organic composition of capital is always in the background but at any one time rises in productivity and an alteration in the terms of the class struggle can alter the rate of profit. The unravelling of the exact causation requires an understanding of essence and appearance, law and contradiction. Without them the analysis becomes as superficial as orthodox economics. Hence we return to the particular nature of the epoch and its specific influence on accumulation, which refers in the first instance to Stalinism and the Cold War.

THE FIVE ASPECTS OF THE COLD WAR

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.

1. In the first place, there was the ideological disciplining of the population, with the doctrine of anti-communism, a doctrine, which was, in large part, manifestly correct. It was clear that the position of

workers in the Stalinist countries was considerably worse than in the United States and that they were subject to high levels of both oppression and exploitation. As much of the so-called left supported the former USSR, they were marginalised and prevented from any having significant political influence. Workers accepted the taxation required to support the Cold War. They also accepted the disciplining of the workforce that went with the Cold War. They 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.

The effect of the common ideology was to provide a guide to action for the ruling class, provide it with a collectivity, control the workers, raise the rate of profit and undermine any challenge to its authority.

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 U.S. institutions, but 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 United States, made opposition to both Moscow and Washington a lonely affair.

Again this meant that wages were lower than they might have been and profits higher. In addition, such non-threatening parties, essentially sheep in wolves clothing, buttressed the whole political system by providing an apparent opposition to the more or less permanently dominant conservative parties. The 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.

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. (The British Socialist Workers Party viewpoint, which emphasises the role of military spending, is very different from this interpretation. . It tends to 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.)

4. The Stalinist countries acted as a countercyclical source of demand for wheat, machinery and other goods.

5. The ruling class established cohesion on the basis of 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. [7]

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

[7] "What has gone wrong? Why do apparently minor differences increasingly divide the world's two biggest economic powers.....? The most obvious immediate explanation is the end of the cold war. Trade tensions which were restrained when transatlantic bonds were needed to maintain global peace and security, are now allowed to become much more continetious isssues." *Financial Times*, London march 8th 1999, p 19: Guy deJonquires and Nancey Dunne: "A partnership in peril"

increasingly under challenge, even if in an inchoate way. 1968 was a critical year in this scenario. Although the old order remained firmly in place, the bourgeoisie could see the trajectory of events if no action was taken.

The argument, therefore, is that Stalinism and the Cold War were crucial to all other mechanisms of control over the working class. Once it crumbled, the various forms of political and economic control began to crack.

THE TURN TO FINANCE CAPITAL

With the increasing militancy shown in Europe and the anti-war protest movements in the USA, the ruling class realised that the previous controls were declining in importance. They, therefore, turned to finance capital and so low growth and the development of a reserve army of labour. [8]

Nonetheless, the Cold War continued to function and Reagan of course vastly increased expenditure as from 1981, while the other aspects also played their role.

As from 1986, however, the Cold War diminished in every aspect. Expenditure on war goods came down by 30 per cent in the United States and by similar numbers in other metropolitan countries. Any attempt to raise war expenditure has been minimal.

Why then did a crash not break out immediately the Cold War ended? In fact, there was a crash –in 1987 and it is arguable that we are still living in its shadow. The 1989 economic downturn, which followed the attempt to flood the world economy with money after the 1987 stock exchange crash, was the major turning point. By the year 2000 Japan had not recovered and even the European economies had made only a weak recovery. From this perspective the Asian crash was not just inevitable, but merely the periphery taking the strain.

[8] One view of this change is that of James K. Galbraith, in *Dissent* Summmer 2000, in an article entitled:' Brave New Globe' 'In the early 1970s, the system hit awall.More precisely it came up against the desire of the great American (and European) financial houses to reclaim their pre-war world role.' p.5. His solution is 'control over the private capital markets' p.6. The point is that it was a conscious decision and not a necessary move forced by technical economic factors.

THE NATURE OF THE CRISIS OF THE LATE NINETIES

The question then metamorphoses into a new conundrum. . How is it that we live in the shadow of the 1987 crisis but not in a full world crisis, until now?

The demise of Stalinism meant the end of the post-war conditions of accumulation, if one can call them that. The old stability was at an end and a crisis was thereafter inevitable, unless the US economy returned to a Keynesian strategy. But it could not do so because it would mean turning again to growth, higher levels of employment, in manufacturing industry and an end to the dominance of finance capital. This would inevitably tilt the balance towards labour and so threaten capital. As a result it had to be ruled out.

Nonetheless, a very mild and new form of Keynesianism was re-introduced after the downturn of 1989. It mainly involved Greenspan permitting the growth of the money supply, the popular dispersion of shares and the rapid rise of the stock exchange. Whenever the banking sector looked like going under, the government bailed it out. Such was the earlier nationalisation of the Savings and Loans societies and Continental Illinois. In 1998 it was demonstrated with the bailing out of the Long Term Capital Management Hedge Fund. Pensions and Insurance funds have largely transferred to the holding of shares. This promoted a share bubble, which was intimately related to the real economy. At the same time, much of the growth in employment was outside the industrial sector, in low paying service jobs. Immigration legal and illegal continued to provide low paying jobs on a considerable scale. Although these remarks largely apply to the United States, Europe had a parallel, though much weaker, mildly Keynesian upturn.

Industrial growth and hence economic growth had been largely dependent on the Cold War and the growth of the military sector as outlined above. Hence alternative points of investment were required, once the Cold War ended. It should be noted that the Cold War had led to an absolute and relative growth in the military sector at crucial periods. Small wars hardly touch the military weapon stocks, which are rapidly declared obsolete in any case. Only the United States has really had anything approaching a boom in

the post-Stalinist period. Levels of unemployment in Europe remain historically very high.[9]

One should not exaggerate the US boom in the 1990s, as Doug Henwood has shown.[10] When one subtracts the effects of high levels of immigration and so growth in population he argues, the picture does not look all that high by historical and international standards. Furthermore, the unproductive sector, finance, in particular has been getting an increasing share of investment (21.4% in 1998).[11] When we add this fact to the various discussions showing that rises in productivity have been most marked in the computing industry itself, so distorting productivity increases for the economy as a whole, the picture looks different from what it appears. The argument that there has been a rise in productivity also suffers from the known distortion caused by an upturn, in which there is an automatic rise in productivity caused by increased output being spread over the same or only slowly rising input. Wynne Godley has made similar points in arguing that US growth down to the end from 1991 to the end of the century was only 0.2% more than the average since the War, only 3.7% growth in GDP and other periods have been faster. The crucial aspects of the growth were the rapid rise in imports by an average 10.4% per annum since 1992 and the spectacular rise in household and corporate debt.[12]

Nonetheless, it is clear that in 1999-2000 growth did exceed expectations and wage growth for 1997 to 2000 was higher than for a long time, in some developed countries. The point, however, is that there is no paradigmatic shift, no end to boom and bust and that the world is effectively mired in a low growth capitalism, which is showing its age. The real change in the 1990s is not a question of growth or change in wages but one of a shift for a

[9] All countries distort statistics of unemployment downwards, but for what it is worth the Economist, 25/11/2000 reported latest statistics on German unemployment at 9.4%, Italian unemployment at 11.1% and French unemployment at 9.5% with US unemployment, by comparison, at 3.9%.

[10] Doug Henwood: Booming, Borrowing and Consuming: The US Economy in 1999, *Monthly Review*, New York, Vol 51, 3, July August 1999, p 121: "It is a bit of a stretch to call US economic performance in the 1990s a boom, much less treat it as a model for the world."

[11] *Ibid* p:126: "It suggests that a lot of the "real" investment occurring in the late 1990s is actually in the service of a great financial bubble....

[12] Wynne Godley: "What if they start saving again?" *London Review of Books* 6-07-2000, pp.13-15 He argues that household debt is equal to 100% of personal disposable income while corporate debt is equal to 74% of corporate GDP. Both are record highs. He says that the government could in theory offset the decline in private spending but that the dollar must fall.

time to higher levels of employment than in the previous period. Even this does not provide much solace, as the nature of employment has changed so radically away from relatively high paying jobs in manufacturing to relatively lower paying jobs in the so-called service sector. In the latter area, proletarianisation has been proceeding quite rapidly, most particularly in finance and the public sector. And, of course, as everyone notes who is not an orthodox economist, the rich are getting richer and the poor are getting poorer. The vast differences in income distribution today would have been of less importance if ordinary workers were enjoying a rising standard of living, which had some relation to the increase in incomes of the executives and the capitalist class itself.

THE SURPLUS OF CAPITAL AND COMMODITIES

There remains today, December 2000, a general surplus of both capital and commodities, rising and falling over the last 5 years or so. It led to massive rises in stock exchanges and is the necessary counterpart of the switch to finance capital. The surplus capital became particularly acute in the last 3 years. It is theoretically obvious that a reduction in growth means a reduction in industrial investment and hence a reduction in outlets for investment overall. Even with a fall in profits the reduction can be sufficient to cause a shortage of investment opportunities and hence a surplus of capital. Such a surplus is then inherent in the shift to finance capital. Today, most stock markets are at least 10 per cent below their peaks with some exchanges much more substantially down. The troubles of the former 'tigers' of East Asia are reflected in the huge falls in their share markets. Although, a decline in capital markets leads to a decline in nominal capital held, the downturn in the developed has not been sufficient to affect the continuing surplus.

Given the relative fragility of the present situation, the question posed above still remains.

The United States and Europe revived after 1989, but Japan failed to do so. The revival was no boom but it was a limited kind of upturn, particularly in the United States, even if it was very limited in Europe. What caused this upturn?

WHY THE UPTURN?

The end of the Cold War paradoxically led to massive expenditure in particular areas.

1. Thus Germany spent 150 billion DM per annum from 1990 down to the present time on former East Germany, which promoted demand for West German goods, like cars and consumer durables.
2. Various countries including the United States, the United Kingdom, Germany, France etc put money into Russia and Eastern Europe, which in turn led to a demand for Western goods.
3. China absorbed between 30 to 50 billion dollars per annum, largely from overseas Chinese but also from Japan and the West. China exported massively to the West which led to a decline in prices of such goods, raising the standard of living of workers in the West and so permitting wages to be static while profits rose.
4. The decline in demand for Cold War type goods meant that there was a ceiling on prices for raw materials. As a result, prices of raw materials were relatively low; again permitting profits to be higher in the developed countries.
5. There was also an influx of capital into South East Asia-particularly into such countries as South Korea, Malaysia and Indonesia. They were regarded as being in the front line of the Cold War and were suitably defended and subsidised in the Cold War period. In the post Cold War period, they were seen as 'tigers', which could use cheap labour for the benefit of Western multi-nationals. Industry was, therefore, built up in those areas, at the same time as the metropolitan countries denationalised. Hence these areas became dependent on Western markets.

Paradoxically, the very political and economic weakness of capital outside the United States supported a boom in that country. The flow of capital into the United States in the last few years has become legendary, and has indeed been important in underpinning the US economy. The talk of a new paradigm, a new Internet economy, the growth of small to medium size firms etc is clearly wrong and would not be worth even discussing by anyone outside of orthodox economics, if it were not for the fact that it has become an important element in current ideology. The special role of immigration in the United States has often been noted, and the huge influx of legal and illegal labour into the United States in the past two decades has

provided a flexible and fluid workforce, which would be enough to explain any growth in profits.

THE CHANGE AWAY FROM THE UPTURN

Since 1997-8, the situation has changed again, as clearly demonstrated by the East Asian crisis and the aborted breakdown in 1998 in the West. What then changed again?

1. Workers in the Asian countries began to demand higher wages and better working conditions. As a result, wages rose in these countries, particularly in South Korea, Taiwan, Malaysia and Hong Kong. The working class became more militant in many countries in Asia and even in China, where denationalisation became increasingly difficult. Profits, as a result, fell.
2. All countries required to export to the United States and Europe but most particularly the United States. The problem was that the expansion in the United States market was relatively low as noted above, while the increase in goods produced was relatively high.
3. The failure in the post-cold war countries meant that the investment in those countries had to be written down. Worse, the expectation that the former Warsaw Pact Countries could absorb the surplus capital in Western Europe proved false, creating a need to offload the surplus capital somewhere else. Even worse was the fact that the massive decline of the former USSR and the lesser decline of the other countries meant that their demand for Western machine tools, machinery and wheat was greatly reduced. It was not made up by the sales of luxury consumer items such as flashy cars or processed foods.
4. China grew faster than expected but it then had an enormous surplus with the United States, of the order of 25 billion dollars, while it absorbed very little US capital or goods.
5. The failure of East Germany weakened the German bourgeoisie and indeed the world bourgeoisie. Profits were hit by the continued subsidy in East Germany. The standard of living of West German workers also declined as a result of the taxes levied to support the East Germans. The condition of capitalism in West Germany, therefore, became more fragile. The inability of the German bourgeoisie to cut costs as required to compete on the world market, meant that Germany maintained a low rate of growth and unemployment rose. The East German subsidy became a permanent component of the German budget and so appeared

as a once for all injection of demand, which now had its counterpart in a decline in demand in West Germany.

6. The long period in which workers' struggles were contained came to an end once the Cold War could no longer be used as a means of control. The changes have been slow but remarkable nonetheless. The changeover in the Unites States AFL-CIO to a less corrupt leadership, more determined to organise workers is a landmark, even if the leadership of US workers remains bureaucratic. The anti-capitalist protests, joined as they were in Seattle by trade unions, showed that the political climate is changing.
7. Through this period the expenditure on arms continued to decline. It began its decline after 1986. It had declined by 30 per cent in absolute terms by 1996, though by more in relative terms depending on the country. In other words, the stabilizer of the capitalist economy had been considerably reduced. This was not altered by slight increases in recent budgets.
8. The Cold War form of control over labour gradually evaporated. As noted above, this involved the use of anti-communism and political discipline over workers. The Communist Parties and their social democratic allies and dependants had prevented workers from acting militantly or demanding the overthrow of the system and these parties either ceased to exist or changed their natures so radically that they could no longer perform their pristine function.

For the United States, it is clear that the influx of capital is limited in time, the considerable household debt burden must restrict consumption, workers must become more active in demanding higher wages and profits must turn down. The fall in Wall Street will turn the downturn into a vicious circle. The rest of the world can only follow.

CAN THE BOURGEOISIE MAINTAIN CONTROL?

Given the huge levels of overproduction of all commodities, can the bourgeoisie then control the situation? Hitherto they have done so through nationalisations, lowering the interest rate, and increasing state expenditure. At the moment, we have giant mergers and not so giant mergers, which lead to downsizing and so reduction in capacity.

In principle, therefore, the bourgeoisie seems to have the necessary instruments. The example of Japan, which is going into its 10th year of depression, is not auspicious, however.

In the end, the question is whether the metropolitan bourgeoisies most particularly those in the EU and the United States want to avoid the downturn. Clearly, Wall Street does not want a massive fall because it leads to a decline in financial profits. Given the close connection now between Wall St and pensions, savings etc and so many ordinary people, it is clear that such a fall must become a vicious circle and so extremely dangerous. With negative savings, it would mean a rapid drop in consumption and so an increase in the level of overproduction and drop in profits. Mergers, downsizing, mass unemployment would all follow. Other countries dependent on the US market and investment would be in a dire situation.

Clearly the bourgeoisie has to avoid such a situation. On the other hand, they do want to control the workers. A downturn which was limited is important to the French, German and British bourgeoisie and also for the US bourgeoisie. The problem is one of balance.

Thus one editorial in the London *Independent* had this to say: ' A soft landing for the world's economies will be difficult to engineer.' 'Either way, the long fin-de-siecle boom is reaching its end. We must hope it does so with a whimper, not with a bang.'[13] A year later, the same newspaper said: 'The words on the lips of many analysts and strategists are "hard landing".[14] Larry Elliot of the *Guardian* also pointed to the decline in consumer demand, company earnings and the coming decline in shares, "Walls Street is grossly overvalued and heading for a big correction", he declared. [15]

[13] *Independent* -05-10-99-The Tuesday Review p.3.Editorial.
' A soft landing for the world's economies will be difficult to engineer.'
'Either way, the long fin-de-siecle boom is reaching its end. We must hope it does so with a whimper, not with a bang.'
[14] *Independent*, London, 22-09-2000 p.19
'Exchanges plunge on oil price jitters.'
[15] *Guardian* 16/10/2000-p29
Larry Elliott:'The optimism of living in a disinflationary age.'
"The arrival of Wall Street at reality checkpoint .....Corporate earnings are already being squeezed by a slowdown in consumer demand .....tightness of the labour market.
Analysts.... have recently discovered their faith in a relationship between the earnings of a company and its share price.....Wall Street is grossly overvalued and heading for a big correction."

By November 2000, the *Financial Times editorial* put the matter in clearer form by asking why the third world financial markets were relatively depressed. It pointed out that such stock markets are 20 per cent down on their pre-crisis, 1996-7, levels, in dollar terms. It answered that the financial markets reflected the coming decline in growth in the United States and its imbalances, particularly its debt problems. It thought that the risk of a world crisis was limited though possible. It cited the case of Argentina, which was quite likely to default on its debt, possibly triggering the world downturn. [16] In fact, Argentina was given a forty billion dollar loan to enable it to pay off its 25 billion dollar debt due shortly after receiving the loan. Such a default was thus avoided, but if the usual conditions are not fulfilled, cutting wages and the public sector, the problem will repeat itself a year later. Whether the Argentinian government can perform the necessary miracle, depends on the state of the class struggle in that country. If the working class defends itself strongly, it may be that the United States will not be able to bail it out to the end, without creating an unwelcome precedent for the bourgeoisie.

If one thing is clear it is that journalists are worried about a possible world crisis and journalists for establishment newspapers reflect and refract opinions of those with whom they interact, in order to obtain the necessary data.[17] In other words, the bourgeoisie and its politicians are well aware of the nature of the downturn. We may assume that they have thought out the measures necessary to prevent the crisis turning against them. Given the history of the past twenty years it is clear that Argentina, for instance, will be helped as far as possible, in the same way as Mexico and Brazil, with the required US government and IMF loans. Stockbrokers will once again be assured that the Government stands behind them and bankrupt hedge funds like the Long Term Capital Management Hedge Fund will be bailed out. If

[16] *Financial Times*, London, November 18th 2000, Editorial, p. 16. " So a generalised crisis does not look imminent but the risk is there."

[17] Further evidence came from the *Economist*, November 25th 2000, p.78: "Economy: Pausing or Plummeting", where it declared that "Most opinion on Wall Streetfavours a soft landing." And then went on to point out that "Factory output slipped 0.1% in October, weighed down by a 7.8% plunge in sales of motor vehicles and parts."
On p. 78: "Economy: Pausing or Plummeting" it declared that:
" ' The election is being used as a smokescreen to hide a rapidly worsening outlook for company profits,' " says Chuck Hill of First Call, a research firm." p139:Who let the bears out?

500 billion dollars could be spent on the Savings and Loans societies in the eighties to prevent their bankruptcy, the US government can spend large sums effectively nationalising bankrupt banks, in order to sell them in better times.

A simple crash is unlikely, although always possible if those in charge make the wrong moves, for their own political reasons. Nonetheless, a world in which the so-called emerging markets are plunging into the African abyss and the numbers of unemployed rise precipitously, while wages and salaries decline, is not stable either economically or politically. Hence the aim is not to prevent the downturn but achieve the control necessary to avoid political-economic instability.

Can they achieve this balance? It is unlikely because the ruling class is less of a class in the absence of a Cold War. In other words, they are less united than they were. It is more likely they squabble with one another than that they come to an agreement.

We may argue, therefore, that the bourgeoisie will use its controls to avoid a massive downturn but in so doing the weakest spots in the world will be hit, as in the case of Russia, Brazil and East Asia but they will be followed by China and the rest of South America as they find that the American and European markets have turned down and investment is withdrawn. Clearly the *Financial Times* is implicitly anticipating events but avoiding any discussion of the more likely and worse scenario. It is impossible to imagine that there will be no consequences in the developed world, even if the downturn is partially controlled. It is far more likely that there will be a prolonged period of stagnation with a gradual revival. By the following week, *the Financial Times* carried two articles canvassing different possibilities. On the one hand, it points out that " Global growth may be slowing but few economists predict recession in the big economies and inflation seems to be under control."[18] On the other the article points to the obvious fact that the 'health' of the stock market and that of the US economy are 'intertwined' to a greater degree than ever before. Shares have been given in lieu of salaries, while consumers have borrowed on the strength of their shareholdings. Given the relationship between profits and shares, the two were always closely related, affecting workers both through

[18] *Financial Times*, London, November 25th, 2000, p.16: Andrew Hill: The Growls get Louder.

falling wages and higher unemployment Today, the relationship is simply more immediate and through new channels.

THE NON-METROPOLITAN COUNTRIES

It is also clear that new investment into the non-developed countries remains limited to a tiny fraction of the total resources available to the investment funds and so-called multi-national companies. The Cold War led the United States to accept tariffs against itself while accepting goods from other countries tariff free, as in the case of the countries of East Asia. It opened its market and invested in those countries in large part as a means of preventing them turning to Stalinism, or socialism, although that was never on the agenda. The previous imperative to ensure economic development for political reasons is no longer on the agenda. The obstacles to such investment now weigh much more heavily on the metropolitan capitalist class; they prefer to avoid the high risk or the promotion of competition with themselves in the home country and third countries. Instead, the US capitalist class prefers to talk of the necessity of restructuring in the interests of finance capital, which if implemented would only throw these countries into new realms of poverty, through removing the barriers to the movement of goods and capital.

The solution promoted by the well-meaning liberals and reformers is to control the flows of capital, with a tax, the so-called Tobin tax. James Galbraith as noted also sees this as a solution. The cancellation of debt is another campaign under way. Even if debt is cancelled and a protective wall is built around third world countries, they are doomed to be the victims of the downturn as it progresses, as their goods will decline in price, with the contracting of the international market. In reality, there is no commercial basis for the investment of metropolitan funds outside the developed world, other than for the extraction of raw materials. In a declining capitalism, where finance capital rules, and where there is world overproduction of the world market's mainstay, automobiles, private enterprise has no interest in third world productive investment. Only the use of the state and the promotion and organisation of nationalised industry will maintain the infrastructure and a minimum standard of living for the local populations. At this time, however, both finance capital and the local ruling class or potential ruling class would not be able to operate such a form. As Stalinism has shown the inefficiency of such forms without 'democratic' controls,

they appear to have been ruled out. Under these conditions the future for the non-developed world looks bleak, which is hardly new.

HARD OR SOFT LANDING AGAIN

One effect is new and that is the increasing volume of speculation on Wall St's hard or soft landing and its possible consequences.

The discussion itself seems to imply that the stock exchange will be maintained at some level even if a lower level for a further time. So there will be a drawn out downturn that will be felt ever stronger over time. Ultimately it will appear clearly as a depression. At that point, the bourgeoisie, being itself threatened will then attempt a stronger reflation, abandoning its previous privatisation rhetoric. But it is caught between being afraid of a working class angry at its situation and made stronger by reflation and being individually reduced in size or destroyed by the depression.

This in turn will make the depression longer and more drawn out, even though there will be a limited and automatic upturn.

SUMMARY AND CONCLUSION

In the end the major substrate of change in the present time lies in the overall decline of capitalism, which was mitigated for a period by the Cold War. We can summarise the developments in the present epoch as follows:

1. There has been a shift to Finance capital and its parasitic forms and hence a slower rate of growth, with the apparent exception of the last 3 years in the United States.
2. The working class remains relatively strong in that there is always the possibility of the overthrow of capitalism, as in 1917. The epoch remains transitional. There has been no epoch making defeat to rival those of the Paris Commune, the Nazi victory in Germany or Stalin's assumption of power.
3. Capital is relatively weaker than in earlier periods, as shown in the way in which the various governmental forms play an increasing role whether through the state sector, controls over the private sector, or in holding capital itself together. The socialisation of labour has

continued. So called Thatcherism or neo-liberalism is little more than the policy of finance capital, which cannot defeat labour without destroying itself.

4. There is a decline in the law of value and hence a growth in the artificiality of pricing which must eventually come to ground. Marx's prediction of the increasing socialisation of production remains, as ever part, of reality. It shows itself in the increasing integration of production with an ever more extensive and tighter division of labour.

The effect of these 4 propositions is that Capital has no solution other than a depression, in order to restore the reserve army of labour and attempt to impose a epochal defeat on the working class. The problem with a depression is that it will destroy parts of the capitalist class, as it normally does, without any guarantee of success. Indeed there is always the possibility that in the present epoch, capitalism will be seen to have failed. Without a Stalinist or social democratic alternative, a downturn becomes politically dangerous. The worse is not the better and the working class is traditionally demoralised in periods of mass unemployment but we are no longer in a traditional situation. The uneven reaction to such a downturn which may last for some time cannot be predicted. In those circumstances, the capitalist class is itself befuddled.

Some may argue that capitalism is not controlled by capitalists, the contradictions of the system operate behind the backs of the classes. This is no longer true. Governments, giant firms, managers of the huge agglomerations of money invested for pensions, savings etc. all play crucial roles in the movement of capitalism. The idea that one cannot buck the markets reflects only a fetishized conception of the market. In reality, a few powerful people can play crucial roles in the evolution of the economy in the present time. They cannot remove the contradictions of capitalism and they do not know where to turn at the moment but they can decide to prevent a massive slump through government and private intervention, or let the downturn take its course.

That, however, is not the end of the story because it becomes ever harder to force the poles of the contradiction together. Put another way, mediations become more difficult. As a result, the system disintegrates even as it continues to accumulate. The high level of crime, drug taking, criminalisation of the society, the increasing number of incurable diseases, the so-called underclass, the increasing impoverishment of large parts of the

third world, the rich growing rich as the poor grow poorer are all testament to a disintegrating system.

In a capitalism in decline, with finance capital dominant, and large firms and governments playing critical roles in the economy any downturn will be more conscious than ever at all levels of the society. Attempts to bring disproportions together, raise profits, halt deflation etc must all become political events. In short, the end of Stalinism forces the capitalist class to take transparently political solutions to the crisis, which if they malfunction point to the nature of the system itself. It is no accident that the Parliamentary system is itself cracking.