CHAPTER 7

A Systemic Crisis, both Global and Long-Lasting (July 2008)

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How do you assess the changes in the financial system over the last 25 years? How should we assess the current crisis in the light of those changes of the financial system, and how should we assess those changes in the light of the crisis?

The transformations of the financial system should be analysed on the basis of two fundamental tendencies which have been operating since the beginning of the 1980s. The first is the tendency of the rate of exploitation to rise: almost everywhere in the world, the proportion of the wealth produced which comes back to the wage-workers has decreased, and the emerging economies are no exception here. Even the IMF and the European Commission are now registering this fact. This decrease of the wage-share has allowed a spectacular recovery of the average rate of profit from the mid-1980s. But, and this is the second tendency, the rate of accumulation has continued to fluctuate around a level lower than that before the crisis. In other words, the drain on wages has not been used to invest more.

The "Schmidt theorem" stated by the German Chancellor Helmut Schmidt at the beginning of the 80s – the profits of today are the investments of tomorrow and the jobs of the day after tomorrow – has not operated. The growing mass of surplus value which has not been accumulated has mainly been distributed in the form of financial revenues, and that is where the source of the process of financialisation is to be found. The difference between the rate of profit and the rate of investment is a good indicator of the degree of financialisation. We can also see that the rise of unemployment and casualisation goes together with the growth of the financial sphere. There too, the reason is simple: finance has succeeded in grabbing the greater part of gains from increased productivity, to the disadvantage of the wage-workers, by keeping wages down and by not reducing sufficiently, or even by increasing, work hours. The relations between productive capital and financial capital have thus been profoundly modified, and the demands of super-profitability come to bear, through a feedback effect, on the conditions of exploitation.

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For all that, we should not take a "financialist" view of contemporary capitalism, one which would see an autonomous tendency to financialisation plaguing the normal functioning of "good" industrial capitalism. That would be artificially to separate off the role of finance and the class struggle over value-added. We must articulate the analysis of the phenomena correctly: when the rate of profit rises thanks to a wage slowdown, without recreating the conditions for profitable accumulation, finance takes up a functional role in reproduction by providing market outlets alternative to the economic demand from wage earners.

This approach is confirmed by taking into account globalisation. In the progressive constitution of a world market, finance plays a role of abolishing, as far as can be done, the marking-off from each other of spaces of valorisation. The great strength of finance capital is that it ignores geographical or sectoral frontiers, because it has gained the means of moving very rapidly from one economic zone to another or from one sector to another: capital movements can now be deployed on a considerably expanded scale. The function of finance here is to sharpen the laws of competition by making the displacements of capital more fluid.

Paraphrasing what Marx said about labour, we could say that globalised finance is the process of concrete abstraction which subjects each individual capital to a law of value whose field of operation expands ceaselessly. The principal feature of contemporary capitalism is thus not an opposition between financial capital and productive capital, but the hyper-competition between capitals generated by financialisation.

Marxists habitually consider the rate of profit to be a key index of the health of capitalism. But, on some estimates, the increase in the rate of exploitation has brought about a substantial recovery of the rate of profit since the 1980s. Do you agree with this assessment?

The analysis of the current crisis should indeed start with a study of the development of the rate of profit. After the generalised recessions of 1974–5 and 1980–82, a new phase opened in the functioning of capitalism, one which one could for convenience call neoliberal. The beginning of the 1980s was a real turning point. A fundamental tendency towards increasing the rate of exploitation was unleashed, and that has led to a continuous rise in the rate of profit. For a Marxist used to thinking about the tendency of the rate of profit to fall, this about-turn may be disconcerting. One can of course evade this difficulty by trying to show that if the rate of profit is correctly measured, then it will after all have a tendency to fall. But such efforts are not theoretically well-founded, and, though I do not have the time to discuss this in detail here, I believe that the traditional argument about a falling tendency of the rate of profit is erroneous.

It is more enlightening to focus on the fundamental characteristic of the neoliberal phase, more or less unprecedented in the history of capitalism: the recovery of the rate of profit has not led to a simultaneous rise of the rate of accumulation. The rate of accumulation, taking an average over the various fluctuations, and excepting the "new economy" episode in the USA, has remained at a relatively low level. If we analyse this starting from the Marxist schemas of reproduction, we see a problem of realisation, since neither wage-earners' economic demand, nor accumulated surplus-value, are rising at the same rate as the social product. The solution to this problem is based on the recycling of the non-accumulated surplus-value through the financialisation of the economy.

This quick sketch thus leads us back to two essential points. First, that financialisation is not an autonomous factor, but the logical complement of the reduction of the wage-share and of the scarcity of sufficiently profitable openings for investment. Second, that the increase in social inequalities (within each country, and between zones of the world economy) is an essential trait of contemporary capitalism.

Financial crises sometimes lead to crises in production and trade, but not always. The current financial crisis comes at a time when rates of profit are generally high. Do you think that it will nevertheless lead to a serious crisis in production and trade, and how?

The current crisis is not just a financial crisis, because it puts into question the mode of growth in the USA and the configuration of the world economy. In the USA, growth was based on a push from consumption, sustained by a continuous decline in the savings rate of households. It was in a way growth on credit, which presupposed an inflow of capital from the rest of the world to finance the trade deficit which resulted from the lack of domestic savings. Add to that the budget deficit, explained in large part by the costs of intervention in Iraq. That model of growth is thus based on a double imbalance, internal and external. Finance plays an essential role in managing both imbalances. Internally, it is finance which has made possible the growth of debt, especially on the mortgage market. Externally, finance has the function of maintaining the balance of payments. The current crisis puts that regime of accumulation into question. Household debt is now blocked, and capital inflows are no longer guaranteed. Consequently, the financial crisis will probably led to a recession in the USA, or at least to a long-lasting slowdown of growth. Will that slowdown be transmitted to the rest of the world economy? There is talk these days about "decoupling", meaning that the growth of the emerging economies could keep up world demand sufficiently that the impact of the US slowdown will be limited. But that does not take into account the interweaving of the world economy, which also involves the relations between Europe and the USA and between China and the rest of Asia. Dependence on exports to the USA cannot be measured simply by the percentage which they make up in the total exports of China. That would be to underestimate the criss-cross relations between China and other countries of Asia.

In Europe, too, economic growth will slow down, for three reasons: the very high rate of exchange of the Euro in relation to the dollar; prices of imported primary materials; and government economic policies unfavourable to growth and employment. Finally, the crisis may possibly encourage more internally-centred economic growth in China, reducing its contribution to world trade.

The financial sector feeds more and more on individual incomes rather than on business transactions. What are the implications of this fact for the impact of the crisis on working-class households?

The big question is, which social layers will bear the costs of the crisis? The answer differs in the different zones of the world economy. We can sketch the main outlines. In the USA, obviously the mortgage crisis is plunging a large number of households into poverty. In numerous developing countries, the rise of food prices has already sharply increased the number of people affected by malnutrition or even famine. They are paying the price for neoliberal agricultural policies which have focused on exports and destroyed traditional agriculture. In Europe, the restrictive monetary policy of the European Central Bank aims to make wage-earners' purchasing power bear the impact of the rise in primary-product prices.

The implacable code of capitalism insists that it be the working people who thus have to pick up the pieces for the vagaries of the system. To absorb the losses, it will be necessary to clean up the economy on the backs of the working class, by braking growth, by raising interest rates, and by using the current world-economy disturbances as a pretext once again to push down the wages of the majority. According to the latest report of the ILO [International Labour Organisation], the financial turmoil could lead to a five-million increase in the number of unemployed in the world in 2008, a year "full of contrasts and uncertainties", as the ILO director general prudently puts it. If these tendencies sharpen, they can only worsen the recessionary effects of the crisis by curbing demand. Conversely, this fact shows that the outcome of the crisis is an eminently social question.

Everywhere in the world, a transition to a less chaotic mode of growth would necessitate a different, more egalitarian, distribution of income, which would allow a reduction of the flows of liquid assets which are at the root of the recurrent financial crisis, a reduction of the intensity of international trade (and thus, by the way, of carbon dioxide emissions), and a better response to social needs. The case of the USA is almost caricatural in its extraordinary degree of inequality in the distribution of income. Over the last 15 years, only the top 10 or 20% of the population have profited from the economic growth, and they have thrown themselves into a frenzy of consumption. To establish a stabilised mode of growth, a radical redistribution of income is necessary. There too, we come up against the social question.

How do you see the current situation of capitalism? Is it still stuck in a "global turbulence" originating in the 1970s? Or has it developed a new model of generalised expansion?

In terms of Ernest Mandel's theory of long waves, we face an ambivalent configuration. On the one hand, we could say capitalism has been successful, since it has re-established a high rate of profit, and the current phase could thus be characterised as one of expansion. But if we take the rate of accumulation ("the law and the Prophets" of capital, according to Marx) as criterion, we could on the contrary say that capitalism is stuck in a phase of recession and diminished dynamism. Add to that two economic elements: the specific instability created by the weight of finance, with a countless series of crises, and the fundamental imbalance which the trade deficit of the USA introduces into the current configuration of the world economy.

This fundamental imbalance is the symptom of a systemic crisis which is also without precedent in the history of capitalism, and is situated at a more profound level, putting into question the essential mainsprings of this mode of production. The source of this crisis is the growing gap which exists between the social needs of humanity and the capitalist mode of satisfying those needs. Social demand goes for commodities which are not susceptible of being produced with the maximum of profit. The gap grows in two main dimensions.

The first, in the developed countries, is the displacement of demand from manufactured goods (in the production of which productivity is high) towards services with which smaller productivity gains, and thus smaller perspectives of profit, are associated. No new economic outlet has taken up on a sufficient scale the role which the car industry played in the preceding, "Fordist", phase.

The second dimension is geo-economic, and results from globalisation. Globalisation tends to create a world market, or in other words an expanded space of valorisation. The lower levels of productivity of the less advanced sectors are directly confronted with profitability demands set according to the performance of the most competitive countries or businesses. A "crowding-out" effect results, so that a certain number of lines of production and thus of social needs which they could satisfy are no longer admissible because of the criteria of hyper-profitability which they face. In these conditions, the reproduction of the system goes through a double movement: extension of the domain of commodities, and refusal to respond to non-profitable needs.

Contemporary capitalism is thus a "pure capitalism", in the sense that it has brought together the conditions which it itself demands for an optimal functioning from its point of view. Rather than an improvement in social welfare, pure and perfect competition, free from regulations, rigidities and other distortions, brings to light a total absence of legitimacy, since social regression is explicitly the main desideratum for the success of the system.

Since the 1970s at least, the prevalent view among Marxists has been that the USA is in the process of losing its hegemonic position. Do you think that the USA's hegemony is really in decline? Or will be in the near future? If it is, will this decline generate imbalances and crises in the system?

The hegemony of the USA has had this paradoxical feature, that it has rested, for two decades, on the import and not on the export of capital, contrary to all the classic definitions of imperialism. No other country would have been able to run such a trade deficit without incurring a currency crisis; and it is indeed its position as the dominant power which has allowed the USA, recently, to let the dollar's exchange-rate decline. We could talk about an "imperial decline of the dollar" in the sense that, in that recent period, the strength of the USA has been measured by the weakness of its currency. Besides the fact that the dollar functioned as world money, there were in this situation some more objective determinations: the stability of the financial investments offered, notably Treasury bonds, and relatively good financial performance.

But the permanent inflow of capital could also be explained, from the middle of the 1990s, by the acceleration of productivity gains in the USA. This phenomenon seemed to mark the reaffirmation of the supremacy of the USA in the productive sphere itself, as a dynamic site of innovation and thus of profitability. It was at the foundation of the "new economy" and the stock market boom which accompanied it. That is why the question of knowing whether the productivity leap constituted the material base of a new phase of expansion, or a high-tech cycle, is absolutely decisive.

In the first case, the foundations of US hegemony would be renewed on the basis of an objective productive advance. In hindsight, the facts now seem to confirm the thesis of a high-tech cycle. Hourly labour productivity in the USA has in fact slowed down in recent years, and has slipped back to a rate of growth below 2%, comparable to the rate during the three decades preceding the "new economy". Thus the "new economy" appears as an interlude, provisionally reviving the rhythm of the phase of expansion which ended in 1967.

Do you think that the talk in recent years of the rise of the "BRIC" countries (Brazil, Russia, India, China), and perhaps also of other countries such as South Korea, Mexico, or South Africa – is just superficial journalism? Or that it reflects a real change in the capitalist relation of forces on a world scale?

The rise of the emerging economies manifestly represents a major inflection in the configuration of the world economy. We can pick it out objectively in the relative rates of growth of the different regions of the world. But the most spectacular change is in the inversion of capital flows, or in other words, the fact that the emerging economies have become net creditors. The recent bailing-out of the banks of the richest countries by the sovereign wealth funds of countries of the South is the most spectacular manifestation.

We could talk here of a "boomerang effect" of globalisation which puts into question the classical notion of imperialism, not to speak of the mainstream theories. Of course, there are still immense zones of "classical" dependency. This new configuration generates uncertainties as to his medium-term sustainability. In fact it is based on the trade surpluses achieved by the emerging economies, swollen for some of them by the rise of primary-product prices. The main counterpart of those surpluses is found in the trade deficit of the USA, which needs a regular inflow of capital.

But with the recession and the fall in interest rates, and the continual depreciation of the dollar, there is less motive for capital to place itself in the USA. Today, it is the central banks of the emerging economies that finance the US deficit, and that is a matter of a purely political choice which has no reason to be sustained for ever. Objectively, the central banks would do better to hold their assets in euros rather than dollars, or at least in a better balanced mix of the two.

If we now look at the productive aspect, the counterpart of the surpluses of the emerging economies is found in an extraversion in their economies which implies a holding-down of internal demand and, for the majority of the population, an advance in purchasing power much lower than the growth in the economy. This schema is not sustainable, and it is inevitably going to lead to social struggles which may open onto a more internally-centred mode of growth, a bit like in South Korea, and thus a reduction of surpluses. But that is a mid-term perspective which is not an immediate solution to the crisis. That is why the world economy has entered, for an indeterminate time to come, a period of deepening of trade wars and of inter-capitalist contradictions, full of threats.

Do you think that the current economic disturbances will develop in such a way as to generate crises in the "BRIC" countries? How do you assess the probability that the enormous inflow of capital to the USA from Asia and the oil-exporting countries will dry up, and that a disastrous decline of the dollar will result? In the course of the current disturbances? Or in the coming years?

The dollar has already hit a historic minimum, and, since its fate today depends on the attitude of the central banks of the countries in trade surplus, it can hardly go lower. Thus no further depreciation of the dollar, to adjust the USA's balance of payments, can be counted on. A dose of recession will doubtless be necessary, but also, above all, a serious slowdown of growth. From this point of view, the main result of the subprime crisis is surely to have put a definitive end to the mode of growth in the USA established in the Reagan era.

Moreover, rather than just engaging in an exercise in forecasting, it is more stimulating to reflect about the coordinates of a more balanced configuration of the world economy. The way to deflate the sphere of globalised exchanges and to reduce global imbalances is basically the same everywhere: namely, to re-focus economic activity on internal demand, or in other words on the satisfaction of social needs.

But that path implies a radical calling into question of the current tendencies of today's "pure capitalism", and even a recession will not be enough to set such a reorientation in motion. Spontaneous reactions in defence of the social interests of capitalism will push in the contrary direction, because it is difficult for the possessing classes to forgo the large and disproportionate sums that they extort from the wage-earners of the whole world. Suppose that this year produces a very uneven slowing-down of the world economy, and it does not transform itself into a generalised recession. Even in that case, 2008 will demonstrate how unsustainable the fragile balance of the world economy is, and how it is now on the brink of breakdown.

As we have seen, the USA will have difficulty in continuing to make the rest of the world finance its profound trade deficit, or in hoping to reduce it by an endless slide of the dollar, without that setting off new tensions with China and Europe. The structural dysfunctionalities of the European Union will also be exposed in all their clarity. And the mode of the growth of the emerging economies, totally reliant on exports, will also show its limits.

Thus 2008 will allow us to understand the social content of the current configuration of the world economy: its imbalances are based on the profoundly inegalitarian character of the social arrangements which underlie it. Over and above the obvious differences which exist between the USA, China, and Europe, these three great poles have a fundamental trait in common, which is the regular reduction of the share of wealth produced which goes back to those who produce it. It is that tendency which creates the super-indebtedness and the deficit in the USA, unemployment in Europe, and the export priority and over-accumulation in China.

The other lesson that we can draw from this story is that the legitimacy of capitalism today is profoundly weakened. The successes which it marks up are directly proportional to the social regression which it manages to impose, without compensation or counterpart. Even if the relation of forces is in its favour, one thing at least should be clear: projects aiming to regulate, discipline, or humanise such a system are in the current context tantamount to pure utopia, in the bad sense of the term.