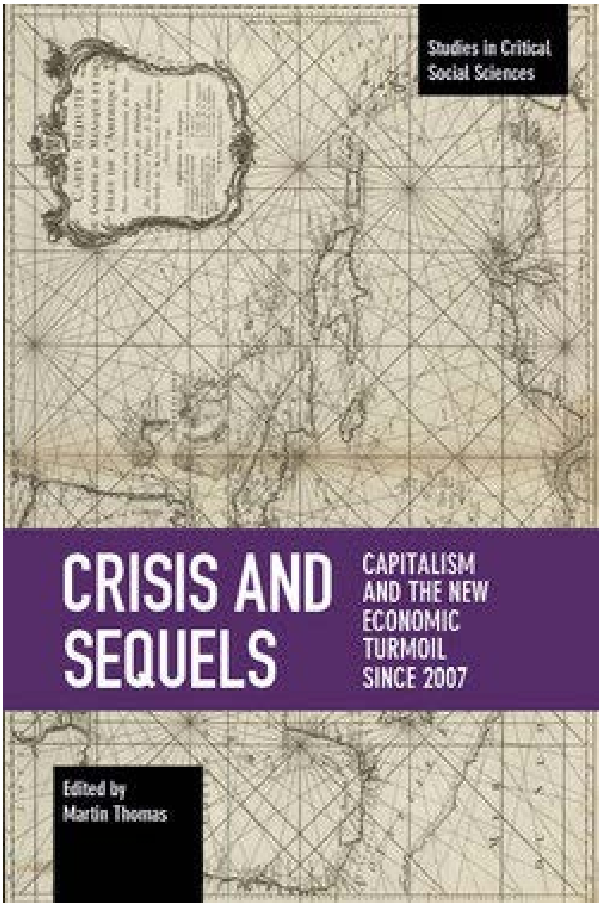
Crisis and Sequels

Capitalism and the New Economic Turmoil since 2007

Edited by Martin Thomas

BRILL

2019 [2017]



Chapters by Michel Husson

CHAPTER 7

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

Discussion with Michel Husson

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.

---

* Previously published in *Solidarity* 136, 24 July 2008.

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 its 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.

CHAPTER 8

The Crisis of Neoliberal Capitalism (December 2008)

Discussion with Michel Husson

Do you think that the recent nationalisations and big bail-outs signify a major change in the configuration of capitalism? What sort of new regime could result from the crisis?

The nationalisations are only pseudo-nationalisations. They are partial, provisional, and almost unconditional. They are aimed at re-establishing the profitability of the banking system and furnishing it with the instruments for restructuring. If it was really a matter of reconfiguring capitalism, these injections of public money should have been the occasion for imposing tighter rules of functioning on the banks. The speeches about the need for regulation and the struggle against tax havens are only distractions. The most probable outcome is that the liquidity handed out today will just feed the next bubble. The public intervention nevertheless constitutes a confession which puts into question one of the foundations of neoliberalism, namely the optimality of private finance. But it is not enough in itself to set in motion a transition to a new regime.

The old regime was based on the reduction of the wage-share, compensated for by households becoming over-indebted, plus, in the case of the United States, the financing of growth by the rest of the world. The two pillars of that model are now in question: households can no longer hold up market demand by expanding their debt, and so the recession has become a classic crisis of overproduction and difficulty in "realising" surplus-value. And the deficit financing of the United States has become uncertain, all the more so because the surpluses of the emerging economies are going to tend to shrink.

The governments are trying to put into practice what their economists have learned, as regards stabilisation policies, from the study of the 1930s and of the depression in Japan in the 1990s. What are the limits and capacities of these policies?

The reflationary measures are inadequate in so far as they cannot lead to a re-establishment of a more equitable distribution between wages and profits.

* Previously published in *Solidarity* 146, 12 February 2009.

That is the essential condition for the establishment of, or rather for a return to, a model of the Keynesian-Fordist type. But it would presuppose a challenge to the inequalities which have increased in recent decades, to different degrees, in the United States, in Europe, and even in China. The stabilisation policies are thus going to allow the system to avoid a crisis like that of the 1930s, but they do not involve measures capable of avoiding a depression analogous to that which Japan suffered throughout the 1990s.

The subprime crisis in the United States, although sizeable, involved much smaller sums than those in play in the crisis today. How is that a relatively small disturbance produced such huge consequences?

The spread of the subprime crisis to the whole financial system is a revelation of the degree of integration of the world economy and of the financial system. The hypothesis of "decoupling", put forward at the start of the crisis, according to which Europe and China would be safe from the effects of the crisis and so would allow the world to avoid a generalised crisis, rapidly misfired.

In recent months, it has been governments, not only banks, in trouble. The reserves of the IMF are relatively small, and the biggest funds are held by the governments, the central banks, and the sovereign wealth funds of East Asia and the Gulf states. Do you think that this crisis could bring an important shift in the balance of forces at a world level?

The crisis is far from over, and the degree of coordination among the capitalist authorities (governments, banks, IMF, sovereign wealth funds, European institutions, etc.) is advancing under the pressure of the emergency. But it is not enough to make us envisage the establishment of a new Bretton Woods. The most probable scenario on the months to come is, on the contrary, the sharpening of the contradictions. Despite the globalisation of production, inter-state contradictions are going to take on a new sharpness, with each state trying to pass the costs of the crisis onto others. The United States is going to try to impose a new reduction of the exchange-rate of the dollar, which is necessary to rebalance their trade deficit.

In Europe, each country is very differently positioned in relation to the crisis, depending on the relative weight of finance, of the property market and the car industry, and its mode of insertion into the world market. A truly coordinated economic policy is thus beyond reach, all the more so because the European Union has voluntarily deprived itself of the institutions which could allow it to be pursued, in particular a sufficient federal European budget. The countries of the South, especially Latin America and Asia, will tend to re-focus themselves on their internal and regional markets, on the model of the import substitution policies pursued in Latin America after the crisis of the 1930s.

Inside each country, the capital-labour contradiction will be deepened. There are few things in the plans for rescue or reflation which favour wage-workers, and meanwhile businesses will seize the opportunity of the crisis to re-establish their conditions of profitability. Finally, public budgets will be weighed down by the sums squandered in hand-outs to banks and businesses, and so social budgets will be cut again. The political conjuncture of the months and years to come will doubtless be characterised by a race between the rise of orientations of a nationalist or protectionist type, and the rise of social struggles.

CHAPTER 18

Nationalise the Banks! (September 2011)

Michel Husson

The crisis has taught us a lesson: "neoliberal Europe" was a badly-conceived thing, which has become more and more rickety over the years and appears to be incapable of standing up to the "stress test" of crisis. Right now, there are only two ways out: either everyone is going to take their marbles home and quit; or the whole edifice will have to be rebuilt, from top to bottom. But sticking plasters are being stuck over sticking plasters. How things turn out in Greece will serve as a barometer for this whole stop-starting process: everyone knows that Greece won't be able to pay its debts, but everyone is acting as if it could succeed in its impossible task, by means of bail-out plans and inadequate loan extensions, and break its economy in order to pay back its debt.

The other side of the problem is obviously the exposure of European banks to the risk of a Greek default, although it was they who pushed the country into debt. If Portugal, Ireland and Greece defaulted, the loss would be 100 billion euros, but if Italy and Spain followed (for two thirds of their debt), the loss would reach 800 billion euros, which is more than is held by the European Financial Stability Fund (250 billion euros today and 440 billion euros in the future). That the next President of the European Central Bank (ECB) is Mario Draghi, the ex-chief of the European arm of Goldman Sachs, which helped Greece cook its books, is just another element of the comedy that we are watching unfold.

When the crisis broke, states came to the rescue of the banks. But they didn't match this aid with any kind of re-thinking of the way finance works. To take one example, "naked Credit Default Swaps" [in which the buyer does not own the underlying debt – you don't own the thing on which you are buying insurance] were not banned, and they allow one today to speculate on public debt which the buyer does not even own. The bill for the crisis has passed from the private sector to the public sector, and states are looking now to pass the bill on to the taxpayer, with all the sense of fairness and equity that you'd expect.

---

* First appeared in French as "À contre-courant/ Nationaliser les banques", *Politis*, http://www.politis.fr/articles/2011/09/a-contre-courant-nationaliser-les-banques-15214/. First published in English in *Solidarity* 218, 28 September 2011, http://www.workersliberty.org/story/2011/09/28/nationalise-banks. Translation by Edward Maltby.

The debts weren't cleared – they were just passed on: that is what explains the persistence of the crisis.

Things are even more tangled up by the fact that state budgets are inextricably linked with banks' balances, with a total absence of transparency. It is not even certain that the banks know exactly where they are at themselves. One thing, however, is clear: that the "stress tests" which were supposed to evaluate the resilience of banks were either "laughable" or "pathetic", to use the words of [French senior civil servant] Jacques Attali. All this explains [IMF chief] Christine Lagarde's recent pronouncement about the "urgent" need to recapitalise a certain number of European banks. But the banks do not want to hear this and prefer to moan about the too-restrictive (for their profits, that is) rules of [the new package of banking rules requiring banks to have greater holdings backing up their investments] "Basel III".

The only rational means of untangling the skein of debts would be to nationalise the banks, to take everything back to square one, once and for all, and to organise the inevitable default of the most exposed countries. The distributions of dividends would be forbidden, and a citizens' audit would make it possible to target illegitimate debts. This nationalisation could be permanent (the radical option) or it could be temporary (the moderate option) like in Sweden in the 1990s.

Ultra-left fantasy? No, just objective analysis. It is striking that two economists, authors of a book [Augustin Landier and David Thesmar, *Le grand méchant marché*] which defends the virtues of the market against a "French fantasy" make the same argument: "recapitalisations must take place under states' hands, and in certain cases temporary nationalisations". That liberals see that the logic of the banks cuts against "the public interest" and are calling for "coercion" should give pause for thought. From this point of view, the spinelessness of the left is dreadful. When they are not bowing down before the financial markets, like Papandreou or Zapatero, they are competing to make austerity. [Leading French Socialist Party member François] Hollande: "We have to balance our public accounts from 2013… I am not saying that in order to give in to any sort of pressure from the markets or the ratings agencies". [Other leading French Socialist Party member Martine] Aubry: "3% in 2013, as it is the rule today". Finance is trembling!

CHAPTER 19

The Endless Bail-out of Europe (November 2011)

Michel Husson

The decision by Greek prime minister Georges Papandreou to put the Euro-summit agreement to a referendum marks a new step in the European crisis. To understand the causes and what is at stake in this crisis, we must first situate it in the broad sweep of events. It is not just a sovereign debt crisis. It is also, and more fundamentally, a crisis of the European construction. Today it is obvious that neoliberal-style Europe was botched. The single currency was supposed to serve as a wage-control instrument, since it became impossible for governments to devalue. But that constraint was in part evaded circumvented by over-indebtedness, boosted by low real interest rates and growing external deficits.

For a decade, 1995–2005, the countries of Europe's "South" (Spain, France, Greece, Ireland, Italy, Portugal) had growth rates almost one per cent higher than the countries of the "North" (Germany, Austria, Belgium, Finland, Netherlands).

That could not last, and the situation reversed from 2006. Since the crisis, and except in 2009, the growth of the countries of the "South" has been clearly lower than that of the "North". The crisis has thus exposed the incoherences of the European model and deepened the divergence between the trajectories of the different countries. (See figure 19.1)

The growth of public debts itself has three causes: the mechanical effect of the recession, the costs of bailing out the banks, and also the poisoned fruit of the policies carried through for many years of reducing the taxes paid by business and the richest households. The brutal shift to budgetary austerity thus sets a vicious circle going: by cutting expenditure, they slow down economic activity, and that cuts tax receipts and so the deficit is not cut.

A priori there were several possible scenarios. The austerity scenario meant getting into a long period of social regression to bring down the debt bit by bit at the expense of the living standards of the majority of the population. But it was known that a certain number of countries, in the first place Greece, could

* First published in French as "note hussonet n°41, 2 novembre 2011" on http://hussonet.free.fr. First published in English in *Solidarity* 224, 9 November 2011. http://www.workersliberty.org/files/224.pdf. Translation by Edward Maltby.

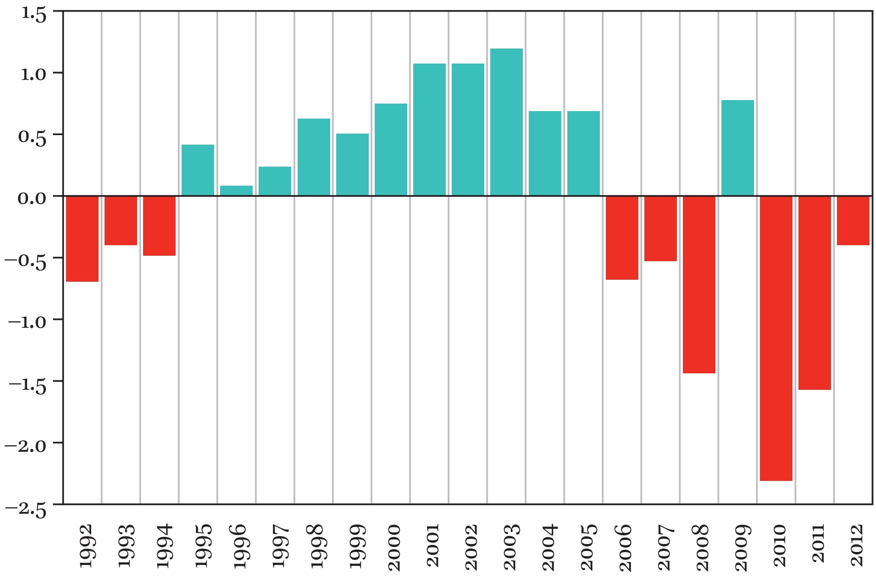


FIGURE 19.1 *Growth gap between countries of the South and the North of Europe. South: Spain, France, Greece, Ireland, Italy, Portugal. North: Germany, Austria, Belgium, Finland, Netherlands*
SOURCE: EUROSTAT, HTTP://EC.EUROPA.EU/EUROSTAT/TGM/TABLE.DO?TAB=TABLE&PLUGIN=1&LANGUAGE=EN&PCODE=TEC00115.

not meet their debt payments. Thus, the risk of contagion to other countries, leading to a scenario of the breakup of the Eurozone.

The scenario of federalisation would have meant taking responsibility for the totality of the European debts in a pooled way by various methods of which the main one is the monetarisation of the European debts by the European Central Bank. That is in fact the only way to avoid exposing the financing of the states to speculation on the financial markets.

Finally, the radical scenario would, since the sovereign debts are in large part held by the European banks, mean nationalising those banks and organising default for the most exposed countries.

For almost two years the governments of Europe have been feeling their way between several pitfalls. The first is what economists called moral hazard: looking after a Greek default could be a signal encouraging other countries to evade austerity measures. The cost of the default would fall back on the "virtuous" countries, especially Germany, and the financial markets would put the debt of numerous other countries under the rule of speculation. But a break-up of the Eurozone is also seen as a major risk, including by Germany, which through such a break up would lose its advantages in world competition.

The 27 October 2011 agreement was, like the previous ones, a provisional and cobbled-together solution which confirmed Germany's refusal to accept a change in the statutes of the European Central Bank which would allow it directly to finance states. The Greek debt was theoretically cut by half, but at the cost of a veritable placing under supervision, sharpened austerity, and a massive program of privatisation.

Technically, the weak points of this agreement, which was probably still-born, were obvious. The debt cutback is voluntary, as the text of the agreement explains:[1] "We invite Greece, private investors and all parties concerned to develop a voluntary bond exchange with a nominal discount of 50%". Indeed, they wanted to avoid declaring a Greek default which would unleash the diabolical mechanism of the CDS (Credit Default Swaps), whose owners would then come to demand their dues. To avoid contagion for other countries, appeal was made to the European Financial Stability Facility. This fund, created in May 2010, had been endowed with 440 billion euros, but after the bail-out plans for Greece, Ireland, and Portugal, it had only about 200 to 250 billion left. For it to serve as a firewall, it had to be able theoretically to command 1000 billion euros. But the states do not want to pay, and this sum was to be got by the same methods which led to the financial crisis: leveraging and a "Special Purpose Vehicle", with an appeal to the emerging powers and especially to China.

The banks were also to be recapitalised, but not too soon, so that they should not be obliged to cut back their profits and their dividend distributions. As one of the negotiators of the agreement puts it: "You don't have to be paranoid to be terrified" (see: "The euro deal: no big bazooka", *The Economist*, 29 October 2011[2]). The most terrifying thing, however, is the drive of the ruling classes to make the peoples of Europe pay the cost of the crisis.

Quitting the euro is presented as a miracle solution. It would allow the country involved, Greece for example, to devalue and re-establish its competitiveness. This claim is based on the observation that the European construction was flawed from the start in so far as it did not take account of the divergent trajectories of the different countries of the Eurozone. The serious response would be to introduce mechanisms of harmonisation: a large European budget, a unified system of taxation of capital, funds for social harmonisation, a European minimum wage. That solution may seem out of range. Quitting the euro is not however a better solution: to think that would be to put the cart before the horse and to make a strategic error. The debt would indeed be increased in proportion to the devaluation rate, and the new currency would be exposed, without defence, to speculative attacks. Those pressures would then serve to justify an even harsher austerity policy.

1 http://gesd.free.fr/esummit.pdf.

2 http://gesd.free.fr/nobigbaz.pdf.

In France, the supporters of "deglobalisation" do not all advocate quitting the euro, but their preoccupations are similar. Since they make free trade the source of all our ills, they mainly propose fiscal protectionism, or in other words taxes on imports. There too, the aim is to re-establish competitiveness. It is hard to see how such measures could, as if by magic, re-establish a fairer distribution of income: it is not a border tax that will make the profiteers give up their privileges. In any case, competitiveness depends on many other factors besides commodity prices.

And, above all, this approach would mean getting into a doubly perverse logic. First into the logic of competition: but a country can improve its situation by better competitiveness only by taking market share (and thus jobs) from neighbouring countries. And then into the logic of productivism, which sees no way to create jobs other than more economic growth.

The preconditions for a way out are to establish a balance of forces favourable to the working class and to wipe out at least a portion of the debt. A feasible strategy is thus composed of unilateral measures which clash with the rules of neoliberal Europe but which would aim at the extension of progressive measures across Europe.[3]

The technical responses exist and are based on this coherent triangle:

1. Monetarisation of the debts by the European Central Bank;
2. Nationalisation of the banks;
3. Cancellation of the illegitimate portion of the debts.

This combination of measures would allow for settling the crisis by way of making those who profited from the frenzies of financialised capitalism pay.

But the issues at stake are above all social, and the situation is in the last analysis simple to sum up: thanks to deregulation, financialisation, etc., a small minority grabs the wealth produced, as the rise of inequality shows. It goes further: that minority organises economic and social life in line with its interests, and has the power to decide social priorities and deprive the peoples of any say in their fate. That minority will not give up those privileges without a powerful social intervention which must combine a global point of view with local or sectoral initiatives.

In any case, capitalism is in an impasse: the neoliberal model can no longer function, and return to capitalism of the "golden age" of 1945–75 is impossible. A progressive solution must therefore involve a radical questioning of

---

3 See "Exit or voice? A European strategy of rupture", *Socialist Register* 2012, http://hussonet.free.fr/sreg122.pdf.

this system: the redistribution of wealth is the immediate point of leverage, but the approach must include a total inversion of the capitalist logic. We must make the satisfaction of social needs the decisive priority, and from that work out what are the necessary and useful jobs, and prioritise non-market public services and the development of free time above the search for profit and individual consumption. Those are, besides, basic preconditions if we want to meet aims for the reduction of greenhouse-gas emissions. Since such a project puts the very logic of capitalism in question, a very broad alliance is necessary, between the social movements defined in the broad sense.

CHAPTER 25

The Coming Crisis (October 2015)

Michel Husson

While the Eurozone is embarking on a very moderate period of recovery, alarmist predictions are multiplying about the overall trajectory of the world economy: "Chinese growth slows, world economy suffers", was, for example, a headline in *Le Monde* of 20 October 2015. "On the economic front, there is also reason to be concerned" says Christine Lagarde,[1] and Jacques Attali[2] announces that "the world is approaching a great economic catastrophe".

Let us begin with a brief overview: world growth is slowing, mainly in the emerging economies, with the exception of India. This tendency is self-reinforcing, with a fall in prices of raw materials, and it is being transmitted to the advanced countries. International trade is also slowing down, at the same rate as world GDP, as if productive globalisation had reached a ceiling. The Eurozone is registering a very timid and uneven recovery. The USA and the UK are doing relatively well, but growth is tending to slow in the former and appears artificial in the latter. In the "financial sphere", quantitative easing is feeding stock-market bubbles rather than productive investment, which is stagnating. And the mere prospect – held back so far – of a renewed rise in Fed interest rates hangs like the sword of Damocles and is destabilising the currencies and markets of many countries. In short, "Uncertainty, Complex Forces Weigh on Global Growth", to quote the IMF's formula in its latest survey.[3]

From this impressionistic picture, we can draw out three essential characteristics:

- The persistence of "the legacies of the global financial crisis";
- disturbances in the world economy;
- the prospect of "secular stagnation".

---

* First published in English as: Economie. Les coordonnées de la crise qui vient, *A l'encontre*, 23 October 2015, https://alencontre.org/economie/economie-les-coordonnees-de-la-crise-qui-vient.html First published in English in *Solidarity* 389, 13 January 2016, http://www.workersliberty.org/hussoncqv. Translated by Ed Maltby.

1 Christine Lagarde, "Managing the Transition to a Healthier Global Economy ", September 30, 2015, https://goo.gl/9XGphi.

2 Jacques Attali, "La crise, Acte 2", 17 août 2015, http://goo.gl/69Td7E.

3 IMF, Uncertainty, Complex Forces Weigh on Global Growth, *World Economic Outlook*, October 6, 2015, http://goo.gl/h8Onf9.

The Legacies of the Global Financial Crisis

Quantitative easing means a central bank buying securities. In this way, the bank creates money which, injected into the economy, is supposed to kick-start it. We can even concede that this worked for a time in the USA. Nevertheless, the new fact is that we have begun to see that this course of action has substantial collateral effects. The president of the Federal Bank of Dallas, Richard Fisher (a minority voice in the Fed), summarises his scepticism thus: "the money we have printed has not been as properly circulated as we had hoped. Too much of it has gone toward corrupting or, more appropriately stated, corrosive speculation".[4] In his speech, he went so far as to quote a verse by Jonathan Swift, from 1735: "Money, the life-blood of the nation/ Corrupts and stagnates in the veins,/ Unless a proper circulation/ Its motion and its heat maintains."

The inefficacy so far of monetary policy can be explained by various mechanisms or secondary effects which weigh upon the current conjuncture. To start with, this injection of money is blind and nothing guarantees that the liquidity will be used in a manner that is favourable to investment. On the contrary, it will feed speculation and provoke an increase in asset prices which will benefit only the richest and which will lead to the creation of a bubble.

Historically Low Interest Rates

Quantitative easing simultaneously leads to a reduction in interest rates. This could contribute to re-starting investment in housing and productive investment in general. A recovery in investment is in any case the key issue for an overall recovery. But that recovery has not taken place, because businesses are not investing, for lack of outlets and/or profit. They restore their margins, make money, increase mergers and acquisitions, pay out dividends, but their investment is flatlining.

Over the same period, the injection of money leads to an inflation in financial asset prices, but not to inflation in prices of current goods and services. Low interest rate and weak inflation together mean that real interest rates (discounting inflation) cannot become strongly negative. Nominal interest rates approach what American economists call the ZLB (zero lower

4 Richard Fisher, "Monetary Policy and the Maginot Line", July 16, 2014, http://goo.gl/Y3VbYP.

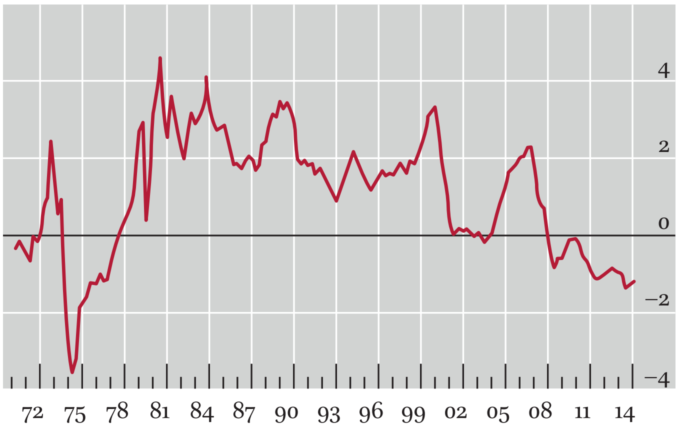


FIGURE 25.1
Central bank official interest rates. Germany, USA, Japan
SOURCE: BIS-BRI[5]

bound). This limit is, for some, like Lawrence Summers,[6] the result of secular stagnation, characterised by high rates of saving, aversion and a weak tendency to invest. To rescue the situation, negative real interest rates would be required to re-launch activity, and they are out of reach. This interpretation is dubious, because it misses out the most structural determinants of possible secular stagnation.[7] Nevertheless, Summers is right on one point when he expresses a fear that "If a recession were to occur, monetary policymakers would lack the tools to respond. There is essentially no room left for [monetary] easing…" The same worry was expressed by Claudio Borio,[8] the economist of the BIS (Bank for International Settlements, headquartered at Basel), when he presented his annual report: "Interest rates have been exceptionally low for an extraordinarily long time. They reflect the central banks' and market participants' response to the unusually weak post-crisis recovery, as if they are fumbling in the dark in search of new certainties." (See also fig 25.1). In other words, we have asked too much of monetary policy for relaunching growth.

Accumulation of Debt

The result is a huge accumulation of private and public debt. According to a study by the McKinsey Global Institute,[9] this debt represents almost 200,000

5 BIS, 85th Annual Report, June 2015, http://goo.gl/oAlIsE.

6 Lawrence Summers, "The global economy is in serious danger", *The Washington Post*, October 7, 2015, http://goo.gl/VQRIt9.

7 Michel Husson, "Stagnation séculaire: le capitalisme embourbé ?" *A l'encontre*, 5 Juin 2015, http://goo.gl/EsqZd3.

8 Claudio Borio, Media briefing on the BIS Annual Report 2015, 24 June 2015, http://goo.gl/WTLDX7.

9 McKinsey Global Institute, Debt and (not much) deleveraging, February 2015, http://goo.gl/vmrYoV.

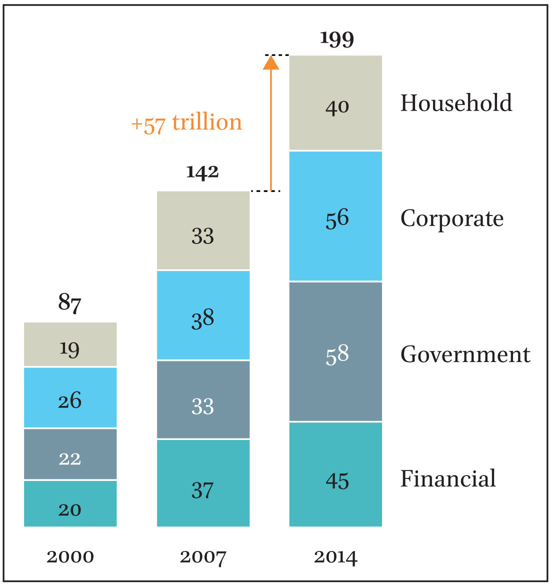


FIGURE 25.2
Global stock of debt
SOURCE: MCKINSEY GLOBAL INSTITUTE

billion dollars at the world level, or 286% of global GDP, up on 269% in 2007, before the crisis struck. The increase is particularly clear for state debt, but also for businesses (fig 25.2).

In particular, the debts of non-financial businesses in emerging economies have quadrupled between 2004 and 2014. The IMF asks itself whether one should worry,[10] and it tells businesses to prepare themselves for the effects of a worsening in financing conditions: "as advanced economies normalize monetary policy, emerging markets should prepare for an increase in corporate failures and, where needed, reform corporate insolvency regimes".

This panorama thus leads us to two scenarios which could unleash the next crisis. The first has been described by François Morin in his latest book.[11] His point of departure is the existence of financial bubbles in public debt, but also on the financial markets which have been doped up by very low interest rates. The trigger element could be the failure of a systemically important bank, with a chain reaction on other big banks.

The second scenario relates to the IMF's worries regarding emerging economies. The trigger here would be an increase in interest rates by the US Federal Reserve Bank and the hardening of conditions for financing business which the IMF refers to. It would lead to a bursting of bubbles, starting with the emerging economies, with repercussions for the rest of global finance.

10 IMF, *Global Financial Stability Report*, October 2015. Chapter 3: "Corporate leverage in emerging markets – a concern?" http://goo.gl/zpkcAF v.

11 François Morin, *L'hydre mondiale: l'oligopole bancaire*, Lux, 2015, https://goo.gl/3k5GW4; see also this video by the author: https://goo.gl/qGFdx8.

In summary, the risk factors focus around this contradiction: on the one hand, quantitative easing policies are not getting any traction on the real economy, are feeding bubbles and have set world finance on a course which cannot continue indefinitely. But an increase in interest rates would provoke an uncontrollable bursting of bubbles, in a context where states have almost no ammunition left to save the banks again.

In Defence of Fictitious Capital

Christine Lagarde is therefore right to speak of "sequels to the global financial crisis". More precisely, the overall picture is as follows: the period preceding the crisis was characterised by an enormous accumulation of fictitious capital, in other words, of drawing rights on future surplus value to be produced by the exploitation of wage labour. For capitalism to start anew on a healthy basis, it would have been necessary to destroy this fictitious capital (and surely also a part of the productive capital). There have been losses, but around the world policies were guided by an essential principle: preserve the fictitious capital and the drawing rights that it represents. That was done in two ways: on the one hand, by converting private debts into public debts and, through austerity measures, drawing on surplus value; on the other hand, by massive injections of liquidity. In the first instance, we can say that capitalism respected the law of value, because it tried to adjust the ratio of fictitious capital/surplus value by increasing surplus value. In the second instance, on the contrary, it tried to deny or subvert the law of value by acting on the numerator. At the most fundamental level, the next crisis could be interpreted as being a severe reassertion of the law of value.

Even if it gives priority to austerity via "structural reforms", capitalist Europe is turning, rather tardily, towards artificial solutions. There is quantitative easing à la Juncker, which is tottering just as much as in the USA. But there is better: the latest big idea of the European Commission is to launch an "Securitisation Initiative"[12] which will be a part of a broader "Capital Markets Union" project. Under the cover of regulation, the real objective is to restart securitisation markets, but this time "safely", to thus obtain "over €100bn of additional funding", or "half of pre-crisis levels".[13] It should be recalled that this objective was also that of the IMF in… October 2009, when it tried to "discern

12 European Commission, "Securitisation initiative", September 2015, http://goo.gl/Uurqih.

13 European Commission, "Capital Markets Union", flyer, September 2015, http://goo.gl/iv7q1z.

how securitisation can positively contribute to financial stability and sustainable economic growth."[14] Here is a striking example of systematic will to favour the rise of fictitious capital.

Before the crisis, the world economy was structured around a China-US axis, often called "Chinamerica".[15] This axis is starting to disintegrated, and without a doubt that is one of the key elements of the remodelling of the global economy.

The End of "Chinamerica"

The disintegration is symmetrical: on the one hand, the American model is departing from its pre-crisis operation – growth on credit – because of a renewed increase in the rate of saving and a reduced dependence on energy imports. These two factors reduce the motor role in the global economy which the USA had previously played. China is currently in a transition phase, fraught and difficult to be sure, towards a model centred on domestic demand. It is clearly moving away in any case from export-based growth: exports' portion of Chinese GDP went from 36% in 2006 to 26% today. The complementarity between the two biggest economies is declining and this move, with its collateral effects on emerging economies and Europe, is unbalancing the whole world economy.

This reorientation of the Chinese economy is manifested by a change in the structure of its external trade,[16] but also contributes to a slowdown in world trade. It is another subject of worry for economists, who puzzle about the causes and wonder if this is an ephemeral phenomenon or something more structural. All the evidence is that we are seeing a lasting change of trends[17] which corresponds to a slowdown in the splitting-up of value chains. The organisation of production across two different zones of the global economy characteristic of contemporary globalisation is reaching its limits, and, with it, the faster growth of global trade than of world GDP which it drove. This phenomenon is particularly marked with regard to China, but also the USA,

14 IMF, *Global Financial Stability Report*, October 2009. Chapter 2: "Restarting Securitization Markets: Policy Proposals and Pitfalls", http://goo.gl/PM1nPY.

15 Michel Husson, "Chine-USA. Les lendemains incertains de la crise", *Nouveaux Cahiers Socialistes* n°2, Montréal, septembre 2009, http://goo.gl/OQEB84; "Etats-Unis: la fin d'un modèle", *La Brèche* n°3, 2008, http://goo.gl/lNJqYl.

16 Michel Husson, "La fin de l'émergence du Sud ?" *A l'encontre*, 22 mars 2015, http://goo.gl/gCYkZY.

17 Sébastien Jean, "Le ralentissement du commerce mondial annonce un changement de tendance", *La lettre du Cepii* n° 356, Septembre 2015, http://goo.gl/YgLZ3G.

Korea and Japan, which confirms that the China-USA axis is in the process of coming apart.

Desynchronisation and Volatility

The instability of the global economy is also aggravated by desynchronisation between the USA and the Eurozone. A detailed study by the IMF[18] shows that these divergences have substantial collateral effects (spillovers). The authors show their worries by asking "whether liftoff in the US may not only strengthen the dollar vis-à-vis the euro, but also push interest rates up in the euro area, or whether QE in the euro area may not only weaken the euro, but also continue putting downward pressure on US yields".

The same document has an interesting insight into the emerging economies. Its authors distinguish two transmission channels. The "traditional" channel is that capital goes towards the zone which is enjoying renewed growth (the USA or the Eurozone), with a resulting appreciation in the value of the currency in the zone enjoying this influx of capital. But they identify another channel, the "risk-appetite channel": capital anticipates a recovery in the emerging economies driven by the recovery in the "centre" zone. This influx of capital into the emerging economies leads to an appreciation in the value of their currency. These analyses show that the functioning of the world economy is eluding regulation, and that the emerging economies are exposed to movements of capital which have destabilising effects, whether entering or leaving. The recent period has been characterised precisely by an increased volatility of those movements of capital.

The Exhaustion of Productivity Gains

Presenting the latest projections by the OECD, its chief economist Catherine Mann stressed that "the potential growth slowdown in advanced countries is an ongoing concern".[19] And Christine Lagarde, for the IMF, evoked the "new mediocre", in other words "the risk of low growth for a long time" which, according to her, "looms closer".

18 "Big Players Out of Synch: Spillovers Implications of US and Euro Area Shocks", IMF Working Paper, September 2015, http://goo.gl/Jdxawt.

19 Catherine Mann, "Puzzles and uncertainties", OECD Interim Economic Outlook, September 2015, http://goo.gl/Bx2GwM.

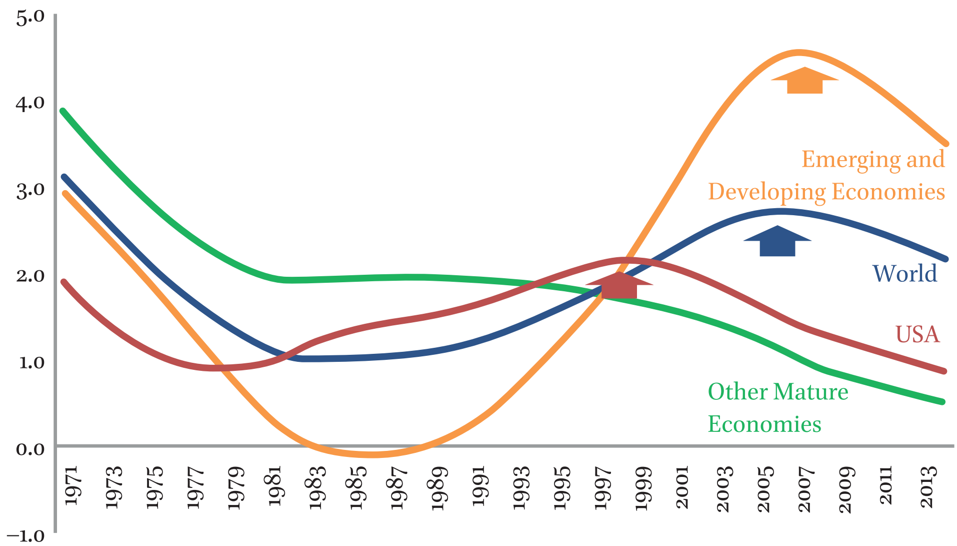


FIGURE 25.3 *Tendencies in growth of labour productivity*
SOURCE: THE CONFERENCE BOARD "PRODUCTIVITY BRIEF 2015", HTTP://GOO.GL/HHQKNB

Underlying this configuration, there is the exhaustion of gains in productivity. This tendency is not new, as it was set in motion in the developed countries from the start of the 1980s, with strong fluctuations in the case of the USA. But, in the end, the emerging economies took up the baton and the productivity gains they made could in large part be captured by the "old" capitalist countries. At the start of the crisis, the emerging economies kept up world growth. But the great dislocation in the world economy could have reached an inflection point: the most recent data from the Conference Board show that growth in hourly labour productivity has clearly fallen in the emerging economies since the start of the crisis (fig 25.3).

However, productivity, and more directly global factor productivity, is an essential element in the dynamic of the rate of profit. That rate has been restored in the major capitalist countries, in spite of the exhaustion of productivity.[20] This achievement was only made possibly by a whole series of initiatives: financialisation, growth in indebtedness, inequality, fall in wage share, etc. At the same time, the drying-up of profitable investment opportunities leads to a stagnation in productive investment rates.

20 Michel Husson, "Les limites du keynésianisme", *A l'encontre*, 15 Janvier 2015, http://goo.gl/KNwrjV.

The Rate of Profit in Disorder

There is no alternative for capitalism, other than getting the neoliberal model back on track, while trying to reduce destabilising factors. In this quest for a way out of the crisis, the key question is clearly the restoration of the rate of profit, which can only be achieved in the first instance by an increase in the rate of exploitation. However, a striking fact is the disparity of performances. Among the advanced countries, we can see differentiation in rates of profit, in the first place between the USA and the Eurozone, and then again within the latter (Figure 25.4). This phenomenon implies a sharpening of competition between multinationals, which would tend to lead to a general downturn in the rate of profit. This is, in any case, the finding announced by the McKinsey Institute[21] which foresees that global corporate profit should move from 9.8% of GDP in 2013 to 7.9% in 2025, more or less back to its 1980 level.

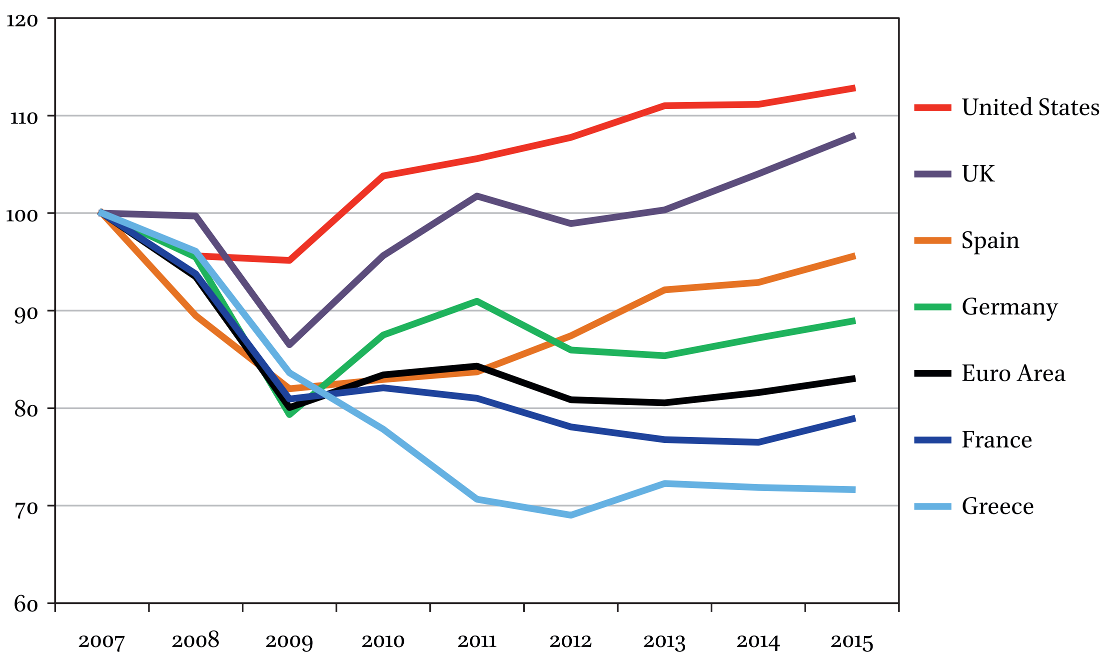


FIGURE 25.4 *Rate of profit, 2007–2015*
Note: Base 100 in 2007
SOURCE: AMECO, "NET RETURNS ON NET CAPITAL STOCK: TOTAL ECONOMY"

21 McKinsey Global Institute, *The new global competition for corporate profits*, September 2015, http://goo.gl/zyvgy9.

No Profit, No Recovery

This divergence can be illustrated by means of a more detailed analysis of the conjuncture within the Eurozone. The exercise has been undertaken recently by the European Commission:[22] it compares the timid current "recovery" with others. The results of this study are illustrated by Figures 25.5 and 25.6 which compares the cycle 2002–2015 with the previous (1986–1999). In the two cases, the reference year is the year preceding the lowest point (respectively 1992 and 2008). Two key variables in the dynamic of capitalism are examined: investment and wage share. The profile is comparable in terms of the phase in the cycle preceding the recession. But what happens next tells two very different stories.

After the 1993 recession, investment fell, but revived progressively and after six years regained its pre-crisis level. The wage share, which had risen slightly from its 1989 low point, returned to its inexorable downward tendency and fell by almost 4% of GDP between 1992 and 1999. It was a good way out of the crisis for capitalism, with an improvement in profitability and a recovery in accumulation.

But what has happened after the latest crisis is not a classic cycle. Wage share increased strongly in 2009, then fell, but now it has stabilised at 2% of GDP higher than its pre-crisis level. In other words, the return on capital has

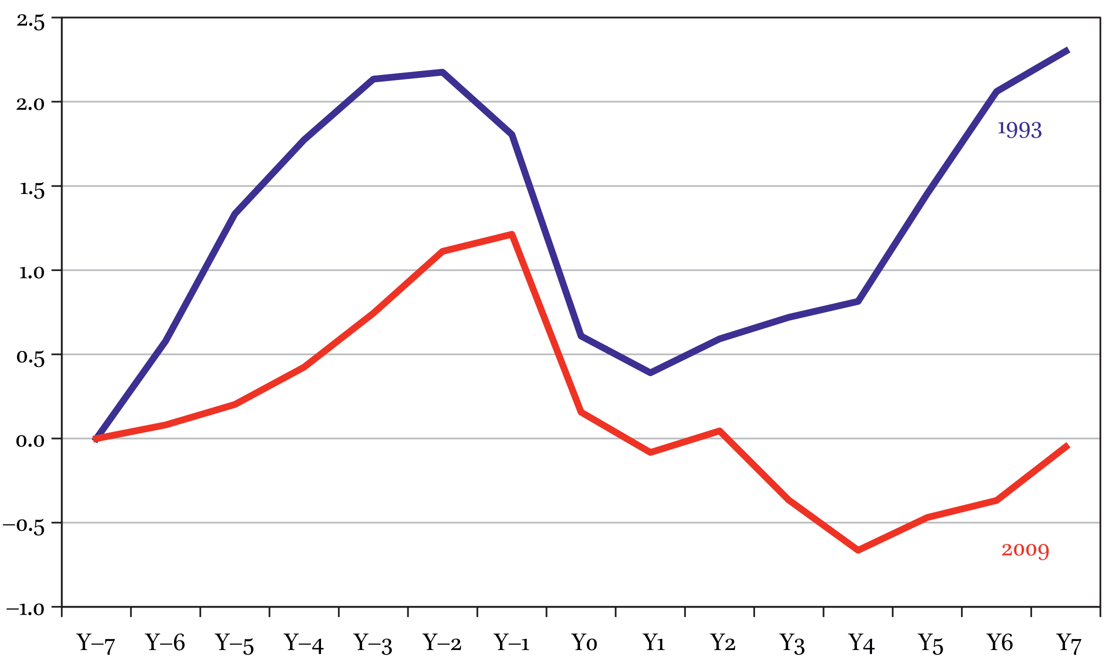


FIGURE 25.5 *Two episodes of recession in the Eurozone: Investment*

22 "The euro area recovery in perspective", European Commission, Quarterly Report on the Euro Area, n°3, 2015, http://goo.gl/uyggrk.

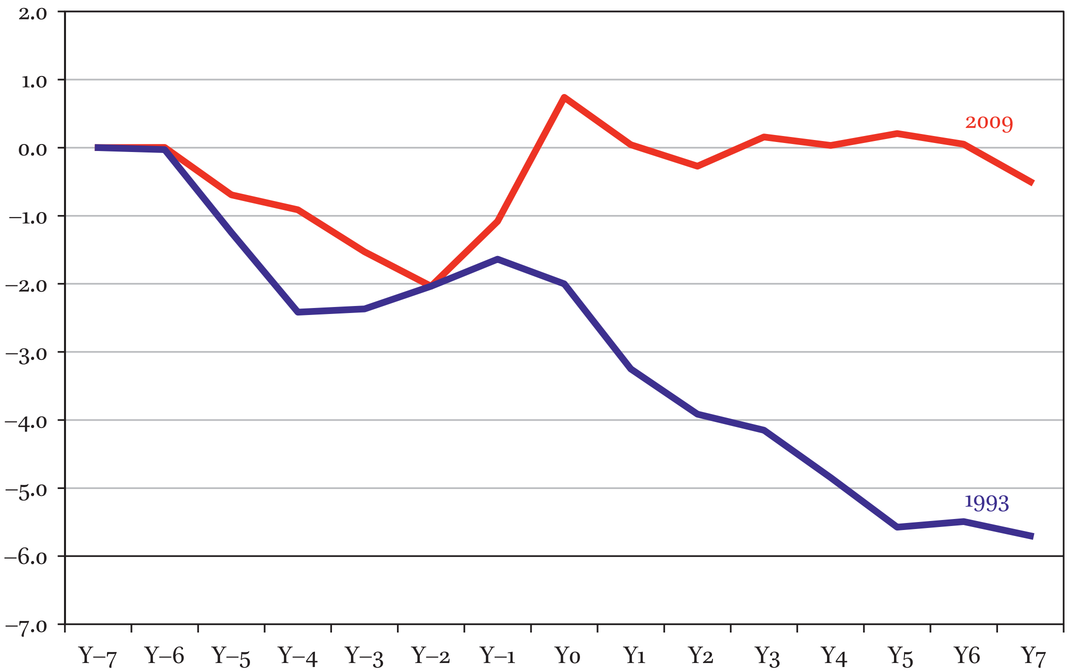


FIGURE 25.6 *Two episodes of recession in the Eurozone: Wage share*

not revived. And we see the effects on investment: it started to revive in 2011, following the pattern of the previous recession. Then the sharpening of austerity policies created a double dip in growth and investment fell again before starting to recover from 2014. Today it remains more than 1.5% of GDP lower than its pre-crisis level.

Financial Causes and Real Effects

Understanding how finance and production interact is an essential but difficult task. A recent study by BIS economists[23] sheds some light on this question by proposing a model which links "financial causes" to their "real consequences". The authors construct an index measuring the contribution of labour reallocation across sectors to aggregate productivity growth. Then they show that this index is significantly correlated (negatively) to financial booms. In other words, when credit grows faster than GDP, employment moves to sectors with lower productivity. They also show that the value of this index before the financial crisis determines the subsequent trajectory of productivity. And this mechanism is self-perpetuating, because the recourse to credit feeds what it

23 Claudio Borio et al., "Labour Reallocation and Productivity Dynamics: Financial Causes, Real Consequences", BIS, May 2015, http://goo.gl/my4uZN.

is supposed to compensate for, i.e. the slowdown in productivity. This modelling of links between productive efficiency and financial movements seems particularly pertinent to an analysis of the Eurozone.

The Coming Crisis?

One conclusion follows from this (too) swift review: the "great recession" has opened a period of "chaotic regulation" at the global level. A new crisis seems today to be more or less inevitable. It is difficult to tell where the point of rupture will be (stock exchange, bank, debt, exchange rate?), but this episode will in any case be evidence of deep structural contradictions. Global capitalism is currently subject to a fundamental tension. On the one hand, the crisis which opened in 2008 was dealt with according to two essential principles: don't clear the accounts (the "legacies"); reconstitute the pre-crisis neoliberal model, while seeking to control the most deleterious effects. In practice, this means guaranteeing the rights to draw on future surplus value acquired by the "1%" and the freedom of action of the banks and the multinationals. But the fundamental mainspring of capitalism's dynamism, that is, productivity gains, is currently heading towards exhaustion. This configuration leads to complex interactions between changes within the productive sphere and the manipulation of financial and monetary instruments. This is why, as in 2007–2008, the precise location of the trigger for the next crisis will not provide an adequate explanation of the deeper causes.

Bibliography

Abu-El-Haj, J., 2016: Brazilian Left Bonapartism and the Rise of Finance Capital. *Latin American Perspectives* 43 (2).

Acemoglu, D, and J A Robinson, 2012: Is This Time Different? Capture and Anti-Capture of US Politics. *The Economists' Voice* 9 (3).

Allen, F., and D. Gale, 2007: An Introduction to Financial Crises. *Wharton Financial Institutions Center Working Paper* No. 07–20.

Almunia, M, and others, 2010: Lessons from the Great Depression, *Economic Policy*, April 2010.

Armstrong, P, A. Glyn, and J. Harrison, 1991. *Capitalism Since 1945*. Oxford: Basil Blackwell.

Bain & Co, 2012: *A World Awash in Money: Capital Trends Through 2020*. At http://www.bain.com/Images/BAIN_REPORT_A_world_awash_in_money.pdf.

Balls, E., 2010: Bloomberg speech, at http://www.tom-watson.co.uk/2013/01/the-bloomberg-speech-by-ed-balls-27th-august-2010/.

Basu, D., and R. Vasudevan, 2011: Technology, Distribution and the Rate of Profit in the US Economy: Understanding the Current Crisis. *University of Massachusetts Amherst Economics Department Working Paper* no. 140.

Bates, T.W., K.M. Kahle, R.M. Stulz, 2006: Why Do US Firms Hold So Much More Cash Than They Used To? *NBER Working Paper* 12534, September 2006.

Bernanke, B, 2007: speech at Economic Club of New York, October 2007, reported at http://www.nakedcapitalism.com/2007/10/bernanke-i-would-like-to-know-what.html.

Blankfein, L, 2009: Remarks to The Council Of Institutional Investors, April 2009, at http://www.goldmansachs.com/our-thinking/archive/lcb-speech-to-cii.html.

Blinder, A., 2013. *After the Music Stopped*. New York, NY: Penguin.

Bloomberg, update of 9 August 2007, at https://cybercemetery.unt.edu/archive/fcic/20110310201441/http://c0181567.cdn1.cloudfiles.rackspacecloud.com/2007-08-09%20Bloomberg%20-%20BNP%20Paribas%20Freezes%20Funds%20as%20Loan%20Losses%20Roil%20Markets.pdf.

BLS (Bureau of Labour Statistics, USA), 2014: Consumer Expenditure Survey, http://www.bls.gov/cex/tables.htm.

Boito, A., and A. Saad-Filho, 2016: State, State Institutions, and Political Power in Brazil. *Latin American Perspectives* issue 207 43 (2).

Bowles, S., 1981: Technical change and the profit rate. *Cambridge Journal of Economics* (5), 183–186.

Brenner, R, 1998: The Economics of Global Turbulence, *New Left Review* I:229.

Brenner, R., 2006: *The Economics of Global Turbulence*. London: Verso.

Brenner, R, and M. Glick, 1991: *The Regulation Approach: Theory and History*. New Left Review I/188.

Bryan, D., and M. Rafferty, 2014: Financial derivatives as social policy beyond crisis, *Sociology* 48 (5).

Bryan, D., and M. Rafferty, 2005: *Capitalism with derivatives*. London: Palgrave Macmillan.

Bunn, P, and M. Rostum, 2014: Household debt and spending, *Bank of England Quarterly Bulletin* 2014 Q3.

Burns, E, 1935: *A handbook of Marxism*. London: Gollancz.

Card, A, and others, 2011: US Trade and Investment Policy. *Council on Foreign Relations Task Force Report* 67.

CoreLogic, National Foreclosure Report, at http://www.corelogic.com/about-us/researchtrends/national-foreclosure-report.aspx.

Crotty, J., 1985: The Centrality of Money, Credit and Financial Intermediation in Marx's Crisis Theory, in Resnick and Wolff, eds., *Rethinking Marxism: Essays in Honor of Harry Magdoff and Paul Sweezy*. New York: Autonomedia 1985.

Dallery, T, 2009: Post-Keynesian Theories of the Firm under Financialization, *Review of Radical Political Economics*, Volume 41, No. 4.

Daly, K., and B. Broadbent, 2009: The Savings Glut, the Return on Capital and the Rise in Risk Aversion. Goldman Sachs Global Economics Paper no.185.

Damodaran, A., 2001: *Corporate Finance*. Hoboken, NJ: Wiley 2001.

Degras, J., 1956: *The Communist International, 1919–1943: documents*, volume 1. London: Royal Institution of International Affairs.

Duménil, G, and D. Lévy, 2011: The crisis of the early 21st century: a critical review of alternative interpretations. Preliminary draft, at http://www.jourdan.ens.fr/levy.

Duménil, G, and D. Lévy, 2011: The crisis of the early 21st century: general interpretation, recent developments, and perspectives. Preliminary draft, at http://www.jourdan.ens.fr/levy.

Duménil, G., and D. Lévy, 2011. *The crisis of neoliberalism*. Cambridge, MA: Harvard University Press

Duménil, G., and D. Lévy, 2012. The crisis of the early 21st century: Marxian perspectives, at http://www.jourdan.ens.fr/levy.

Duménil, G., and D. Lévy, 2014. *La grande bifurcation*. Paris: La Découverte.

Dunning, J.H. and S. Lundan 2008: *Multinational Enterprises and the Global Economy*. Cheltenham: Elgar 2008.

Ellis, L, and K. Smith, 2007: The global upward trend in the profit share, BIS Working Papers No 231.

Evans, T., 2010: Five explanations for the international financial crisis. Institute for International Political Economy, Berlin, Working Paper 08/2010.

Friedman, M., and A. Schwartz, 2016: *The Great Contraction, 1929–1933*. Princeton NJ: Princeton University Press.

Gabor, D., 2015: The IMF's Rethink of Global Banks: Critical in Theory, Orthodox in Practice. *Governance*, vol. 28, no.2.

Gabor, D., 2014: Learning from Japan: The European Central Bank and the European Sovereign Debt Crisis. *Review of Political Economy* vol.26, no.2.

Gamble, A., 2009: *The spectre at the feast*. London: Palgrave Macmillan.

Gamble, A., 2014: *Crisis without end?* London: Palgrave Macmillan.

Glyn, A., and B. Sutcliffe, 1972: *British Capitalism, Workers and the Profit Squeeze*. Harmondsworth: Penguin.

Graham, J.R. and M.T. Leary, 2016: The Evolution of Corporate Cash (July 1, 2016). http://dx.doi.org/10.2139/ssrn.2805505.

Hagel, J., and others, 2013: *Success or struggle: ROA as a true measure of business performance*. Westlake, TX: Deloitte University Press, 2013. bit.ly/hagel-sb.

Hague, D.C., 1961: *The theory of capital*. London: Palgrave Macmillan.

Harvey, D., 2005: *A brief history of neoliberalism*. Oxford: Oxford University Press.

Hunter, W., 2011: The PT in power, chapter in Levitsky, S, and K M Roberts, *The Resurgence of the Latin American Left*. Baltimore, MD: Johns Hopkins University Press.

Husson, M., 2014: Towards a "long-lasting chaos", IIRE, 3th Economic Seminar Amsterdam, 14–16 February 2014, at http://hussonet.free.fr.

Husson, M., 2012: Le néoliberalisme: stade suprême? *Actuel Marx* no. 51, 2012.

Husson, M., 2012: Les salaires et la crise en Europe, at http://hussonet.free.fr.

Husson, M., 2010: The debate on the rate of profit, *International Viewpoint* no.426, July 2010.

Husson, M., 2010: La hausse tendancielle du taux de profit, at http://hussonet.free.fr.

Husson, M., 2009a: Les coûts historiques d'Andrew Kliman, at http://hussonet.free.fr.

Husson, M., 2009: Capitalisme : vers une régulation chaotique, at http://hussonet.free.fr/impa9web.pdf.

Husson, M., 2008: *Un pur capitalisme*. Lausanne: Page deux.

Jones, R.P., and others, 2016: How Immigration and Concerns about Cultural Change Are Shaping the 2016 Election: PRRI/Brookings Survey. PRRI.

Judson, R., 2012: Crisis and Calm: Demand for US Currency at Home and Abroad From the Fall of the Berlin Wall to 2011. Federal Reserve System International Finance Discussion Paper 1058.

Kincaid, J., 2016: Marx after Minsky: Capital surplus and the current crisis. *Historical Materialism* 24 (1).

Kliman, A, 1996: A Value-theoretic Critique of the Okishio Theorem, in A. Freeman and G. Carchedi (eds) *Marx and Non-equilibrium Economics*. Cheltenham: Elgar.

Kliman, A., 1997: The Okishio theorem: an obituary. *Review of Radical Political Economics*, vol.29 no.3.

Kliman, A., 1998: The Significance of the "Internal Inconsistency" Allegations. http://akliman.squarespace.com/writings/Signif-of-II-Alleg-web.doc.

Kliman, A., 2002: The Specter Haunting "Marxian Economics". http://akliman.squarespace.com/writings/Specter%20web.doc.

Kliman, A., 2011: *The failure of capitalist production*. London: Pluto.

Lapavitsas, C., 2006: Power and Trust as Constituents of Money and Credit. *Historical Materialism* 14 (1).

Lapavitsas, C., 2013: *Profiting without producing*. London: Verso.

Lazonick, W., and M. O'Sullivan, 2000: Maximizing shareholder value: a new ideology for corporate governance, *Economy and Society* 29 (1).

Mage, S., 1963: The 'Law of the Falling Tendency of the Rate of Profit': Its Place in the Marxian Theoretical System and Relevance to the US Economy, 1900–1960. PhD dissertation, Columbia University. At http://archive.org/details/MagesDissertation.

Mankiw, N.G., 2006: The Macroeconomist as Scientist and Engineer, *The Journal of Economic Perspectives*, 20 (4).

Marx, K., 1969: *Theories of Surplus Value*, Part 2. London: Lawrence and Wishart.

Marx, K., 1970: *Capital*, volume 1. London: Lawrence and Wishart.

Marx, K., 1972: *Capital*, volume 2. London: Lawrence and Wishart.

Marx, K., 1977: *Capital*, volume 3. London: Lawrence and Wishart.

Marx, K., 1993: *Grundrisse: Foundations of the Critique of Political Economy*. Harmondsworth: Penguin.

Mason, J.W., 2013: Strange Defeat. *Economic and Political Weekly*, 48 (32), 10 August 2013.

Mason, J.W., 2014: Debt and demand, at http://slackwire.blogspot.co.uk/2014/01/debt-and-demand.html.

Mason, J.W., 2015: Disgorge the Cash. Roosevelt Institute paper, at http://rooseveltinstitute.org/wp-content/uploads/2015/09/Disgorge-the-Cash.pdf.

Mason, J.W., and Arjun Jayadev, 2014: "Fisher Dynamics" in US Household Debt 1929–2011, *American Economic Journal: Macroeconomics* 6 (3).

McDonnell, J., 2015: Interview with *Holyrood* magazine, 14 December 2015. https://www.holyrood.com/articles/inside-politics/interview-john-mcdonnell.

McLean, B., and J. Nocera, 2011: *All the Devils Are Here*. London: Portfolio Penguin.

Mejorado, A., and M. Roman, 2013: *Profitability and the Great Recession*. New York, NY: Routledge.

Mian, A., and A. Sufi, 2015: *House of Debt*. Chicago, IL: University of Chicago Press.

Minsky, H., 1975: *John Maynard Keynes*. New York, NY: McGraw Hill.

Minsky, H., 2008: *Stabilising an Unstable Economy*. New York, NY: McGraw Hill.

Mirowski, P., 2013: *Never let a serious crisis go to waste: how neoliberalism survived the financial meltdown*. London: Verso.

Mohun, S., 2014: Unproductive labour in the US economy 1964–2010, *Review of Radical Political Economy* 46 (3).

Mohun, S., 2016: Class structure and the US personal income distribution, 1918–2012. *Metroeconomica* 67 (2).

Mongiovi, G., 2002: Vulgar economy in Marxian garb: a critique of Temporal Single System Marxism. *Review of Radical Political economy* 34 (4).

Montecino, J.A. and G. Epstein, 2015: Did Quantitative Easing Increase Income Inequality? PERI Working Paper 405.

Moseley, F., 2013: The US Economic Crisis: From a Profitability Crisis to an Overindebtedness Crisis. *Review of Radical Political Economy* 45 (4).

Nassif, A., C. Feijó and E. Araújo, 2013: Structural change and economic development: is Brazil catching up or falling behind? UNCTAD Discussion Paper no.211.

Noland, M., and others, 2016: Assessing Trade Agendas in the US Presidential Campaign. Peterson Institute for International Economics.

Okishio, N., 2000: Competition and Production Prices. *Cambridge Journal of Economics* (25) 493–501.

Palma, J.G., 2009: The Revenge of the Market on the Rentiers. Why neo-liberal reports of the end of history turned out to be premature. Cambridge Working Paper in Economics 0927.

Palma, J.G., 2012: Was Brazil's recent growth acceleration the world's most overrated boom? Cambridge Working Papers in Economics 1248.

Palma, J.G., 2015: Why corporations in developing countries are likely to be even more susceptible to the vicissitudes of international finance than their counterparts in the developed world. Cambridge Working Paper in Economics 1539.

Panitch, L., and S. Gindin, 2013: *The Making of Global Capitalism*. London: Verso.

Pew Research, 2016: Euroskepticism Beyond Brexit. http://www.pewglobal.org/2016/06/07/euroskepticism-beyond-brexit/.

Piketty, T., 2014: *Capital in the Twenty-First Century*. Cambridge, MA: Harvard University Press.

Quadros, R., 2008: Implications of The Global Financial Crisis For The Brazilian Economy, Institute of Development Studies (Sussex) briefing, 12 November 2008.

Romer, C., 2009: The lessons of 1937, *The Economist* 18 June 2009.

Saad-Filho, A., 2011: Crisis in neoliberalism or crisis of neoliberalism? *Socialist Register*.

Saad-Filho, A., and A. Boito, 2016: Brazil, The Failure of the PT and the Rise of the 'New Right'. *Socialist Register*.

Saad-Filho, A., and D. Johnston, 2005: *Neoliberalism, A Critical Reader*. London: Pluto.

Saad-Filho, A., and L. Morais, 2014: Mass Protests, Brazilian Spring or Brazilian Malaise? *Socialist Register*.

Schumpeter, J., 2010: *Capitalism, Socialism and Democracy*. London: Routledge.

Shaikh, A., 1978: Political economy and capitalism: notes on Dobb's theory of crisis. *Cambridge Journal of Economics* 2.

Simerly, R., 2000: The Global Economy and the New Role of Governments, *B>Quest 2000*, https://www.westga.edu/~bquest/2000/global.html.

Stiglitz, J., 2011: Rethinking macroeconomics: what failed, and how to repair it. *Journal of the European Economic Association*, 9 (4).

Strange, S., 1987: The persistent myth of lost hegemony. *International Organisation*, 41, pp. 551–574.

Tett, G., 2009: *Fool's Gold*. New York: Free Press.

Trotsky, L., 1938: The Transitional Program. In Matgamna (ed), How *Solidarity Can Change the World*, 1998, London: Phoenix Press.

UNCTAD 2015, *Handbook of Statistics*.

Weeks, J., 2016: Trump's victory represents the fulfilment of neoliberalism, not its failure. *Open Democracy*, https://www.opendemocracy.net/john-weeks/trumps-victory-is-fulfilment-of-neoliberalism-not-its-failure.

Wolf, M., 2015: *The Shifts and the Shocks*. London: Penguin.

World Trade Organisation, 2016, Reports on Recent Trade Developments, at https://www.wto.org/english/news_e/news16_e/trdev_22jul16_e.htm.