WHERE IS THE CRISIS GOING?

Michel Husson

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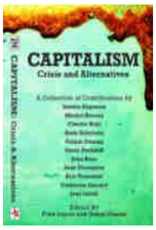

We have to pay for the sins of the past.
Klaus Schwab, 2008[1]

Three years after the outbreak of the crisis, one thing is certain: we're a long way from seeing its end. Capitalism has undergone a shock which calls into question its neoliberal form and, more profoundly its essential logic. To count on its self-reform is an illusion, because capitalism has no alternative other than to seek the recreation of its previous conditions of functioning, even when this is an impossible task. Nevertheless capitalism will seek to get out of this impasse by conducting a very violent antisocial offensive, which it has already started to do.

This is the theme of this chapter in which it is proposed to put this crisis in perspective. It goes back to the origins of financialisation in order to clarify the role of finance in the functioning of neoliberal capitalism. This presentation then allows us to better understand what is in crisis and to characterise the new phase into which we have entered, with the putting in place of austerity plans in Europe. We must then discuss the programmatic and strategic conditions for the emergence of an anticapitalist alternative.

The role of finance in the crisis

The outbreak of the crisis has generated an enormous amount of analysis that can be classified according to the answers they provide, or suggest, to two major questions about its nature: is it a financial or is it a systemic crisis? Is it a crisis of the neoliberal variant of capitalism or of capitalism as a system? No-one denies that the crisis originated in a fairly narrow segment of global finance, the notorious sub primes, which prompted some commentators to predict that it would be of limited scale. We now understand better the reasons which led this "failure" to jeopardise the financial and banking system worldwide. There are plenty of accounts of this contamination revealing the dimensions of the truly insane excesses of finance. That said, can we separate the wheat from the chaff by contrasting good capitalism which invests and innovates, with speculative and predatory finance? It is important to understand that finance is not an excrescence: on the contrary it is an essential cog of capitalism in its neoliberal version.

Credit is necessary for the operation of capitalism. In the short term, it makes the link between businesses' purchases and sales. In the medium and long term, it helps to finance investment. Consumer credit facilitates access to household durables such as cars and housing. Without this lubricant, the economy has difficulty in running and the credit crunch, moreover, was one of the transmission belts of the financial crisis to the "real economy". The use of credit in itself is rational insofar as it enables the anticipation of future income. In the case of investment, the rule

[1] Klaus Schwab is the founder and president of the World Economic Forum.

is simple: expected profits must cover interest payable. Outside periods of crisis, the interest rate must be lower than the rate of profit, the difference between the two serving as a "lever" for capital accumulation. Throughout the period of the "Golden Age", business investment was two-thirds self-financed, the rest being covered by credit. Capitalism worked without significant recourse to capital markets, i.e. shareholders.

The great neoliberal turn of the 1980s brought about a fundamental break. We can repeat here Michael Kalecki's[2] premonitory framework which distinguished three major actors: managers, rentiers and employees, and which considered two main configurations are possible: either an alliance of managers and employees leading to a form of "an euthanasia of the rentier" (in the words of Keynes) or on the contrary an alliance of managers and rentiers at the expense of employees. And indeed it can be said that we have moved from one to the other.

The origins of financialisation are illuminating. It all began in 1979 when the U.S. Federal Reserve sharply and brutally increased its interest rates. This lever was deployed to change social and world power relationships as a response to the crisis of the mid-1970s. One of its immediate effects was to plunge many countries of the South into a deep and long-lasting debt crisis almost overnight. Interest rates leapt upwards, destabilising the balance of payments of these countries. It was a good example of the "Shock Doctrine" discussed by Naomi Klein[3] but it is not just the South which was affected. This was ultimately about a lasting change in the triangular balance of power between entrepreneurs "rentiers" and employees. While Fordist capitalism wasn't based on a gentlemen's agreement between workers and capitalists, and the balance of forces established after the war had a lot to do with it, finance was in any case reduced to a bare minimum, both in company and in household wealth investment.

After the recession of 1974-75 and the failure of classical stimulus policies, it was necessary to restore the rate of profit by smashing wage growth and restructuring the productive apparatus. It was in this period that we witnessed a shift of alliances: finance would henceforth be used as a means of pressure on wages, and its subsequent development cannot be understood without reference to these origins. Increases in interest rates promoted restructuring and forced companies to offset them at the expense of wages. So there was a very effective mixture of deliberate policies of governments and an offensive against wages.

These two aspects are closely intertwined, as evidenced by the timeline in the French case. In 1982 and 1983, the government abandoned any stimulus and moved to rigour and austerity. Under the pretext of fighting inflation, wages were decoupled from productivity gains so that the share of wages fell sharply throughout the 1980s. Corporate profitability recovered but remained burdened by interest rates: the beginning of the next decade was devoted to debt reduction, then, when this was achieved, a transfer of profits to dividends began. The declining share of wages was based on a general anti-union offensive marked by conflicts that served as symbolic political tests: the air traffic controllers' strike in the U.S., the miners' strike in the United Kingdom, and the steelworkers' strike in France. As the director of the ultraneoliberal Hayek Institute said, "Thatcher and Reagan saved democracy from the reign of the street, without disproportionate violence. For this history will thank them."[4]

The next step was to establish conditions conducive to the growth of finance: deregulation measures broke down barriers and financial markets were created from scratch. In France, it was a government initiative that built up Matif (the French non-share financial market) from almost nothing from 1984 onwards. The programme was very clear: First, freeze wages, and then liberate finance. It was not the immanent laws of economics but of those of socio-economic

[2] Michael Kalecki, "Political Aspects of Full Employment", *Political Quarterly*, 1943.
[3] Naomi Klein, *The Shock Doctrine: The Rise of Disaster Capitalism*, Metropolitan Books, 2007.
[4] Drieu Godefridi, "L'inéluctable moment Thatcher-Reagan des démocraties européennes", *Les Echos*, 5 septembre 2005.

imperatives. Capitalism can do without finance, but that goes hand in hand with a (relative) compromise with wage earners. The rise of finance was the product of political decisions, and the best evidence for this was the growing role of international institutions like the IMF and the WTO, one of whose main functions is to ensure the free movement of capital, which is also one of the fundamental principles of European neoliberal construction.

Several trends enable the definition of the financialisation process. The first, which will be discussed, is the increased share of value added which accrues to shareholders. The second, which is a sort of derivative phenomenon, is the growth in market capitalisation. The first phenomenon is real: dividends paid are noninvested profit. They correspond to a fraction of the annual surplus and are a counterpart of GDP. A shareholder who receives a dividend receives a real income which s/he may decide to consume or to reinvest. Financialisation is measured here by the share of dividends or profits in value added.

Market capitalisation is by contrast a stock whose valuation is virtual: it is "fictitious capital" to quote Marx's expression. It is calculated as the sum of the value of all shares on the basis of their price at any given moment. Suppose I own 1,000 shares which constitute the capital of a company. If each share is priced at 1 euro, my credit is 1,000 Euros and my business is valued at 1,000 Euros of the total stock market capitalisation. Now suppose that the share price doubles: my shareholding goes up to 2,000 Euros. But this additional "wealth" is a pure fiction. If the share price drops to one euro, everybody is back to square one and nothing has happened. The real test comes when a shareholder decides to recover his or her stake by selling all or part of his/her portfolio.

We must therefore distinguish between the rate of profit and the rate of financial return. The rate of profit is determined in the real economy while the financial rate of return is virtual in nature. Normally, there is a link between the two: the rate of return on shares anticipates changes in the rate of profit. But the major novelty of financialisation is that share prices soar and that all links are broken with businesses' actual profitability. This phenomenon is even more irrational in that the net contribution of financial markets in financing companies is marginal or even negative due to corporations' practice of buying back their own shares. The stock exchange is essentially a secondary market: shares that are exchanged are shares already issued and do not represent new money.

A return to the law of value (or simply to accounting logic) enables us to understand why the surge in stock returns is a pure fiction. The starting point is that new value is created through labour. This is then divided between wages, business profits, dividends, taxes, etc. The total amount of what is thus allocated cannot exceed the value of what has been produced. If there is any law in economics, it is this. Financial stocks should be considered a "drawing right" on wealth produced. They have a "face value" which is the price at which they traded in the financial market. They must be devalued if the realisation of these drawing rights are sought and their sum exceeds available wealth. That's exactly what happened with the dot com boom in the early 2000s.

The important point is that finance does not create value but operates on its distribution. Retirement pensions provide a concrete example of this rule. One of the arguments in favour of pension funds was to say that the yield provided by capitalisation exceeded that provided by redistribution. Through redistribution, we can at best get the rate of GDP growth (2-3%) while capitalisation provides access to share returns which are two or three times higher. Admittedly, this argument has suffered from the financial crisis. But it was absurd even before this practical test: if an economy grows by 3% each year, total income cannot rise by 9% annually. While some funds may benefit from such a performance, it can only be at the expense of others.

But financialisation also bears down on corporate logic, and here an opposition between managers and shareholders is to be found. Managers set themselves a goal of maximum growth of the firm in the medium and long term (profit being only the means of accumulation) while shareholders seek the highest return possible in the short term. This results in a rebalancing at the expense of accumulation, in step with the growing power of shareholders. This updated theory of the firm is part of a post-Keynesian tradition and has opened a very fruitful path of analysis[5]. It shows that the relative weight of these two objectives leads to a different trajectory and in particular to a different investment behaviour. And it is clear from this point of view that contemporary capitalism is characterised by an increasing shareholder influence.

The risks of financialisation became clear with the current crisis undermining the dominant thesis. This argues that finance serves an irreplaceable economic activity by providing the resources needed, and by promoting high and responsive standards of economic efficiency. This *efficient markets hypothesis* has served as a justification for policies of systematic deregulation: that it is by freeing financial markets from any barriers that rationality can be maximised. Today, the same people who supported this position recognise the need for a minimum of regulation. But it's only lip service. Not only are the decisions taken in the field merely cosmetic, or indefinitely postponed, and, as noted by a group of dissenting French economists: "The crisis is interpreted not as an inevitable result of the logic of deregulated markets, but as a result of the dishonesty and irresponsibility of certain financial actors poorly supervised by governments "[6].

The main features of neoliberal capitalism

Contrary to the "parasitical" view, we must instead stress the functionality of finance: it is part and parcel of neoliberal capitalism, which is the current phase of capitalism. Its growing influence is in itself an indication of the chronic disfunctionalities of capitalism as a system. In order to prove this and to go beyond the "financialist" explanation of the crisis, we will describe the main "stylised facts" that characterise contemporary capitalism, namely: 1) a declining share of wages and an increase the rate of profit; 2) a stagnation in the rate of accumulation, 3) an increase in the share of dividends.

Stylised fact No. 1: declining share of wages and rising rate of profit

The declining share of wages is a now almost universal phenomenon that has been identified by most international bodies such as the IMF, OECD and the European Commission[7]. This decrease is due to the non-distribution of productivity gains to wages. The sharing of the surplus between profits and wages is therefore modified to the detriment of the latter. In all cases, the chronology is similar: the share of wages was fairly stable until the crisis of the mid-1970s, which led to its increase. The reversal occurred during the first half of the 1980s: the share of wages began to decline, then tended to stabilise at an historically very low level.

With differences in the timing and profile of the development, this trend was almost universal, as highlighted by the International Labour Organisation: "the wage (or labour) share of total Income has declined in nearly three quarters of the countries considered (...) The pattern of the decline has been similar in most countries: wage share has declined steadily over the past three decades, except in the late 1980s/early 1990s and again in the late 1990s. Secondly, the drop in wage share was particularly fast in the early 1980s and the early 2000s"[8].

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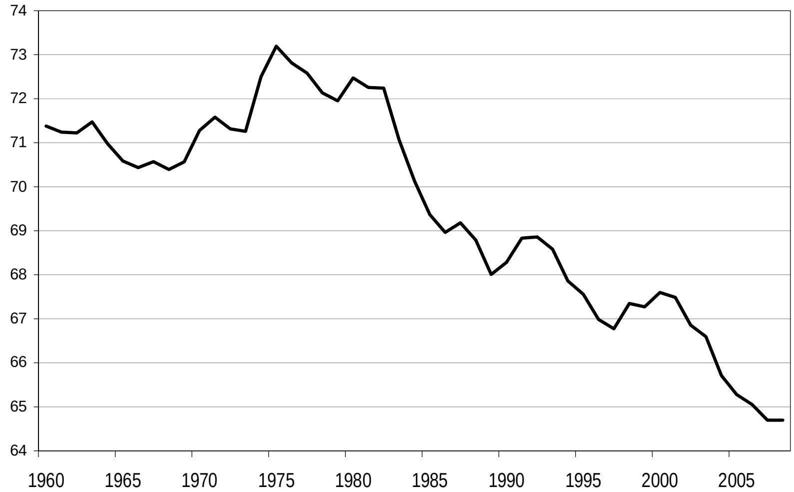
[5] I would recommend the following works:
Engelbert Stockhammer, "Financialization and the slowdown of accumulation", *Cambridge Journal of Economics*, vol.28,n°5, 2004; Till van Treeck, "Reconsidering the investment-profit nexus in finance-led economies", *Metroeconomica* 59:3, 2008; Özgür Orhangazi, "Financialisation and capital accumulation in the non-financial corporate sector", *Cambridge Journal of Economics* vol.32, 2008; Thomas Dallery, "Post-Keynesian Theories of the Firm under Financialization", *Review of Radical Political Economics*, vol.41, n°4, 2009.

[6] Manifeste des économistes atterrés.

[7] See Michel Husson, "The upward trend in the rate of exploitation", *International Viewpoint* n°397, February 2008.

[8] "Income Inequalities in the Age of Financial Globalization", *World of Work Report 2008*, ILO.

Chart 1
Wage share in value added USA + EU + Japan 1960-2008;



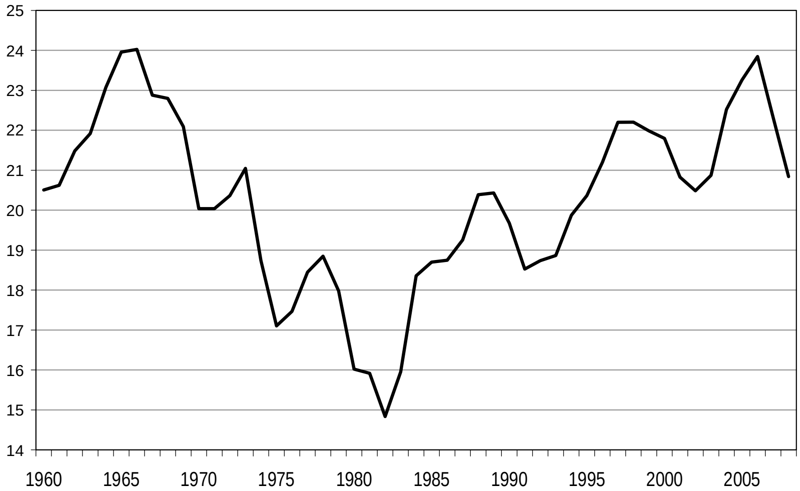
Average weighted by GDP. Sources: European Commission, Ameco Database

This decline in the wage share led to a restoration of profit rates in the major capitalist countries. The profit rate is calculated by relating the total profit to the value of capital employed. We can then break it down into two elements: in the numerator, we find the profit share i.e. the share of profits in the value added; the denominator includes the capital intensity, i.e. the volume of capital per unit of output.

The rate of profit therefore increases when the decline in the share of wages (thus increasing the profit share) and when production utilises capital more efficiently (capital intensity decreases). In a period where the share of wages declines, the rate of profit could only fall if a greater volume of capital were to more than offset the decline in the wage share. This is not what happened, and we can see that the rate of profit has tended to increase from the mid-1980s (Chart 2).

The evolution of the rate of profit enables us to see the periodisation already described. From the high level reached during the "Golden Age", the rate of profit began to decline, beginning from 1967 in the United States, and from the 1974-75 recession in other countries. This sharp decline wasn't slowed down by the Keynesian policies.

Chart 2
The profit rate in the major capitalist countries
Germany + USA + France + United Kingdom 1960-2008



Average weighted by GDP. Sources: National accounts; Michel Husson, "La hausse tendancielle du taux de profit", *2010.*

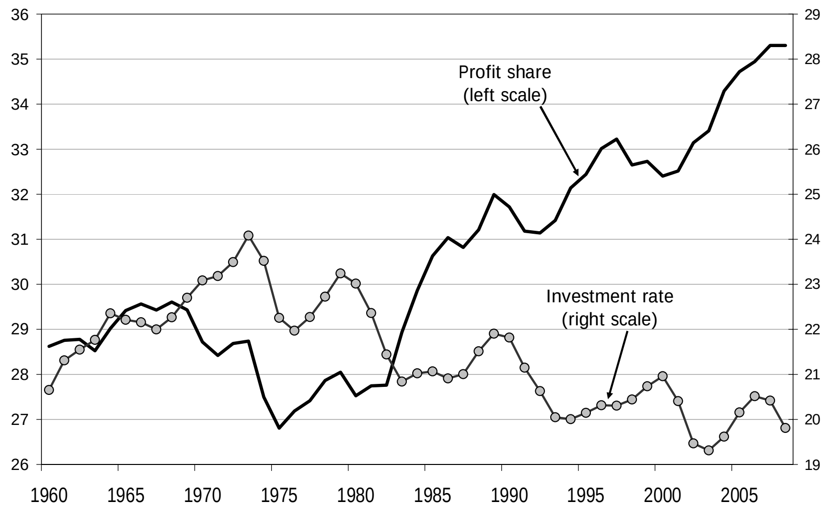
The turn to neoliberal policies in the early 1980s led to a sharp recovery in the rate of profit throughout the 1990s. Then, the upward movement continued, with wide fluctuations and with varied profiles depending on the country, until the recent crisis which has made it go sharply downwards[9].

Stylised fact No. 2: the "scissors" between profit and investment

The obverse of the decline in the share of wages was an increase in the share of profits, i.e. the share of value added which goes to profit: this is the primary distribution of income. The question that then arises is, on what has this extra profit been spent? In the early 1980s, wage restraint was justified by the "Schmidt theorem" in the name of the then German chancellor, who had stated it thus: "the profits of today are the investments of tomorrow and the jobs of the day after tomorrow." Now the first part of this theorem didn't work, either in Europe or the U.S.: profit share increased but the rate of investment (relative to GDP) didn't follow. Beyond cyclical fluctuations, the investment rate stagnated and even moved downwards (Chart 3).

Chart 3

Profit and Investment USA + EU + Japan 1960-2008



Profit = profit share as % of value added; Investment rate as % of value added; Average weighted by GDP. Source: European Commission, Ameco database

The decline in the share of wages combined with stagnant investment rates exhibits then a relatively unprecedented configuration in the history of capitalism, which challenges the main justifications for wage moderation as a way of restoring competitiveness. To the extent that the downward trend in the share of wages is a general trend among developed countries and where most of the international trade of these countries takes place between them, this moderation does not significantly alter their relative competitive positions. Between the EU and the U.S., variations in exchange rates between the euro and the dollar have a far greater impact on their relative competitiveness than their wage costs. Within the EU, it's a zero sum game: what one country gains in market share, another loses.

In these circumstances, the observation of a decline in the wage share is enough to show that the effect of wage moderation on competitiveness has been hijacked. Suppose that a country lowers its wages and passes these reductions on in lowered prices to gain competitiveness: in this case, the share of wages should remain constant. The very fact that the share of wages has declined is a basis for asserting that wage moderation has not been used to restore competitiveness, but to restore company profitability.

[9] There is no consensus on this point. For the debate, see Michel Husson, "The debate on the rate of profit", *International ViewPoint* n°426, July 2010. The main contributions on this debate can be found at: http://hussonet.free.fr/tprof.htm.

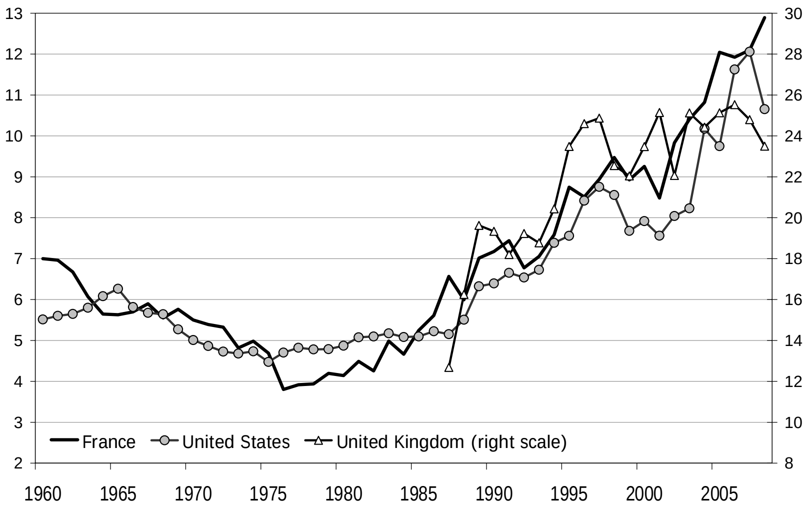
The fact that this recovery in the share of profits has not attracted increased investment shows that it has been spent on something other than the expansion of productive capacity or improving non-cost based competitiveness, i.e. through innovation, improved product quality better tailored to demand. The fundamental question remains about what these extra margins were spent on.

Stylised fact 3: the rise of dividends

The arithmetic is simple: the share of wages is falling and that of investment stagnating. Something must be increasing.

The answer is obvious: the main counterpart of lower wages is a real explosion of dividends. Here we have to think about net dividends (i.e. deduct dividends paid by companies) to get an adequate measure of un-invested profit. It becomes apparent that today in France it amounts to nearly 13% of payroll as against 4% in early 1980. As shown in Chart 4 below, the development is the same in the United States and in the United Kingdom.

Chart 4
Dividends as % of net payroll
United States, France, United Kingdom, 1960-2008



Sources: Bureau of Economic Analysis, INSEE
United Kingdom Economic Accounts (tables A22A and A12)

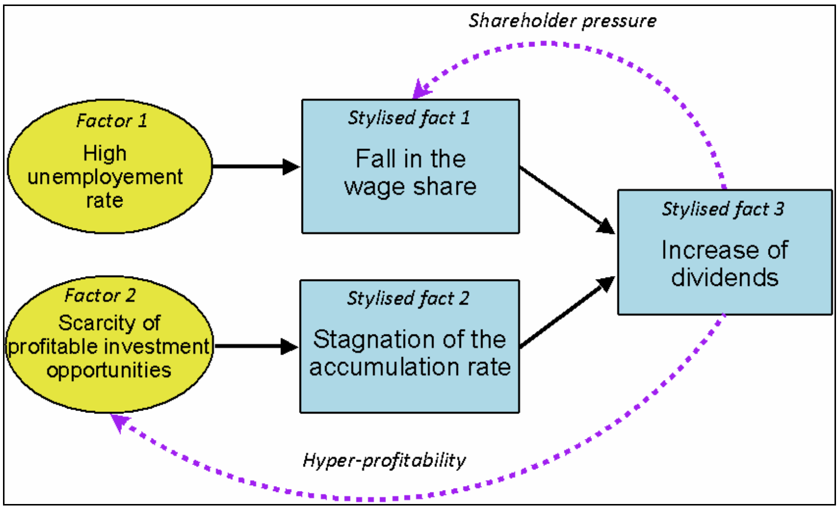
The structure of the crisis

All of those stylised facts lead to an overall schema for describing the operation of neoliberal capitalism and for reading the chain of events that led to the crisis. We must introduce here two contextual elements, i.e. changes in the environment of capitalism that does not result from its internal mechanisms. The first is the rising rate of unemployment, which tips the balance of power between capital and labour. This lever has led to the declining share of wages, the "stylised fact" No. 1.

The second contextual element is what one might call the increased scarcity of profitable investment opportunities. The idea is the following: the same level of profitability is not associated with the satisfaction of various social needs. Moreover, if we think dynamically, the same profit opportunities are no longer the same as before, depending on the potential productivity gains associated with the sectors in which the investment takes place. However, societal demand for manufactured goods is being replaced by demand for services, thus from high-productivity sectors towards sectors with lower productivity, all in a context of overall declining average productivity. These fundamental changes therefore lead to a narrowing of the field for profitable investment which explains the scissors between profit, which is being restored and investment which doesn't follow it: this is the "stylised fact" No.2.

The declining share of wages and stagnant investment combine to lead to the third "stylised fact", namely increased distribution of dividends to shareholders. This increase in distributed profit retroactively operates in two ways on the overall configuration. On the one hand it leads to a rise in the norms of profitability and demands a "hyper-profitability" from businesses. Here we find the famous standard of a 15% return on equity, so often denounced. And rightly so, because an economy growing at best at 3% a year cannot sustainably provide such returns for shareholders. To try anyway to meet these requirements, companies have only one means at their disposal: the reduction in the share of the wage bill in their overall costs. In Figure 1, the two dotted arrows illustrate the feedback effects that reinforce the coherence of this model.

Figure 1
A general scheme of analysis



To escape its contradictions, capitalism should accept a lower return on capital, and finance should abandon its purely speculative activities. But this is completely impossible and that impossibility goes back to the essential features of the system. Capitalism is a system based on competition between capitals: any individual capitalist who refuses to fight the battle would eventually be condemned to bankruptcy, whatever his/her intentions. And this relentless logic is further reinforced by globalisation.

Globalisation further hardens up all the schema's sinews. The placing of employees in competition worldwide, and the opportunities for shareholders to withdraw their bets almost instantly increases pressure on the employees. This organisation of the global economy was not born spontaneously: it was built deliberately and systematically by governments and their supranational emanations. The instruments of any possible regulation at the global level have been carefully removed, often by the very people who are now rediscovering their supposed benefits. The main consequence of this dismantlement is that there is no international body able to fix the rules of the game. This is the reason why the post-crisis period is characterised by increased rivalry among the major capitalist powers and at a European level, by a near total absence of cooperation that leads to an absolutely staggering generalised policy of austerity. All these trends are exacerbated by the great shift in the world: the most dynamic markets and the least expensive labour is to be found in emerging countries, and this "attractiveness" results in a disconnect between exports and the domestic market of which Germany is a striking example.

Beyond universal deregulation and the total freedom of manoeuvre accorded to finance and capital, we have seen that the world economy has been structured around the China / USA duo, and that trade imbalances have increased. The capital flows necessary to finance these deficits come to provide liquidity and to seek hyper-profitability.

The image of the capitalist economy before the crisis was therefore that of an enormous mass of "free capital" fuelled by the reduction in the share of wages and by global imbalances. Thanks to financial deregulation, capital moves freely in search of hyper-profitability that the concrete conditions of the production of surplus can only guarantee virtually. It is therefore logical that this forward flight has unravelled in the financial sphere, but this does not imply that it is a strictly financial crisis. Designating the financiers and the inventors of sophisticated and opaque "derivatives" as the sole perpetrators of the crisis is to ignore its root causes.

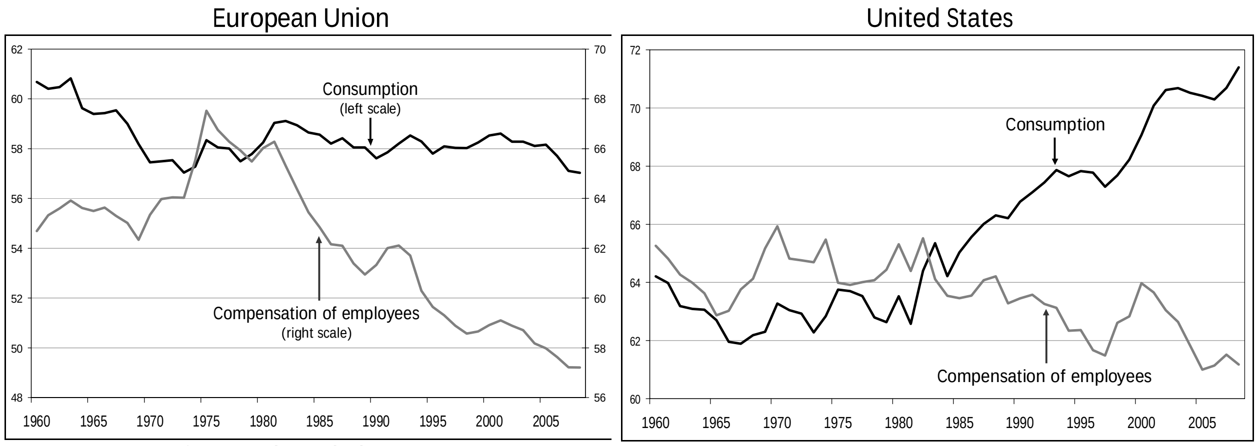
The question of realisation: who's buying?

Neoliberal capitalism’s arrangements favour the requirement of profitability, but pose *a priori* a problem of realisation: if the share of wages declines and investment is stagnating, who will buy the production? In other words what are, to use the Marx's term, the reproduction schemas which are compatible with this new model?

The first answer is that household consumption did not follow the evolution of income redistribution at the expense of wages, and this could be our stylised fact No.4. In the United States, the share of wages has remained relatively constant, while household consumption has grown much faster than GDP. In Europe, the share of consumption in GDP has stayed roughly constant, despite a sharp decline in the share of wages (Chart 5). In both cases, the gap has grown between the share of wages and the share of consumption in order to compensate for the corresponding gap between profit and accumulation.

This gap between wages and consumption can be explained in two ways: either the savings rate has declined (households consuming a growing fraction of their income) or consumption resulting from non-wage income has increased more rapidly, offsetting the stagnation and even the decline in the consumption of wage earners.

Chart 5
Wages and private consumption as % of GDP 1960-2008



Sources: Bureau of Economic Analysis, Ameco.

All these mechanisms have played out differently depending on the countries involved, and we always find the role of finance. This is what fills the potential gap between wages and consumption, taking several routes. The first is the consumption of the "rentiers": part of the surplus value accrued but not reinvested is distributed to holders of income from finance, who consume it. Finance introduces furthermore some blurring over between wages and unearned income: a growing proportion of income of some employees take the form of financial compensation which can be analysed as a distribution of surplus value rather than as a real wage.

Reproduction is only possible if the rentiers' consumption buttresses that of employees in order to provide sufficient outlets. Rising inequality is therefore inherent in this model. In several countries finance has also allowed exponential growth in indebtedness of households whose consumption is increasing, not because of wage growth but due to a lower rate of savings. Finally, it enables the growth of U.S. credit by financing its trade deficit. Here we find the idea that finance is not a parasite on a healthy body but a means of "filling the gap" in the reproduction of neoliberal capitalism. The crisis only reveals the contradictions of a capitalist configuration, specifically those that finance has so far helped to "manage".

The current crisis must be understood as the crisis of the neoliberal schema just described and which itself brought solutions to the previous crisis. This model was coherent in the sense that its elements made up a system but it was at the same time inegalitarian, fragile and unbalanced. But it had, and still has the advantage of allowing the dominators to capture an increasing share of wealth produced. This model can no longer function, but the capitalists have no replacement. The period into which we are entering is entirely dominated by this contradiction: everything will be done to return to *business as usual,* while that is impossible.

The new phase of the crisis

We can distinguish several stages in the development of the crisis (see Table 1). After Phase 1 of its outbreak, came Phase 2 of the "recovery", which is followed by a phase 3 today, so-called "end of crisis". Three conjunctural factors play in different ways in the course of these different phases: social stabilisers, raw material prices, and recovery plans. Social stabilisers, that is to say the means of securing income and employment (benefits, part-time working, etc...) actually helped to partially mitigate the magnitude of the recession. Then the stimulus helped, to stimulate activity to an extent that it is difficult to assess due to our insufficient historical perspective. During Phase 2, the structural contradictions had less influence on the economy. The share of wages increased because the brake on real wages was less than the decline in productivity. The decline in activity and rising savings rates (particularly noticeable in the U.S.) reduced global imbalances. Finally, inasmuch as it was about injecting cash to save the banks, European institutions, including the ECB, responded in a relatively coordinated manner.

Table 1
From mini-recovery to non-exit from crisis

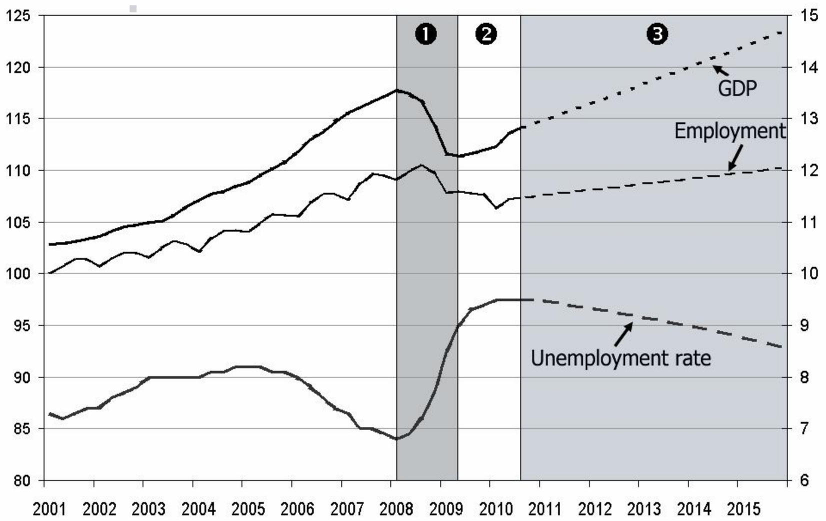
	Phase 2 "Recovery"	Phase 3 "Exit" from crisis
Conjunctural factors • Stimulus packages • Social stabilizers • Raw material prices	Support for economic activity	*Exhaustion of positive effects* • Fiscal consolidation • Layoffs and wage austerity • Rising oil prices
Structural contradictions • Income redistribution • International imbalances • European fragmentation	Weak intensity	*Tightening of constraints* • Depressed demand • End of over-Indebtedness in the US • Increased intra-European competition
Growth	Small rebound	Stabilization/stagnation
Employment	Slight reduction	Abrupt adjustment

Finally Phase 3 has opened faster than might have been expected, with the generalised turn toward austerity in Europe. It is characterised by a double reversal of the situation. The positive effects of conjunctural factors have been exhausted: budget cuts have followed recovery plans, companies are seeking to restore their margins by reducing wages and recruitment. Lastly, commodity prices have turned upward again. At the same time, structural contradictions are hardening: pressure is being exerted on wages once again, nothing is replacing the role of the debt in the U.S. and several European countries, while the euro zone finds itself on the verge of breakdown under the blows of the "financial markets".

The medium-term prospects are therefore pretty bleak. In the third quarter of 2010, GDP in the EU was still 3.2% lower than its level before the crisis (Chart 6). And employment has not really got going again: it remains 3% below its pre-crisis level, corresponding to the destruction of 5.3 million jobs in the EU-15. Unemployment, which was already tending to decline over the two years preceding the crisis has taken a dramatic step upwards, since it has increased from 6.8% in first quarter of 2008 to 9.5% in the third quarter of 2010. The number of unemployed has grown over the same period from 13 to 18.4 million in the EU 15.

However, this rise in unemployment is underestimated if the withdrawal from the labour market of people who have given up looking for work and who have disappeared from the unemployment statistics are ignored. Without this withdrawal, we estimate that the unemployment rate would have been 1.5% higher at 11% instead of at 9.5%. If we extrapolate these trends assuming a GDP growth of 1.5% per annum, productivity growth of 0.5%, and growth of the labour force, we obtain the following main result: the unemployment rate will only fall very slowly in Europe. And it would stagnate if "disheartened" people return to the labour market[10].

Chart 6
Growth, employment and unemployment, EU-15. 2001-2015



❶ trigger ❷ "recovery" ❸ "exit from crisis"
GDP and employment: 100 = 2001 (left scale).
Unemployment rate in% (right scale)
Source: Eurostat until 2010, then projection

In the next few years, capitalism will be confronted with four major contradictions

Four major contradictions

Dilemma of redistribution: a return to profitability or to employment?

The crisis has abruptly halted the trend of profit to rise. This deterioration is explained largely by changes in labour productivity which have declined sharply since the number of employed has only been partially adjusted to the decline in production. But in the heat of competition,

10 "Le poids de la crise sur l'emploi en Europe", *note hussonet* n°20, septembre 2010.

companies will seek to restore their profits, either by adjusting numbers employed, or by freezing or even lowering wages.

At the same time, devices such as short-time working and scrappage schemes gradually reach their limits,. One concern of international bodies is also to challenge the urgent measures taken in the crisis. Thus an IMF mission wrote in 2009 that: "measures taken to support shorter working hours and raise social benefits - while important to shore up incomes and keep the labour force attached to the labour market - should have built-in reversibility"[11]. This adjustment of employment and wages will then trigger a new recessive loop, further reducing household income.

Dilemma of Globalisation: resolving imbalances or global growth?

One of the main drivers of the global economy before the crisis was household overconsumption in the United States. It can scarcely be continued. The recent rise in the savings rate leads to a contradiction since a reduced consumption for a given income also means a less dynamic growth for the whole economy. The solution chosen by the Obama administration has been expressed by his economic adviser at the time, Lawrence Summers: "The rebuilt American economy must be more export-oriented and less consumption-oriented, more environmentally-oriented"[12].But this option assumes the improved competitiveness of U.S. exports, which can only be achieved through an additional devaluation of the dollar. More recently, another measure has been taken, consisting of a massive injection of money *(quantitative easing).* This orientation can only widen imbalances in the global economy. If the dollar devaluation succeeds, it will certainly put pressure on an already faltering growth in Europe. Combined with money creation, it will then require emerging countries to revalue their currencies which will result in the further fragmentation of the global economy[13].

It comes back to the same fatal flaw: money creation is financing the budget deficit of the United States which itself funds U.S. household consumption. The greatest uncertainty now rests on the trajectory of the dollar and on the financing of the U.S. deficit by the rest of the world. Vice versa, a rebalancing of the Chinese economy would reduce its surplus but also its imports, much of which are drawn in by its exports. In summary, it is the entire configuration of the global economy that is challenged.

Fiscal dilemma: reversal of deficits or social spending?

Crisis and recovery plans have led to the considerable swelling of deficits that European governments in particular have decided to get rid of, especially since they took no action to protect themselves from the onslaught of the financial markets. This was announced by the President of the ECB as early as 2009: "the structural adjustment process should start in any case not later than the economic recovery. In 2011 consolidation efforts should be stepped up"[14]. This is to condemn Europe to low growth and social regression.

European dilemma: everyone for themselves or coordination?

Europe is imploding as an economic entity. The fragmentation process had begun well before the crisis, but it has crossed a threshold to the extent that the EU countries have been unevenly affected by the crisis. A real economic coordination policy is therefore beyond reach, especially since the EU has voluntarily deprived itself of institutions that would enable it to conduct one: no budget, no exchange rate policy, no tax coordination. The Europe of "free and undistorted competition" is logically condemned to "everyone for themselves" and we are witnessing a real debacle of the chosen construction method.

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[11] IMF, "Concluding Statement of the IMF Mission on Euro-Area Policies", June 8, 2009.
[12] Lawrence H. Summers, "Rescuing and Rebuilding the US Economy", July 2009.
[13] Michael Hudson, "US Quantitative Easing Is Fracturing the Global Economy".
[14] Jean-Claude Trichet, press conference, Luxembourg, 2 July 2009

All these dilemmas draw a picture of "regulatory chaos" which corresponds to capitalism navigating by sight between two impossibilities: the impossibility (and rejection) of a return to a relatively regulated post-war capitalism; the impossibility of restoring the operating conditions of the neoliberal model, because it was based on a now exhausted forward flight. The stalemate, once again, comes down to this: capitalism wants to return to its pre-crisis functioning, but it can't.

Elements of an alternative

We must first reject the idea that the debate on the interpretation of the crisis would have direct implications for programmatic proposals. Marx wrote that "The ultimate reason for all real crises always remains the poverty and restricted consumption of the masses as opposed to the drive of capitalist production to develop the productive forces as though only the absolute consuming power of society constituted their outer limit"[15]. In spite of this clearly affirmed principle the dogmatic version of Marxism rests at bottom on a binary opposition between two analyses of the crisis: the first, centred on the concept of over-accumulation and a falling rate of profit is viewed as the only authentically Marxist one; the second, characterised as under-consumptionist is not viewed as Marxist but as Keynesian.

This not very dialectical interpretative framework shows a misunderstanding of an essential feature of capitalism: it is a mode of production that seeks to obtain the highest rate of profit possible but must also sell its commodities. This dual demand generates a permanent contradiction which manifests itself particularly vigourously during crises. We find here the mistake, pointed out by Mandel, which consists of "arbitrarily splitting that which is organically linked, at the very heart of the capitalist mode of production (...). To wish to explain the phenomenon of crises exclusively by what happens in the sphere of production (the production of an insufficient quantity of surplus value to ensure to all capital an acceptable rate of profit), disregarding phenomena of realisation of surplus value, that is of circulation, thus of the market, is in reality to disregard a fundamental aspect of capitalist production, that of a generalised commodity production"[16].

Most of the time, the accusation of "under-consumptionism" rests on other quotations from Marx criticising theories which make insufficient consumption the mainspring of crises. But this respect for orthodoxy forgets one of the essential contributions of Marx, namely his study of the conditions of reproduction of capital. It is however a key question that can be summarised thus: who buys what is produced by the exploited employees? It is all very well (for an employer) to exploit their workers but the profit drawn from it remains virtual so long as it is not realised by the sale of commodities. This question is posed during the cycle, but it is posed in a structural manner over the long term. The upwards tendency of the rate of exploitation observed since the early 1980s poses a problem from the viewpoint of realisation. If the share of the consumption of employees falls in relation to the new wealth produced, the question is who will buy the rest?

To say that capitalism in its neoliberal phase faces a chronic realisation problem does not amount to support for the so-called under-consumptionist theses. The theorists of under-consumption, from Sismondi to Baran and Sweezy via Rosa Luxemburg, argued that capitalism was structurally incapable of realising profit and that it had need of external outlets. Nobody supports this thesis to this degree of generality, but the fall in the share of wages highlights a manifest problem of realisation that is met by actually existing capitalism and that it resolves through the consumption of the rich and through indebtedness.

[15] Karl Marx, *Capital*, Volume 3, Chapter 30.
[16] Ernest Mandel,"L'explication des crises capitalistes", 1982.

To sweep aside this question by saying that only over-accumulation and overproduction are the causes of the crises, through the fall in the rate of profit, amounts to forgetting that over-accumulation and under-consumption are both aspects of the same reality, as formulated very well by Chesnais: "Over-accumulation has automatically an "opposite", so to say, under-consumption"[17]. And vice versa. Marx himself has repeatedly emphasized the crisis of realization, for instance in this very present-day passage, where he presents this crisis as the result of the power of capital: "What then does *overproduction of capital* mean? (...) Defined more closely, this means nothing more than that too much has been produced for the purpose of *enrichment*, or that too great a part of the product is intended not for consumption as revenue, but *for making more money* (for accumulation): not to satisfy the personal needs of its owner, but to give him money, abstract social riches and capital, more power over the labour of others, i.e. to increase this power"[18].

The viewpoint adopted as to the evolution of the rate of profit says nothing on the political implications although there is a great temptation to establish facile connections. For example, those who hold that the fall of the share of wages is a fundamental cause of the crisis, see themselves accused of Keynesianism or "under-consumptionism". If they say that wages are too low, they are arguing for a wage-led recovery which would save capitalism. After all, this form of rhetoric is reversible: those who think that the main cause of the crisis is the fall in the rate of profit could be accused of being in an underhand way in favour of a lowering of wages so as to re-establish profits.

Another line of demarcation separates those who analyse this crisis as a financial crisis and those who consider it as a crisis of the system itself. And that leads effectively to different orientations: regulationist-reformist in the first case, anti-capitalist in the second. Again we could discuss this opposition: after all, one could very easily hold that this crisis is financial and be at the same time anti-capitalist, even if this position does not exist in practice. More generally, anti-capitalism is not indexed on the rate of profit. The reasons that we have all criticised this system are not located in the evolution — upwards or downwards — of the rate of profit.

We should carefully distinguish theoretical debates from programmatic ones, and avoid thinking that the theoretical analyse of the conjuncture supplies us mechanically with the key to the strategic issues. That capitalism as a system is the target is a point of agreement, which should not be spoiled by polemics which play on words. To take an example, the idea according to which capitalism would be increasingly less capable of satisfying social needs was mocked by Gill[19] as an absurdity, since this is not the objective of capitalism. However the latter must sell its commodities and it could not do it if they were deprived of use value, in other words did not respond to any social need. To fulfil this necessary condition, it shapes needs and the allocation of incomes. But one of the characteristics of contemporary capitalism is that this is increasingly difficult: the gap is growing between profitable supply and social demand, and capitalism tends increasingly to reject the satisfaction of elementary needs in the name of its criterion of profitability. There is here a critical line which touches the very bases of the system — that which I call the mode of capitalist satisfaction of social needs — and goes much further than the study of the rate of profit. Capitalism has its own logic, but it is increasingly irrational from the viewpoint of humanity (and of the planet). And that allows once again criticism of the system on other bases than its chronic instability.

If one leaves aside the reformist witch trials, the debate is of the strategic order. As always it concerns the articulation of immediate slogans and the socialist perspective. The crisis is exacerbating the tension between these two political levels. On the one hand, its immediate effects are equivalent to a growing social regression and, on the other hand, its breadth

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[17] François Chesnais, "Crise de suraccumulation mondiale ouvrant une crise de civilisation", *Inprecor* n°556/557, 2010,
[18] Marx, *Theories of Surplus Value*, Chapter XVII.
[19] Louis Gill, "Les faux pas d'Alain Bihr, les dérives de Michel Husson", *Carré rouge* n°43, mars 2010.

demonstrates the fragility and growing illegitimacy of the system. The construction of a transitional approach is then all the more necessary, but in a more difficult sense. It is necessary both to fight tooth and nail against the measures for "exit from crisis" and open a radical, hence anti-capitalist alternative perspective. It seems to me that the question of the division of incomes is a good point to hang around the principle "we won't pay for their crisis". That has nothing to do with a "wage led recovery" but with a defence of wages, jobs and social rights on which there should not be any dispute. Then comes the idea of control over what they do with their profits (pay dividends or create jobs) and our taxes (subsidising the banks or financing public services). The issue is to pass from defence to control and it is on the basis of this switch that the challenge to private property (the real anti-capitalism) can acquire a mass audience.

This approach can be discussed and should be worked on, but it is counterproductive to rule it out as reformist, or regulationist, opposing to it the sole revolutionary posture which would be to call for the overthrow of the system without having a precise idea of what roads mobilisations can take and the concrete targets they should seek. On a more tactical level, the "razor sharp" delimitations seeking to separate the good anti-capitalist wheat from the anti-neoliberal chaff, represent very often a useless expenditure of energy. In the current conjuncture it is enough to fight to the end for a just and clearly defined demand, to come directly up against the lines of defence of the system.

A European strategy for the left[20]

The global effects of the crisis have been made even worse by what is happening in Europe. For thirty years the contradictions of capitalism have been overcome with the help of an enormous accumulation of phantom rights to surplus value. The crisis has threatened to destroy them. The bourgeois governments have decided to preserve them claiming that we have to save the banks. They have taken on the banks' debts and asked for virtually nothing in return. Yet it would have been possible to make this rescue conditional on some assurances. They could have banned speculative financial instruments and closed the tax loopholes. They could even have insisted that they take responsibility for some of the public debt that this rescue increased so dramatically.

We are now in the second phase. Having shifted the debt from the private sector to the public the working class has to be made to pay. This shock therapy is delivered through austerity plans which are all broadly similar – a cut in socially useful spending and hiking up the most unfair taxes. There is no alternative to this form of social violence other than making the shareholders and creditors pay. That is clear and everyone understands it.

The collapse of a ruling class plan

But the European working class is also being asked to pay for the collapse of the ruling class project for Europe. The ruling class thought that it had found a good system with the single currency, the budgetary stability pact ("Stability and Growth Pact"), and the total deregulation of finance and the movement of capital. By creating a competition between social models and wage earners squeezing wages became the only means of regulating inter-capitalist competition and intensifying the inequalities that benefitted only a very narrow stratum of people in society.

However this model put the cart before the horse and wasn't viable. It presupposed that the European economies were more homogeneous than they actually are. Differences between countries increased due to their place in the global market and their sensitivity to the euro exchange rate. Inflation rates didn't converge and interest rates favoured property bubbles and so on. All the contradictions of a curtailed programme of European integration which the Euro liberals are discovering today existed before the crisis. But these are blowing apart under speculative attacks against the sovereign debts of the most exposed countries.

[20] This section is taken from *Socialist Resistance*, December 29th, 2010.

Underneath the abstract concept of "financial markets" there are mainly European financial institutions which speculate using capital which states lend to them at very low interest rates. This speculation is only possible due to the states' policy of non-intervention and we should understand it as a pressure applied to consenting governments to stabilise budgets on the back of the people of Europe and to defend the banks' interests.

Two immediate tasks

From the point of view of the working class it's obvious what has to be done: we have to resist the austerity offensive and refuse to pay the debt which is nothing but the debt from the banking crisis. The alternative plan on which this resistance must be based demands another way of sharing society's wealth. This is a coherent demand. It is in fact against the squeezing of wages, in other words the appropriation of an increasing portion of surplus value by capital.

The alternative requires a real fiscal reform which takes back the gifts which for years have been given to businesses and the rich. It also implies the cancellation of the debt. The debt and the interests of the majority of the population are completely incompatible. There can be no progressive outcome to the crisis which does not put the debt in question, either by defaulting on it or restructuring it. In any case some countries will probably default and it's therefore important to anticipate this situation and say how it should be managed.

Leaving the euro?

The offensive, which the peoples of Europe are facing, is undeniably made worse by the European straightjacket. For example the European Central Bank, unlike the Federal Reserve in the United States, cannot monetise public debt by buying treasury bonds. Would leaving the euro allow the straightjacket to be loosened? That is what some on the left like Costas Lapavitsas and his colleagues are suggesting for Greece as an immediate step. He proposes that it is done immediately without waiting for the left to unite to change the euro zone, something he thinks is impossible.

This idea is put forward elsewhere in Europe and is met with an immediate objection that even though Britain is not part of the euro zone it has not been protected from the climate of austerity. It is also easy to understand why the far right, such as the Front National in France wants to leave the euro. By contrast it is hard to see what could be the merits of such a slogan for the radical left. If a liberal government were forced to take such a measure by the pressure of events it is clear that it would be the pretext for an even more severe austerity than the one we have experienced up to now. Moreover it would not allow us to establish a new balance of forces, which is more favourable to the working class. That is the lesson that one can draw for all the past experiences.

For a left government leaving the euro would be a major strategic error. The new currency would be devalued as that is, after all, the desired objective. But that would immediately open up a space, which the financial markets would immediately use to begin a speculative offensive. It would trigger a cycle of devaluation, inflation and austerity. On top of that, the debt, which until that point had been denominated in Euros or in Dollars would suddenly increase as a result of this devaluation. Every left government which decided to take measures in favour of the working class would certainly be put under enormous pressure by international capitalism. But from a tactical point of view it would be better in this test of strength to use membership in the euro zone as a source of conflict.

It is basically true that the European project based on the single currency is not coherent and is incomplete. It removes a variable of adjustment, the exchange rate, from the set of different prices and salaries inside the euro zone. The countries in the periphery thus have the choice between the German path of freezing wages or suffering a reduction in *competitivity* and loss of markets. This situation leads to a sort of impasse and there are no solutions that can be applied straight away: going backwards would throw Europe in a crisis which would hit the most fragile countries hardest, and beginning a new European project seems out of reach at the moment.

If the euro zone explodes the most fragile economies would be destabilised by speculative attacks. Not even Germany would have anything to gain because its currency would appreciate in value uncontrollably and the country would undergo what the Unites States is today trying to impose on several countries with its monetary policy[21].

Other solutions exist which need a complete recasting of the European Union: a budget which is financed by a common tax on capital and which finances harmonisation funds and investments which are both socially and ecologically useful and richer countries help poorer ones with their public debt. But again this outcome is not possible in the short term, not through lack of alternative plans but because implementing them requires a radical change in the balance of forces at the European level.

What should we do at a very difficult moment like this? The struggle against the austerity plans and refusing to pay the debt are the launch pad for a counter offensive. We then have to make sure that the resistance is strengthened by arguing for an alternative project and work out a programme which offers both "practical" answers as well as a general explanation of the class content of the crisis[22].

The specific task of the radical, internationalist left is to link the social struggles happening in each country with arguing for a different kind of Europe. What are the ruling classes doing? They are facing up to the policies they have to follow because they are defending interests which are still largely nationally based and contradictory. Yet as soon as they have to impose austerity measures on their own working classes they present a solid united front. There are better things to do than emphasise the very real differences that exist between the countries. What's at stake is having an internationalist point of view on the crisis in Europe. The only way of really opposing the rise of the far right is by suggesting other targets than the usual scapegoats. We can affirm a real international solidarity with the peoples who are suffering most due to the crisis by demanding that the debts are shared equally across Europe. Thus we have to oppose an alternative project for Europe to that of the European bourgeoisie which is dragging every country backwards socially. How is it possible not to understand that our mobilisations, which are faced with coordination of the ruling class at a European level, need to be based on a coordinated project of our own? While it is true that struggles happen in a national framework they would be strengthened by a perspective like this instead of being weakened or led down nationalist dead ends. The students who demonstrated in London chanting "all in this together, all in this together" are a symbol of this living hope.

For a European Strategy

The task is as difficult as the period which the crisis has opened. However the radical left must not get locked into the impossible choice and start the risky adventure of leaving the euro and a utopian idea of currency harmonisation. We could easily work on some intermediate targets which challenge the European institutions. For example:

The states of the European Union should borrow directly from the European Central Bank (ECB) at very low rates of interest and private sector banks should be obliged to take over a certain proportion of the public debt.

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[21] Michael Hudson, "*US Quantitative Easing Is Fracturing the Global Economy*".

[22] See Özlem Onaran, "Fiscal crisis or a crisis of distribution?", *International Viewpoint* n°424, May 2010; Bloco de Esquerda (Left Bloc) Portugal: "*On the crisis and how to overcome it*", May 23rd 2010.

A default mechanism should be put in place, which allows public sector debt to be written off in proportion to tax breaks for the rich and money spent on bank bailouts.

Budgetary stabilisation has to be reformed by a fiscal reform which taxes movements of capital, financial transactions, dividends, large fortunes, high salaries and incomes from capital at a standard rate across Europe.

We have to understand that these objectives are neither further, nor closer away than an "exit from the euro" which would be beneficial to working people. It would definitely be absurd to wait for a simultaneous and co-ordinated exit by every European country. The only strategic hypothesis that one can then conceive of must take as its starting point the experience of a social transformation which starts in one country. The government of the country in questions takes measures, for example imposing a tax on capital. If it is thinking clearly it will anticipate the retaliation for which it will be the target and will impose controls on capital. By taking this fiscal reform measure it is openly in conflict with the rules of the European game. It has no interest in unilaterally leaving the euro. This would be an enormous strategic mistake since the new currency would immediately come under attack with the aim of pulling down the economy of the "rebel" country.

We have to give up on the idea that there are "technical" shortcuts, assume that conflict is inevitable and build a favourable balance of forces of which the European dimension is a part. One point of support for that is the ability to damage capitalist interests. The country, which starts, could restructure the debt, nationalise foreign capital etc, or threaten to do it. The "left" governments of Papandreou in Greece or Zapatero in Spain have not even dreamed of doing this.

The main point of support comes from taking the measures cooperatively. This is completely different from classic protectionism, which basically always tries to gain ground by nibbling at parts of the global market. Every progressive measure on the other hand is effective to the extent that it is shared across a number of countries. We should therefore be talking about a strategy, which is based on the following idea: we are willing to tax capital and we will take the necessary steps to protect ourselves. But we are also hoping for these measures, which we propose, to be implemented across Europe. We can sum up by saying that rather than seeing them in opposition to each other we have to think hard about the link between breaking the neo-liberal European project and our project of creating a new Europe.