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Economic crisis

“The climatic crisis will combine with the crisis of capital…”

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The point of view that I will defend is that the crisis which started in August 2007 represented a real break which put an end to a long phase of expansion of the world economy. This break heralds the beginning of a process of crisis whose characteristics in terms of the number of intermingled factors are comparable with those of the crisis of 1929, although this one takes place in a very different context and these factors are necessarily different.

[https://www.internationalviewpoint.org/IMG/jpg/chesnaisSite.jpg]
FranÃ§ois Chesnais speaking during a April 2008 tour of Latin America
Photo: PUC-SP

It is important to recall initially that the crisis of 1929 took place as a process: a long process which started in 1929 with the crash of Wall Street, but whose climax took place much later, in 1933, and that the crisis was followed by a long phase of recession which led to the Second World War. I say this to stress that, in my opinion, we are witnessing the first stages, really the very first stages, the beginning of a process of an analogous breadth and temporality, even if the analogies stop there. What is happening right now on the financial markets of New York, London and the other great stock exchange centres is only one dimension - and almost certainly not the most important one - of a process which must be interpreted as a historical caesura.

We are confronted with the form of crisis which Marx said marked the historical limits of capitalism, where all of the contradictions. To say that is not to defend any version of the theory of “the final crisis” of capitalism or anything similar. What is in question, in my opinion, is understanding that we are confronted with a situation where the historical limits of capitalist production are apparent. What is it necessary to understand by that? Without wishing to sound like a Marxist preacher, I will read you a passage from Capital:

“The real barrier of capitalist production is capital itself. It is that capital and its self-expansion appear as the starting and the closing point, the motive and the purpose of production; that production is only production for capital and not vice versa, the means of production are not mere means for a constant expansion of the living process of the society of producers. The limits within which the preservation and self-expansion of the value of capital resting on the expropriation and pauperisation of the great mass of producers can alone move â€” these limits come continually into conflict with the methods of production employed by capital for its purposes, which drive towards unlimited extension of production, towards production as an end in itself, towards unconditional development of the social productivity of labour. The means â€” unconditional development of the productive forces of society â€” comes continually into conflict with the limited purpose, the self-expansion of the existing capital. The capitalist mode of production is, for this reason, a historical means of developing the material forces of production and creating an appropriate world-market and is, at the same time, a continual conflict between this its historical task and its own corresponding relations of social production. [1]

Two dimensions which give the crisis its novelty

There are certainly some terms which we would not use today any more, like that of “historical task”. On the other hand I think that the crisis that we will see in the years to come will unfold precisely on the basis of this world market, which Marx intuited and which now exists in all its abundance. This is one of the points where we dealing with a world situation different from 1929. Countries like China or India, which were then still semi-colonial countries, do not have

this character any more today. Their specific features (the expression of combined and unequal development) require an attentive analysis. But these are countries which now participate fully in a single world economy, a world economy unified on a scale unknown until this stage of history.

The crisis which has started thus has as its context a world which is unique in a different sense that was not the case in 1929. It is a first point. Here is a second. In my opinion, in this new historical stage, the crisis will develop in such manner that the brutal reality of the world climatic crisis of which we are seeing the first demonstrations will be combined with the crisis of capital as such. We enter a phase which is really that of the crisis of humanity, in its complex relations. That includes wars. But even by excluding the outbreak of a war of great breadth, a world war, which could at present only be a nuclear war, we are faced with a new type of crisis, the combination of this economic crisis which started in a situation where nature, treated without regard and brutalised by humanity within the framework of capitalism, reacts in a brutal way. It is something which is almost excluded from our discussions, but which will impose itself as a central phenomenon.

For example, very recently, I learned from reading a book by a French sociologist, Franck Poupeau [2], that the Andean glaciers which are the source of the water supplies of La Paz and El Alto (Bolivia), are more than 80% exhausted and that it is estimated that in about fifteen years La Paz and El Alto will not have any more water… It is something that we, who claim to be revolutionary Marxists, have never dealt with. We never discuss facts of this nature and this breadth. However this fact can substantially modify the class struggle in Bolivia, as we know it: for example, the movement of the capital to Sucre, so controversial, imposes itself as a “natural” phenomenon, because La Paz will lack water. We enter a period where facts of this type will interfere in the class struggle. The problem is that in revolutionary circles hardly anybody speaks about that; we continue to discuss things whose importance is negligible at the present time, completely petty questions in comparison with the challenges which we must face.

Three means of overcoming capital’s “immanent barriers”

To continue on the question of the limits of capitalism, I would like to return to a quotation from Marx, which precedes that already given: “Capitalist production seeks continually to overcome these immanent barriers, but overcomes them only by means which again place these barriers in its way and on a more formidable scale. ” [3] There is a lightning rod which can be useful in analysis and discussion. The means implemented by the bourgeoisie ranged behind the United States to overcome the inherent limits of capital during the past thirty years were primarily three.

Firstly, there was the whole process of liberalization of finances, trade and the investment, i.e. the process of destruction of the political relations which emerged on the basis of the crisis of 1929 and of the Thirties, after the Second World War, the Chinese revolution and the wars of national liberation. All these relations, which did not in Western Europe or Latin America affect the existence of the capital but which represented at the same time forms of partial control over it, were destroyed.

The second means employed to overcome these inherent limits of the capital was the recourse, on an unprecedented scale, to the creation of fictitious capital and of forms of credit which, in the countries in the centre of the system, enlarged an insufficient demand.

The third means, most important historically for capital, was rehabilitation as full components of the world capitalist system of the Soviet Union and its “satellites”, and especially China, more important still because marked by a controlled modification of the relations of property and production.

It is within the framework of the contradictory effects of these three processes that it is possible to grasp the breadth and novelty of the crisis that has opened.

Liberalization, world market, competition…

Let us initially look at the contradictory effects of the liberalization and deregulation undertaken on a worldwide scale in the space created by the integration into capitalism of the old Soviet “camp” after the collapse of the USSR, as well as that of China. The process of liberalization involved the dismantling of the elements of regulation built within the international framework at the end of the Second World War, leading to a capitalism about completely deprived of mechanisms of regulation. Capitalism was not only deregulated, but the world market was created really and fully, transforming into reality what was for Marx largely an intuition and an anticipation. It is useful to specify the concept of world market. The term “market” indicates a space of valorisation, released from restrictions for the operations of capital, which makes it possible for the latter to produce and realise surplus value by taking this space as basis for the mechanisms of truly international centralization and concentration. This open, non homogeneous space, but with a Draconian reduction of the obstacles to the mobility of capital enabling it to organize the cycle of valorisation on the planetary scale. It is accompanied by a situation making it possible to put all the workers of all countries in competition with each other. Thus it is founded on the fact that the industrial reserve army is truly global and that it is capital as a whole which governs, in the forms studied by Marx, the flows of integration or rejection of the workers in the process of accumulation.

Such then is the general framework of a process of “production for production” under conditions where the possibility for humanity and the masses of the world to accede to this production is very limited. This is why the positive outcome of the cycle of valorisation of the capital, for capital as a whole and each capital in particular, becomes increasingly difficult to attain. And it is from this fact that “the blind laws of competition” play an unceasingly larger role and become more determinant on the world market. The central banks and the governments can try to agree among themselves and to collaborate to overcome the crisis, but I do not think that it is possible to introduce co-operation into a world space which has become the scene of a terrible competition between capitals. And now competition between capitals goes well beyond the relationship between the capital of the older and most developed parts of the world system. It includes the least developed sectors from the capitalist point of view. Because in particular forms including the most parasitic, in the world market a process of centralization of capital apart from the traditional framework of the imperialist centres has taken place: in relation to them, but under conditions which also introduce something completely new within the world framework.

Industrial groups capable of integrating themselves in their own right as partners in world oligopolies have developed in given points of the system during the last fifteen years and in particular during the most recent stage. In India and China genuinely powerful capitalist economic groups were formed. On the financial level, as expression of the oil revenue and the parasitism which is specific to it, sovereign wealth funds became important points of centralization of capital-money. They are not simple satellites of the United States. They have their strategies and their own dynamics which modify in many respects the configuration of geopolitical relations of the key points where the life of capital is decided and will be decided.

Consequently another dimension of which we must take account is that this crisis marks the end of the stage during which the United States could act as a world power without adversaries. In my opinion, we have left the phase that Mészáros analyzed in his book of 2001 [4] The United States will be put to the test: in a very short lapse of time their world relations have been modified and the United States will have to renegotiate them and reorganize them by basing themselves on the fact that they must share power. And that, of course, it is something which never occurred in a peaceful way in the history of capital… So, the first element is that one of the means chosen by capital to overcome its limits has become a new source of tensions, conflicts and contradictions, so that it a new historical

stage has been opened through this crisis.

Uncontrolled creation of fictitious capital

The second means employed by the capital of the central economies to overcome its limits was the generalized recourse to the creation of completely artificial forms of the enlargement of solvent demand. That, added to the other forms of creation of fictitious capital, generated the conditions of the current financial crisis. In an article that comrades of Herramienta had the kindness to translate into Castilian and to publish [5], I examined rather lengthily the question of fictitious capital, its accumulation and the new processes which characterized it. For Marx, fictitious capital is the accumulation of securities which are “the shadow” of investments already made. In the form of bonds and shares, they appear in the eyes of their holders as capital. They are not capital for the system taken as a whole, but they are for their holders and, under the “normal” economic conditions, at the end of the process of valorisation of capital, they ensure them dividends and interests.

But their fictitious character appears in crisis situations. When crises of overproduction occur, with the bankruptcies of companies and so on, this capital can disappear suddenly. You read in the newspapers that this or that quantity of capital “has disappeared” during a stock market slump? These amounts did not exist as capital properly so-called, despite the fact that, for the holders of these shares, these titles represented a right to dividends and interests, a right to receive a fraction of the profits.

Of course, one of the major problems today is that, in many countries, pensions systems are based on fictitious capital, in the form of claims to a share of profits which can disappear in times of crisis. Each stage of the liberalization and the financial globalization of the years 1980 and 1990 reinforced the accumulation of fictitious capital, in particular in the hands of investment funds, pension funds and financial funds. And the great novelty which appeared in the early to mid 1990s and throughout this century is that, in particular in the United States and in Great Britain, an extraordinary push took place for the creation of fictitious capital in the form of credit. Credit to companies, but also and especially loans to households, consumer credits and mortgages. Thus we witnessed a qualitative jump in the mass of fictitious capital created, causing sharper forms of vulnerability and brittleness, even in relation to minor shocks, including completely foreseeable episodes. For example, on the basis of former experience, which was very well studied, we knew that the property boom would necessarily end for well known endogenous reasons. While it is relatively comprehensible that on the stock market the illusion exists that there are no limits to the rise of shares, the whole of preceding history shows this is not true of the property sector: when we are talking about buildings and houses it is inevitable that the boom finishes at a given time. But the degree of dependence of the continuation of the growth and success of financial speculations was so strong, that this normal and foreseeable event was transformed into an element leading to an enormous crisis. Because I should add to what I have already said that during the two last years of the boom, loans were granted to households which did not have the least capacity to repay them. And moreover, all this combined with the new financial “techniques” - which I have tried to explain in the article mentioned above in Herramienta [6] - allowing the banks to sell designated synthetic securities in such a manner that nobody could know exactly what they had bought. This is what explained the devastating character of the contagion of the “subprime” effect which started in 2007 and the fact in particular that the “toxic effects” strongly poisoned the relations of the banks among themselves.

Now we are witnessing the “unravelling” of this process. It is necessary to erase an accumulation of “assets” which are fictitious to the nth degree, resulting from debt ratios of 30 times on average of the effective capital holdings of banks (which itself include debts, deemed “recoverable” at this time), This “unravelling” favours the concentration of financial capital of course. When Bank of America buys Merrill Lynch, it represents a classic process of concentration. The leap in the crisis that we saw on September 17 was caused by the decision of the Treasury and the Federal Reserve not to prevent the bankruptcy of Lehmann bank. On September 18 they had to change position

and massively aid the AIG insurance group. The process of nationalization of debts implies a new creation of the fictitious capital. The Federal Reserve of the United States is increasing the mass of fictitious capital to maintain the illusion of the value of institutional centralizations of fictitious capital (banks and investment funds) which were about to break down, with the prospect of being obliged at a given time to strongly increase fiscal pressure, which in fact the Federal government cannot do because that means the contraction of the domestic market and the acceleration of the crisis. We are thus witnessing a headlong rush which does not solve anything.

Within the framework of this process we also see the rise in power of the sovereign wealth funds, whose effect is to modify the inter-capitalist distribution in the financial field in favour of the pensions sectors which accumulate this type of fund. And it is one more factor of disturbance in this process.

We should recall, to end on this second dimension, that it is its external deficit of 7-8% of GDP which gives the United States the characteristic of being the strategic centre of the capital valorisation cycles, which is decisive at the time of the realization of surplus value. That is true not only for capital under US control, but for the process of valorisation of capital in its totality. Now, faced with a quasi inevitable economic recession, the great question arises of whether China will be able to become the place which will guarantee this moment of realization of surplus value instead of the United States. The extent of the intervention by the Federal Reserve and the Treasury explains why the contraction of activity in the United States and the fall in its imports has until now been rather slow and limited. The question is how long they will be able to hold with the creation of more and more liquidities as the single instrument of economic policy. Is it possible that there are no limits to the creation of fictitious capital in the form of liquidities to maintain the value of the fictitious capital which already exists? That seems me to be a very hazardous assumption and very much doubted among the US economists themselves.

Over accumulation in China?

To end, we will look at the third way in which capital has sought to exceed its inherent limits. It is the most important of all and raises the most interesting questions. I refer to the extension, in particular towards China, of the entire system of social relations of production of capitalism. It is something which Marx mentioned at one time as a possibility, but which has become reality only in recent years. And which was carried out under conditions which multiply the factors of crisis.

The accumulation of the capital in China was founded on internal processes, but also on the basis of something which is documented perfectly, but little commented on: the transfer of a great part of the production of sector II of the economy - the sector of consumer goods - from the United States to China. That has much to do with the increase in US deficits (both trade and budget deficits), which could be reversed only by a vast “reindustrialisation” of the United States.

That means that new relations have been established between the United States and China. They are not relations between an imperialist power and a semi-colonial country. The United States has created relations of a new type and they now face difficulty in recognising this and assuming the consequences. Basing itself on its trade surplus, China has accumulated hundreds of millions of dollars, which it immediately lent to the United States. An illustration of the consequences is the nationalization of the two companies named Fannie Mae and Freddy Mac: the Bank of China held 15% of these companies and informed the US government that it would not accept their devalorisation. These are international relations of a completely new type.

But, what will happen if the crisis spreads in the form of a significant fall in exports with effects on production, and crisis in the banking structure and the Shanghai Stock Exchange in China? In my already mentioned article [7] there

is only one page on this question right at the end, but in a certain manner, it is the most decisive question for the next stage of the crisis.

In China, there has been an internal process of competition between capital, combined with a process of rivalry between sectors of the Chinese political apparatus and competition between them to attract foreign companies. This has resulted, in addition to destruction of nature on a great scale, in a process of creation of immense capacities of production: in China an over accumulation of capital has been concentrated which, at a given time, will become insupportable. In Europe the acceleration of the relocation of productive capacities and jobs, to transfer them to this singular paradise of the capitalist world that is China today, was notorious among the big industrial groups. My assumption is that this transfer of capital to China has led to a change in the previous movement of accumulation and caused a new rise in the organic composition of capital. Accumulation is intense in means of production and very wasteful of raw materials, the other component of constant capital. The massive creation of productive capacities in sector I (means of production) has been the motor of growth in China, but the final market allowing this production to flow and realise value and surplus value has been the world market. By worsening it the recession highlights this over accumulation of capital. Michel Aglietta, who has studied it specifically [8], affirms that there is really an over accumulation, that there was an accelerated process of creation of productive capacities in China, a process which will pose problems of the realization of all this production when the external market contracts, which it is starting to do today. China plays a really decisive part, because even small variations in its economy determine the economic situation of many other countries of the world. It is enough if Chinese demand for investment goods falls a little for Germany to lose exports and enter recession. These “small oscillations” in China have very strong repercussions elsewhere, as should be obvious in the case of Argentina.

Continuing to reflect and discuss

I return to what I said at the beginning. Even if they are comparable, the phases of this crisis are distinct from that of 1929, because the crisis of overproduction of the United States occurred then from the first moments. Afterwards, it deepened, but it was clear from the beginning that it amounted to a crisis of overproduction. Today, on the contrary, the policies implemented by the big central capitalist countries are delaying this moment, but they cannot do much more than that.

Simultaneously, and as happened also in the case of the crisis of 1929 and the 1930s, even if under different conditions and forms, the crisis combines with capitalism’s necessity for a total reorganisation of its economic relations of force at the world level, marking the moment where the US will see that its military supremacy is only an element, and a subordinate element, in renegotiating their relations with China and the other parts of the world. Unless of course they embark on a military adventure with unforeseeable consequences. For the moment the internal political conditions intern do not allow it in any way, but it cannot be excluded if the recession leads to a long depression and revolutionary movements.

For all these reasons, I conclude that we are dealing with much more than one financial crisis, even if we are for the moment at this stage. Even if I have had to concentrate this evening on the attempt to unpick the threads of fictitious capital and to help to understand why it is so difficult to dismantle this capital, we are facing an infinitely broader crisis.

By taking account of the questions and various observations which were made to me since I arrived in Buenos Aires and here even this evening, I have the impression that many think that I am drawing a catastrophist picture of the current moment of capitalism. I indeed think that we are facing a risk of catastrophe, not a catastrophe of capitalism, not a “final crisis”, but a catastrophe of humanity. If we take the climatic crisis seriously, probably there is already something of that. I share the views of Mészáros, for example [9], but there are not many of us who attach the same

importance to it, that from this point of view we are facing an imminent danger. What is tragic is that for the moment this directly affects only peoples whose existence is not taken into account: what can happen in Haiti seems not to have any historical importance, what happens in Bangladesh has no weight outside of the affected area, nor what occurred in Burma, because the control of the military junta prevents this being known. It is the same thing in China: we discuss the indices of the growth but not other ecological catastrophes, because the repressive apparatus controls information on that subject.

And the worst thing is that this view that “the ecological crisis is not as serious as is claimed”, which is constantly projected by the media, is very deeply internalized, including by a number of left intellectuals. I had started to work and write on this subject, but with the beginning of the financial crisis I was to some extent forced to return to concerning myself with finances, although that does not satisfy me so much, because the essential seems to me to be located at another level.

In conclusion: the fact that all this happens after such a long phase, without parallel in the history of capitalism, of fifty years of uninterrupted accumulation (except for a small break in 1974-1975) and also that the capitalist leadership circles, and in particular the central banks, have learned from the crisis of 1929, all meant that the development of the crisis was slow. Since September 2007, the discourse of the leadership circles repeats unceasingly that “the worst is behind us”, whereas what is certain is that “the worst” is in front of us.

This is why I insist on the risk there is of minimizing the gravity of the situation. And I suggest that, in our analysis and our manner of approaching these things, we must integrate the possibility, at least the possibility, that inadvertently we could have internalized the discourse that at the end of the day “nothing is happening”.

We reproduce here a presentation given to a meeting of the Argentinian review “Herramienta”, on September 18, 2008 in Buenos Aires, published in “Herramienta” number 39 of October 2008.

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[1] 1. Karl Marx, “Capital”: http://www.marxists.org/archive/marx/works/1894-c3/ch15.htm

[2] 2. Franck Poupeau, “Carnets boliviens 1999-2007, Un goÃ»t de poussière”, Éditions Aux lieux d’Ãªtre, Paris 2008

[3] 3. Karl Marx, “Capital”, op. cit.

[4] 4. István Mészáros, “Socialism or Barbarism : From the “American Century” to the Crossroads”, Monthly Review Press, 2001

[5] 5. “El fin de un ciclo. Alcance y rumbo de la crisis financier”, “Herramienta” number 37, March 2008. This article first appeared in French, see François Chesnais, “Fin d’un cycle, sur la portée et le cheminement de la crise financière”, Carré rouge-La brèche number 1, December 2007-January 2008

[6] 6. Ibid

[7] 7. Ibid.

[8] 8. See Michel Aglietta and Yves Landry, “La Chine vers la superpuissance”, Économica, Paris 2007

[9] 9. István Mészáros, “The sole viable economy”, Monthly Review Press, 2007