CAPITALIST CRISES AND THE CRISIS THIS TIME

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I

Exactly a hundred and fifty years before the current crisis began in August 2007, the collapse of the Ohio Life Insurance Company in New York triggered what became known as 'the great crisis of 1857-8'. As it quickly spread to Europe's main financial centres, Karl Marx 'was delighted and thrilled by the prospects for another revolutionary upsurge on the continent'. As Michael Kratke notes, 'the crisis started exactly as Marx had predicted already in 1850 – with a financial crisis in New York' and the crisis itself led Marx to extend 'the scope and scale of his study' for the *Grundrisse* notebooks he was working on, so as to take account of 'the first world economic crisis, affecting all regions of the world'. In their correspondence, Marx and Engels agreed that 'the crisis was larger and much more severe than any crisis before', viewing the financial crisis as 'only the foreplay to the real crisis, the industrial crisis that would affect the very basis of British prosperity and supremacy'.[1] In October 1857, Engels wrote to Marx: 'The American crash is superb and will last for a long time... Now we have a chance'. And two weeks later: '…in 1848 we were saying: now our moment is coming, and in a certain sense it was, but this time it is coming completely and it is a case of life or death'.[2]

As the crisis abated and began to fade away in mid-1858, Marx tried to understand why it had not turned out as expected. He came to the conclusion that the relatively rapid recovery could be largely explained by the sharp depreciation of capital on a large scale and an equally sharp and major shift in the structure of exports from Europe towards the colonies, with this especially applying to British industry which was then so central to global capital accumulation. This allowed for a return to dynamic capitalist growth, while at the same time reproducing the contradictions which, as Marx wrote in the *Grundrisse*, would lead again to 'crises in which momentary suspension of all labour and annihilation of a great part of the capital violently lead it back to the point where it is enabled [to go on] fully employing its productive powers without committing suicide. Yet, these regularly recurring catastrophes lead to their repetition on a higher scale, and finally to its violent overthrow'. Capitalist production, Marx noted, 'moves in contradictions which are constantly overcome but just as constantly posited'.[3]

Fifty years later – a full century before the onset of today's crisis – the great financial crisis of 1907 that also started on Wall Street and included a stock market crash, accelerating runs on the banks and an 11 per cent decline in US GDP, once again quickly spread to 'an extremely severe monetary and banking crisis such as Europe had not experienced for a long time'.[4] But since this crisis was even more short-lived than 1857-8, it provided little fodder for the theories of crises that had become so prevalent in Marxism in the wake of capitalism's 'first great depression' that began in the mid-1870s, and which led Engels in 1884 to speak in terms of the 'inevitable collapse of the capitalist mode of production which is daily taking place before our eyes'.[5]

II

The Marxist search for a general theory of capitalist crises was intensified in the late 19th century in a context that confirmed deep crisis tendencies in the sphere of production, centred on the contradictions associated with capitalism's constant drive to accumulation. But this begged the question of why the resultant overaccumulation was sometimes readily corrected and other times not. The appeal of Marx's identification of a tendency towards a falling rate of profit (FROP), based on the rising organic composition of capital, was partly that it seemed to offer an answer to this, but aside from empirical controversies there was a basic conceptual problem that revolved around the many 'counter-tendencies' that were adduced, starting with Marx, to explain why the FROP does not always manifest itself. The problem lay in these counter-tendencies being, as often as not, the very substance of capitalism's dynamics: i.e., higher rates of class exploitation, the development of new technologies and commodities, the emergence of new markets, international expansion, and innovations in credit provision, not to mention state interventions of various kinds.

What the FROP offered in terms of theoretical certainty it lost as an expression of historical materialism. Too often its presentation as an economic law tended to be ahistorical and its materialism tended to be mechanical. The recognition of this was why, at least between the first great depression that ended in the mid-1890s and the even greater one that was triggered at the end of the 1920s, the FROP was 'long neglected or rejected by Marxist theorists'.[6] The sense that capitalism had survived the first depression and entered a new stage was 'a decisive factor in the "crisis of Marxism" which erupted at the end of the century'.[7] Labriola's assessment at the time captured the weakness of mechanical theories of economic breakdown: 'The ardent, energetic, and precocious hopes of several years ago – have now come up against the more complex resistance of economic relations and the ingenuity of political contrivances'.[8]

Nevertheless, even though the mid-1890s economic recovery helped foster social democratic evolutionary revisionism, the language of crisis and collapse was never far from earshot in Marxist debates before the First World War. The very prescience with which Marxism in this period theorized inter-imperial rivalry leading to destructive war was now rooted in an expectation that continuing limits to domestic accumulation would drive further the export of capital and the colonization that had come to define the fragmented process of capitalist globalization in the last decades of the 19th century.

It is well known that Marxists theorists were influenced in this respect by Hobson's 1902 classic, *Imperialism: A Study,* while rejecting his notions, anticipating Keynes, that reformist redistributive measures would solve the domestic underconsumption that spawned external expansion. What is less well known is that Hobson himself was influenced by the writings of US business economists who, in the wake of the deep recession of the early 1890s, drew on Frederick Jackson Turner's 'closing of the American frontier' thesis to argue that the domestic market was no longer able to sustain the enormous productive capacity of the newly-emerged corporate form.[9] Their claims were soon to prove wildly wrong. By 1898 the US recession had ended, and home markets continued to dwarf exports. The frontier may have been filled territorially but accumulation within it was only in its very early stages when Turner identified its 'closing'.[10]

Marxist crisis theorists at the time not only seriously misinterpreted the kind of capitalism developing in the United States, they more generally underestimated the long-term potential for domestic consumption and accumulation within the leading capitalist states. This was partly due to their failure to appreciate the extent to which working-class industrial and political organizations then emerging would undermine the thesis of the 'immiseration of the proletariat'. But it was also due to their undeveloped theory of the state, which reduced it to an instrument of capital and underestimated its relative autonomy in relation to both imperial and domestic interventions. This shortcoming was also much in evidence among those Marxist theorists who, unlike Luxemburg, began not with underconsumptionist tendencies but, like Hilferding, with the implications of the concentration and centralization of capital and the consequent fusion of industry and finance. This, they argued, led to limited competition at home alongside the recruitment of the state to aggressively support expansion abroad, and gave rise not only to the export of capital but also to the politicization of competition among the leading capitalist states – the ultimate outcome being cataclysmic inter-imperial rivalry.

As we have argued in these pages before, the penetration and incorporation of the other developed capitalist states by the US imperial state in the second half of the 20th century rendered this old theory of inter-imperial rivalry increasingly anachronistic.[11] And even as applied to pre-First World War capitalism, the political economy of underconsumption on the one hand and finance capital on the other was problematic; the understanding of the capitalist state was reductionist; and the explanation of imperial expansion was at best partial. It was ironic that Hilferding's *Finance Capital* (1910), so highly influential despite mistakenly generalizing from German developments at the time, actually recognized that it was 'impossible to derive general laws about the changing character of crises from the history of crises in a single country… [or from] specific phenomena peculiar to a particular phase of capitalism which may perhaps be purely accidental'.[12]

Many of these limitations in classical Marxist crisis theories have lingered to this day, and helped keep alive the notion that capitalism is in a late, if not quite final, stage. Since the Great Depression of the 1930s, there has especially been a propensity to see a permanent overaccumulation crisis whose consequences have been consistently delayed by special circumstances like war, waste or bubbles. This runs counter to the insight Marx arrived at shortly after the 1857-8 crisis that 'permanent crises do not exist', even while insisting that capitalism would repeatedly throw up new crises.[13] Indeed, insofar as crises are 'turning-points', a very important question for Marxists today, especially given the impasse of the Left in face of the first capitalist crisis of the 21st century, is whether this crisis will also be a turning-point in the way the Left thinks about crises.

III

The term 'crisis' is commonly used to refer to interruptions in the process of capital accumulation and economic growth. To the extent, however, that most such interruptions are either self-correcting (e.g. through the devaluation of 'excess' capital), or their depth and duration are shortened by state intervention (e.g. fiscal stimulus), their social significance is limited.

Of greater significance is that some such interruptions do not simply come and go, but take on a much larger dimension. So we need to ask not just *why* crises occur, but why some crises are *distinct*: why they last so long, are marked by persistent economic uncertainty, and produce significant political and social change.

It is these latter, less frequent but deeper *structural crises* that concern Marxist theory. Three crises of this kind, separated from each other by roughly a generation, have been identified in the modern era of capitalism: the long 'first great depression' of the last quarter of the 19th century, the more concentrated 'Great Depression' of the 1930s, and the decade-long 'stagflation' of the 1970s. The current crisis has exhibited many of the characteristics that would make it the fourth. The weakness of a general theory that tries to encompass each of these crises lies in all that is obscured along the way. As David Harvey has recently cautioned:

> There is no singular theory of crisis formation within capitalism, just a series of barriers that throw up multiple possibilities for different kinds of crises. At one particular historical moment conditions may lead to one kind of crisis dominating, but on other occasions several forms can combine and on still others the crisis tendencies get displaced spatially (into geopolitical and geo-economic crises) or temporally (as financial crises).[14]

This does not mean retreating to an eclectic description of those historical moments designated as crises. It only means recognizing that capitalist development is a contradictory process prone to crises, the genesis, nature and outcome of which are historically contingent, and need to be investigated with the tools of historical materialism.

Of course, we must be careful not to slip into reading the history of capitalism in terms of a series of crises. Crises, however significant, are only moments in the development of global capitalism. While structural crises represent 'turning points' of a certain kind, this should not be extended to imply that such crises alone are what spur on further capitalist development. The concentration and centralization of capital, while accelerated during the crisis of 1873 to 1896, had begun earlier and continued after the great US merger wave at the turn of the twentieth century. The growth of Fordist technology, well in train long before the crisis of the 1930s, continued apace right through the Depression. The roots of the neoliberal era go back to the post-war US project for the making of a global capitalism and the rise of MNCs and growth of financialization through the 1950s and 1960s.

The first requisite of any proper understanding of structural crises that avoids the pitfalls of mechanically unfolding economic laws should be to locate facts about the conditions of accumulation and the general economic situation – profits and wages, credit and interest rates, trade and capital flows, etc. – in relation to the class and state configurations in the particular historical conjunctures in which these crises occur. Crises, as Arrighi brilliantly argued some 40 years ago, are historically specific; they occur within particular periods of capitalist development and must be theorized within the class and institutional matrices of that period.[15] Arrighi's analysis was grounded in the different types of capitalist dynamics entailed in the 'predominantly competitive capitalism' of the late 19th century and the transition to the 'predominantly monopoly capitalism' of the 20th century. Insofar as this carries an implication of a general decrease in competition beyond limiting price competition, it was misleading, since the concentration of capital raised competition from the local and regional level to a continental and international plane and intensified competition based on product differentiation and systemized innovation. But Arrighi was in any case careful not to derive an explanation of crises directly from this. He rather stressed that it was the specificities of capital-labour relations in each conjuncture – especially the degree and nature of proletarianization at a global level – that held the key to determining the nature of each crisis.

In the 'first great depression', skilled workers were as (or more) mobile than industrial capital, and the availability of land for unskilled workers in the Americas was especially important as an outlet for the 'reserve army of labour', especially in Europe. Gabriel Kolko rightly pointed out that 'this escape valve for the human consequences of economic crises in one state by relying on the growth of others is among the central events in modern history'.[16] The option of migration or returning to the land gave individual workers, as Arrighi argued, a strength in the labour market that limited the downward flexibility of wages and this, combined with inter-capitalist price competition, contributed to a profit squeeze. It was in part in response to this that key developments in state capacities – from Bismarck's initiation of the welfare state in Germany to the establishment of the Interstate Commerce Commission and the first merit civil service reforms in the US – emerged during the 1880s.

By the time of the 1930s crisis, the democratic resources that workers had obtained (not only as individually enfranchised voters but also through unionization and party formation) had undermined the ability of states with trade deficits to automatically embrace the austerity policies required by the discipline of the gold standard. This significantly contributed to the policies that led to the collapse of international trade and capital flows in the 1930s.[17] So did the closure in the 1920s of the immigration safety valve that the US and Canada had provided for the reserve armies of Europe, contributing indirectly thereby as well to the repression of democracy in central European states. This also factored into the subsequent ability of the US working class to form industrial unions even in the face of the Great Depression, and act as a major catalyst for the historic development of US state capacity through the New Deal.

The stagflation and profitability crisis of the 1970s was rooted in the basis established for trade union militancy by the achievement of near full employment and the expansion of state expenditures and services in the 1960s. Whether wage demands were chasing inflation or causing it likely varied from country to country, and from economic quarter to economic quarter; the crucial point is that worker militancy was a significant factor in preventing the restoration of both higher profit rates and a higher profit share of national income after their downturn in the second half of the 1960s. This did not immediately lead to lower levels of investment, but these investments proved incapable of eliciting productivity increases adequate to sustain profits, in good part because of the workplace resistance, which was such a defining element, to the reorganization of work of the time.[18] The overall organization of production was still largely based on variations on the technological paradigms developed for industry in the 1930s and 1940s, and by the 1960s these had reached their limits in terms of new productivity growth. The marked productivity growth (and profitability) that resulted from the widespread application of computerization to industry was only reached in the 1990s, by which point workers' capacity for resistance was long broken.

This emphasis on the class dimension is not meant to underestimate the complex factors that lead to structural crises but to view these other factors through the prism of class and state relations. This applies not only to the timing of technological change but also to capital's organizational forms. In the 'first great depression' of the late 19th century the legal corporation was born, but how this affected the course and resolution of that crisis is obviously very different from the way the multidivisional, global, networked corporation – barely a gleam in any capitalist's eye in the 1930s, and still only taking shape via MNCs in the 1970s – will affect the course and resolution of the current crisis. The integrated international production networks embodied in the 21st century corporate form now stand so much at the heart of global accumulation – and are so intimately related to the proletarianization of the Global South – that they effectively rule out extensive protectionism as a state response. Similarly, how the scope of finance and its relation to production is implicated in the current crisis cannot be understood at all in terms of what Hilferding meant by 'finance capital' with its emphasis on the institutional fusion of banks and industry at the national level. Rather, today's financialized capitalism – expressed in the financialization of corporations and the financialization of workers as savers and consumers, as well as in the growth and prominence of financial institutions proper – bespeaks a whole global economy enmeshed in the trading of financial instruments and subjected to their abstract measures of value.

A second requisite for properly understanding structural crises is an appreciation of contingency in relation to their duration and resolution. This is especially important in terms of going beyond the question of why particular interruptions in accumulation occur – these are, after all, not unusual events under capitalism – to ask what contradictions and barriers stand in the way of their relatively quick resolution. The two questions may of course overlap, but they are not necessarily the same. In the midst of an interruption of accumulation, a high degree of uncertainty about its duration and resolution is what characterizes it as a 'crisis'. Such contingency is based on the indeterminacy of whether and how social relations can be modified to accommodate the resumption of accumulation, and whether capital can deploy, and if so how quickly, new technological and organizational forms. This contingency is especially related to whether the state has the capacity to intervene in ways which contain the crisis and can develop the new institutional infrastructure needed to support a regeneration of accumulation.

In this regard, the orthodox fiscal policies of the early 1930s – rooted both in the initial determination by the leading capitalist states to maintain the gold standard and the limited regulatory capacities of state institutions – were critical to the conversion of a recession into the Great Depression. And it was the extensive development of institutional capacity through the New Deal and the Second World War that proved crucial to the sustained revival of capital accumulation. In the crisis of the 1970s, the reluctance of states through most of the decade to impose deflationary discipline on both capital and labour aggravated inflation and made the eventual 'correction' all the greater. When the US Federal Reserve first tried in late 1969 and early 1970 to address gathering inflationary pressures by rapidly raising interest rates, it quickly drew back in the face of the commercial paper crisis this caused for corporations and banks.[19] And despite the fear of unemployment that higher interest rates usually induce, they were greeted at the time by the largest strike wave since the immediate post-war period. It was only a decade later, after the experience of stagflation had undermined the confidence of labour amidst the counter-mobilization of capital and the development of derivatives markets, that Paul Volcker was able to steel the resolve of the Federal Reserve to sustain the even higher interest rates that were so crucial to the capitalist resolution of the crisis of the 1970s.

A third requisite for adequately understanding structural crises relates to how their resolution leads to a different pattern of determination of subsequent crises. Because the resolution of a structural crisis is not simply quantitative but qualitatively affects socio-economic, political and even cultural relations, this changes the terrain for the development of future crises. The resolution of the crisis of the late 19th century opened the door to the kind of concentration of capital that meant that during the Great Depression corporations cut production rather than prices, in direct contrast to the late 19th century, and so aggravated the crisis. The state intervention, from New Deal programmes to military expenditure, that laid the ground for the recovery and the embrace of post-war Keynesianism, would in its turn give rise by the 1960s to the near full employment that gave the working class the confidence and power to raise wages and resist workplace pressures, contributing to the profit squeeze of the 1970s. The resolution of the crisis of the 1970s, unlike that of the 1930s, involved the defeat of trade unionism as well as the regulatory liberalizations which allowed for expanding rather than constricting capitalism's globalizing tendencies.

The nature of the current crisis cannot be grasped if it is not first understood that the way the 1970s crisis was resolved set up the conditions for the sub-prime crisis three decades later. The failure to recognize this obscures the fundamental differences between the 1970s crisis and the present one in terms of the degree of working-class strength; the transformations in finance, technology and the international division of labour; and the institutional learning that has occurred within and among states.

IV

The crisis this time – the first structural crisis of the 21st century – can only be understood in terms of the historical dynamics and contradictions of capitalist finance as they developed in the second half of the 20th century. By the 1980s and 1990s, what Arrighi referred to as the 'predominantly monopoly' capitalism that had succeeded the earlier 'predominantly competitive' capitalism was now giving way to what might be called 'predominantly financialized' capitalism. This term captures the greater mobility of financial capital across sectors, space and time (especially via derivatives) – that is, financial capital's quality as general or 'abstract' capital – which during these decades greatly intensified domestic and international competition at the same time as it brought a much greater degree of financial volatility.

But just as the term 'monopoly capitalism' always had problematic connotations, so does the common connotation that 'financialized capitalism' is merely speculative or parasitic or rentier. To draw this implication from the term is misleading, above all because the spheres of finance and production are linked in significant ways, more so today than ever before. Thus while the phenomenal growth of financial markets since the 1980s led to over-leveraging and excessive risk-taking, this was tolerated and in fact encouraged for reasons that went far beyond the competitive dynamics and power of finance itself. It was accepted because it had become not only functional to, but also *essential* for, the domestic and global expansion of the capital involved in producing goods and nonfinancial services.

The internationalization of finance allowed for the hedging and spreading of the risks associated with the global integration of investment, production and trade with the dollar at its centre. The development of derivative markets provided risk-insurance in a complex global economy without which the internationalization of capital via trade and FDI would have been significantly restricted. Finance also contributed to the restoration of general profitability through the impact of the pursuit of shareholder value, and the mergers and acquisitions it sponsored, on class discipline within firms and the allocation of capital across firms, thereby increasing the rate of exploitation and productivity growth. And the financial sector directly fostered capital accumulation not simply through investments by venture capitalists in high tech, but by developing its own innovations in computerized banking and financial information systems. At the same time, the credit that was provided to more and more working people became especially important in sustaining consumer demand in a period of wage stagnation and growing economic inequality.

The growing significance of finance in the major capitalist economies was already visible by the 1960s. It was strongly registered in the role finance came to play in resolving the economic crisis of the 1970s, especially through the global role of the institutions of Wall Street and its satellite the City of London, and their relationship to the nexus of the US Treasury, Federal Reserve and the other G7 finance ministries and central banks. The predominance of the dollar in global finance reflected and reinforced the global institutional predominance of US financial institutions. Indeed, ever since Bretton Woods effectively established the dollar as the global currency at a fixed price to gold – and especially since the early 1970s when the dollar's detachment from gold demonetized it 'along with copper, nickel, silver, not to mention wampum and clam shells' (as Kindleberger once amusingly put it[20]) – the US Treasury bond market had served as the foundation for all calculations of value in the global capitalist economy. This was the basis for US bonds acting as a vortex for drawing other countries' savings to American financial markets, for the cheap credit that sustained the US as the world's major consumer market, and for US capitalism's broader global successes in the closing decades of the 20th century.

But contradictions in this finance-led capitalism also grew apace. A major motivating factor in the US Federal Reserve's turn in 1979 to using very high interest rates to defeat inflation at home was that it was already starting to behave like a global central bank, with paramount responsibility for protecting the dollar's indispensable role in global capitalism. And from the early 1980s on, the competitive volatility of global finance produced a series of financial crises whose containment required repeated state intervention, not least in the form of pouring liquidity into the system at the first sign of a financial crisis. With more funds flowing into the US, this increased the competition among domestic lenders and tended to lower interest rates and financial profitability. In response, financial companies looked for new markets but also loaned more relative to their deposits and capital base. This in fact amounted to a vast increase in credit and the effective money supply, which however – given the defeat of labour, the low cost of imports, and the increased corporate ability to fund investments with internal funds – now produced asset inflation rather than price inflation. The great asset inflation in stocks and bonds as well as real estate was not itself antithetical to the recovery of corporate profitability, and the development of the dynamic sectors in the 'new economy', let alone the phenomenal growth in the construction industry. But competition and speculation in the financial sector created a series of financial bubbles.

The active role of states in managing successive financial crises, with the American state acting as the chief fire-fighter, was crucial for the confidence of the financial markets. But this invited 'moral hazard' and encouraged future bubbles to form. The idea that states had withdrawn from the economy amidst the globalization of capitalism was a neoliberal ideological myth, as states in the developed capitalist countries at the centre of global finance pumped more money into the banks, while they ensured that in the developing countries crises were generally used to impose financial and market discipline on their populations.

Unlike the other three structural crises of capitalism, the current crisis was not caused by a profit squeeze or collapse of investment due to overaccumulation; in the US in particular profits and investments had recovered strongly by the late 1990s. After a brief downturn at the beginning of the new century, profits were at a peak in the two years before the onset of the crisis in August 2007, and investment was growing significantly. The productive sector was able to readily access the funds it needed for investment (in terms of profits, cash flow and cheap credit), and real non-residential investment, recovering from its lows in the first years of the new century, in fact increased by an average of 6.7 per cent between 2004 and the first quarter of 2008.[21] It was only after the financial meltdown that profits and investment declined.

The roots of the 'Great Financial Crisis' lay in the growing importance of US mortgage finance, a development which cannot be understood apart from the vital role of the state and the effects of the erosion of working-class strength. The state's support for home ownership (through supportive taxes and institutional access to credit) was a long-standing and ever more widespread element in the integration of workers into US capitalism. And the state pressures that contributed to stagnating working-class incomes and the erosion of social programmes reinforced working-class dependence on the rising value of their homes. Alongside this, mortgages figured prominently in the development of financial markets: the decisive role of American state agencies in encouraging the securitization of mortgages was central to the more general explosion of securitization and to the ultimate collapse of domestic and global financial markets.[22]

The close linkages between finance and the state were central both to the making of the US housing bubble and to its profound global impact when it burst. In the context of a highly volatile global financial system, investors gravitated to the safety of US Treasury bonds, despite low US interest rates which reflected a monetary policy designed to prevent a recession in the early 2000s. But the lower yields intensified the competitive search within global finance for higher yields. The historical safety of mortgages, a very large portion of them backed by the US government, reinforced the public's confidence in perpetually rising home prices. This made housing debt especially attractive to investors who could now borrow funds at low interest and put the money into bundles of mortgages offering much higher returns. A broader stratum of the US working class responded to falling wages and increasingly unequal income distribution by taking out second mortgages on the bubble-inflated values of their homes.

The eventual bursting of the housing bubble undermined workers' wealth and effective savings, leading to an overall decline in US consumer spending, producing effects that the bursting of the stock market bubbles had not. Mortgage-backed securities became difficult to value and to sell in any of the financial markets to which they had spread around the world. Taken together with the impact of the housing crisis on mass consumption, and thus on the US economy's ability to function as the consumer of the rest of the world's goods, illusions that other regions might be able to avoid the crisis were quickly dispelled.

An important factor in generating the conditions that led to the greatest financial crisis since 1929 was thus the weakness of the working class, in contrast to the other three crises of capitalism, in which elements of working-class strength were prominent. In the US, in particular, the defeat of trade unionism was linked to the recovery of profitability, which in turn limited the dependence of industrial corporations on financial credit. This contributed to the banks introducing and marketing new consultancy and accounting services as well as financial services to corporations, and to the ever greater importance they gave to developing new credit markets among consumers. As successful as this was, it also brought a new vulnerability to financialized capitalism. Whereas indebted states can raise taxes, and indebted corporations can raise income from bonds or from reorganizing work to increase exploitation, indebted workers and their families can only work so many longer hours, and if this explained the growth of household debt, it left the financial sector more and more vulnerable to workers' inability to pay their debts. Moreover, since some three quarters of household debt in the US was in the form of mortgages, as the housing bubble burst, this had – in contrast to a decline in stock or even bond prices – an immediate impact on the whole economy because of the direct link of mortgages to construction, furniture and appliances. The main assets that workers owned – their homes and their pensions – fell in value and this quickly led to a decline in their capacity and proclivity, to consume, with immediate effects on industry in the US and abroad.

Developments in the auto industry – second only to mortgages in terms of its reliance on consumer credit – were particularly crucial here. In the face of intensive competition from Japanese (and to a lesser degree European) companies, the strategy of the Detroit Three since the late 1980s had been to concentrate on the production of SUVs and pickup trucks with their higher profit margins. They were counting on the continuation of low interest rates, low oil prices, and low unemployment. But as the financial crisis hit in the summer of 2007, financial investors not content with the low returns entailed in the safety of US Treasury securities turned to commodities. The resultant explosion of oil prices (by the summer of 2008 they were, at over $140 a barrel, more than double the pre-crisis level), alongside the credit crunch and increasing employment insecurity, put the brakes on vehicle sales (SUV and pickup truck sales fell by almost half). The Detroit Three had already been rapidly losing market share before the crisis and the added losses moved GM and Chrysler into bankruptcy in the US portion of their operations (Ford survived on its cash reserves), with enormous ramifications for their auto parts suppliers. Since the automobile industry has one of the most significant production multiplier effects on the economy, this dramatically aggravated the crisis in the US, with immediate ramifications internationally, as well.

The crisis at the same time highlighted the continuing centrality of the American state in the global economy. As the crisis unfolded the rise of the US dollar in currency markets and the enormous demand for US Treasury bonds reflected the extent to which the world remained on the dollar standard and the American state continued to be regarded as the ultimate guarantor of value. Treasury bonds were in demand because they remained the most stable store of value in a highly volatile capitalist world. The American state's central role in terms of global crisis management – from currency swaps to provide other states with much needed dollars, to overseeing policy cooperation among central banks and finance ministries – has also been confirmed in this crisis. Even while international tensions surfaced, what was striking was the extent of general cooperation among the capitalist states.

Before the crisis, pundits of every economic persuasion, usually blurring the lines between capitalist crisis and US decline, had been predicting that the 'imbalances' represented by the US trade deficit, combined with the global holdings of 'excess' dollars, would lead to a collapse of the dollar and bring about a severe crash. But it was not, in fact, these imbalances that caused the crisis; on the contrary, global capital rushed into the US as uncertainty increased. In this regard, the notion that foreign states were just doing the US a favour by buying Treasury bonds should finally be dispelled by this crisis.

Although the crisis was not caused by the trade and capital flow imbalances, these imbalances are central to the contingencies surrounding its duration and resolution. It is the maintenance rather than the elimination of the US trade deficit that is in fact an important condition for maintaining global demand in the face of neoliberal pressures for austerity, and thus sustaining a global economic recovery. This is not to say that globalization makes international trade and capital flow imbalances no more meaningful than imbalances between the regions of a domestic economy. This misses the point that the global economy is both nationally asymmetric and class-structured. Because of the central place that the US state and capital occupy in the global economy, the dollar has not been undermined by the trade or fiscal deficits during this crisis. The dispersal of production globally has reflected not a weakening of American capital and empire, but the integration of other economies into a global capitalism led by the American state, finance and MNCs. Capital flows out of and into the US cannot be understood apart from this.

It has rather been the states of the Eurozone – whose new currency was touted as the alternative reserve currency to the dollar – that have taken the hardest hit in this crisis, requiring help from the US directly via dollar swaps and indirectly via the IMF. This finally led the European Central Bank to follow the Federal Reserve's lead in quantitative easing, but only on the condition that fiscal austerity be applied throughout Europe. But this can only make Europe, and the rest of the world, more dependent on the US as the global consumer of last resort. If the US reversed its stimulus policies this would dangerously undermine whatever signs of recovery there have been so far. That the US has not done this reveals again how much responsibility Washington takes for managing the global capitalist economy – in sharp contrast with Berlin or Brussels.

This aspect of the US imperial role will be tested by whether the G20 can really succeed the G7 as the linchpin of crisis management and policy coordination among the finance ministries and central banks of the world's leading capitalist states. Whereas in the series of intermittent financial crises in the 1980s and 1990s it was the developing states that were required to undertake austerity, even as the G7 states poured liquidity into their own financial markets, the prescriptions for a capitalist cure in this structural crisis are being reversed. Now that the large developing states have indeed been integrated into global capitalism, they are being encouraged by the US to stimulate their economies to increase global demand. This cannot be done overnight, precisely because of what it would entail in terms of transforming the wages and working conditions of the newly proletarianized workers of the South. This is why, given Europe's commitment now to fiscal austerity coupled with neoliberal structural reforms, a key question is how much faster mass consumption can develop in the South, and especially in China, and how long the US, as the world's largest consumer, can tide this process over.

V

Here is where we must bring the working class back in. The massive growth of the global proletariat that has been the *sine qua non* of capitalist globalization produces tendencies towards the equalization of wages and conditions at a global level. The continuing travails of trade unionism in the developed capitalist countries have partly been a reflection of this. Today's fiscal austerity which necessitates a sharp assault on public sector unions – the last ones left standing with significant density – will only carry this further.

The full actualization of this tendency in the current global conjuncture depends also on working-class organization and struggles in the Global South, most especially in China. MNCs have been attracted to China for two reasons. First to participate in China's export-based mode of accumulation oriented around low labour cost suppliers and final sales to workers with higher standards of living in the developed capitalist world. But at the same time MNCs have also been attracted by the prospect of mass consumption among a significant portion of the Chinese working class. There are intra-capitalist divisions of interest involved here, sometimes appearing within a single MNC or investment bank, and now also surfacing within the Chinese ruling class. The current conflicts in which Chinese workers are engaged also pose increasingly sharp choices. This was seen in the strike wave of 2010 which yielded some large wage increases but not yet any significant organizational change in Chinese trade unionism.[23] It cannot be known in advance whether the working-class struggles increasingly in clear view in China will lead to the emulation of the West's individualized consumerism or whether they will lead to new socialist definitions of needs, aspirations and capacities.

What is clear is that the outcome cannot but impinge on, and possibly even be affected by, the direction Western working classes take out of the current crisis. It was only through a long and contradictory path that individualized consumerism rather than collective services and a democratized state and economy became the main legacy of Western working-class struggles in the 20th century. Even the trade unions' capacity to sustain this is now in severe doubt, especially when it is put in the context of the ecological limits to capitalist growth. Whether there can be a radical redefinition of what is meant by standards of living in the context of working-class struggles, both in the North and the South, is now on the agenda as never before.

This must begin with people's immediate material needs, but must at the same time be oriented to strengthening popular capacities to act independently of the logic of capitalism.[24] Any forms of resistance in defence of working people's homes or savings, jobs or social programmes, should obviously be actively encouraged and supported. More general demands – like the defence of public health care and its extension to include dental care and drugs for everyone, the development of a truly adequate and universal public pension system, free, accessible and expanded public transportation – would both address popular concerns and carry a broader strategic weight. Winning these kinds of demands would reduce working-class dependence on their employers and markets for their security, facilitate class solidarity because of their focus on universal rights and collective needs, and demonstrate the broader potentials of the public provision of services, such as affordable housing that includes a new sense of community and relationship to the surrounding city.

In terms of how such expanded public services would be financed, it is highly significant that the last time the nationalization of the banks was seriously raised, at least in the advanced capitalist countries, was in response to the 1970s crisis by those elements on the Left who recognized that the only way to overcome the contradictions of the Keynesian welfare state in a positive manner was to take the financial system into public control. Since even conservatives have flirted with some form of bank nationalization through the current crisis, it is very important to contrast temporary bail-out style nationalizations with the fundamental democratic demand for turning the whole financial system into a public utility that allocates national savings on an entirely different basis than that which governs banking and investment today. This would allow for the distribution of credit and capital to be undertaken in conformity with democratically established criteria, and would thus involve not only capital controls in relation to international finance but also controls over domestic investment, since the whole point of the exercise would be to transform the uses to which finance is put. The call for nationalization of the banks therefore provides an opening for advancing broader strategies that begin to take up the need for systemic alternatives to the intractable problems of contemporary capitalism. This highlights the need to transform economic and political institutions so as to foster and sustain democratic planning processes.

The severity of the global economic crisis has once again exposed how states are enveloped in capitalism's irrationalities, and reinforced the need for building new movements and parties to transcend capitalist markets and states. Even as they tried to stimulate the economy, states were impelled to lay off public sector workers or cut back their pay, and to demand that bailed-out companies do the same. And while blaming volatile derivatives market for causing the crisis, states promoted derivatives trading in carbon credits as a solution to the climate crisis. In the context of such readily visible irrationalities, a strong case can be made that – to really save jobs and the communities that depend on them in a way that converts production to ecologically sustainable priorities during the course of this crisis – we need to break with the logic of capitalist markets, rather than use state institutions to reinforce them.

In the same notebook of the *Grundrisse* where Marx reflected, in the wake of the 1857-8 crisis, on the process that allowed capitalism to recover so as to go on 'fully employing its productive powers without committing suicide', he wrote of capital's continuing development becoming itself 'the moving contradiction' by laying the foundation-stone for workers to step beyond their role as the chief actors in production to becoming the chief actors in society. The central condition for this was 'the general reduction of the necessary labour of society to a minimum, which then corresponds to the artistic, scientific, etc. development of the individuals in the time set free, and with the means created, for all of them'.[25]

However deep the crisis, however difficult the problems faced by elites both inside and outside the state, and however widespread the popular outrage against them, any challenge to capitalism that will come out of the crisis this time will certainly require hard and committed work by a great many activists. Among all the good reasons for work-time reduction, not the least of them is the time people need for changing the world. This extends from the time to take up struggles for immediate reforms, to the time to develop the capacities to engage in democratic planning in the future. To clarify that *this* is on the agenda is an essential strategic precondition for creating the new movements and parties, and eventually the new state institutions, that will be needed to make twenty-first century socialism a real possibility.

NOTES

1 Michael R. Kratke, 'Marx's "Books of Crisis" of 1857-8', in Marcello Musto, ed., *Karl Marx's Grundrisse: Foundations of the Critique of Political Economy 150 Years Later*, London: Routledge, 2008, pp. 169-75. Kratke also points out that one of Marx's articles for the *New York Tribune* correctly predicted that the British state's response to the crisis would be to suspend the 1844 Bank Act so banks could issue their own notes to address their liquidity problems.

2 Quoted in Marcello Musto, 'Marx's Life at the Time of the *Grundrisse*: Biographical Notes on 1857-8', in Musto, *Karl Marx's Grundrisse*, p. 153.

3 'Chapter on Capital, Notebook VII' in Karl Marx, *Grundrisse: Foundations of the Critique of Political Economy*, Translated by Martin Nicholas, Harmondsworth: Penguin, 1973, pp. 410, 750.

4 Rudolf Hilferding, *Finance Capital: A Study of the Latest Phase of Capitalist Development*, Brighton: Harvester Press, 1981 [1910], p. 288.

5 Quoted in F. R. Hansen, *The Breakdown of Capitalism: A History of the Idea in Western Marxism, 1883- 1983*, London: Routledge and Kegan Paul, 1985, pp. 36-7.

6 Ibid., p. 64.

7 Lucio Colletti, *From Rousseau to Lenin: Studies in Ideology and Society,* London: New Left Books, 1972, p. 59.

8 Quoted in Ibid, p. 60.

9 See Peter Cain, *Hobson and Imperialism: Radicalism, New Liberalism and Finance 1887-1938*, Oxford: Oxford University Press, 2002, pp. 111-15; and Carl P. Parrini and Martin J, Sklar, 'New Thinking about the Market, 1896-1904', *The Journal of Economic History*, XLIII(3), 1983.

10 As Bruce Cumings has put it: 'The transcontinental railway symbolized the completion of the national territory – by the 1860s America was a linked continental empire. But distant connections to isolated Western towns and farms, Pony Express mail service, and peripheral mudflats like Los Angeles, do not a national market make. Instead for fifty years (roughly from 1890 to 1940) Americans peopled and filled in the national territory. At the same time that the US became the leading industrial power in the world… the dominant tendency was expansion to the coast and exploitation of a vast and relatively new market'. 'Still the American Century', *Review of International Studies*, 25(5), 1999, p. 282.

11 Leo Panitch and Sam Gindin, 'American Empire and Global Capitalism', *Socialist Register 2004*. See also our 'Gems and Baubles in Empire', *Historical Materialism*, 10, 2002.

12 Hilferding, *Finance Capital*, p. 288.

13 Karl Marx, *Theories of Surplus Value*, Part II, Moscow: Progress Publishers, 1975, p. 497.

14 David Harvey, 'Introduction' to Karl Marx and Friedrich Engels, *The Communist Manifesto*, London: Pluto, 2008, pp. 24-5.

15 Giovanni Arrighi, 'Towards a Theory of Capitalist Crisis', *New Left Review*, 111, 1978 (the original version was published in Italian in 1972).

16 As Kolko once brilliantly put it regarding the 'international phenomenon which the emergence of European capitalism created': 'Marx notwithstanding, no national ruling class ever passively allowed an industrial reserve army to emerge to destroy the existing order, and they attempted to rely on imperialism, migration, or whatever to sustain their hierarchical social orders. Nor will all workers wait for socialism to find bread. However reticent they may initially be, many will migrate before starving…'. Gabriel Kolko**,** *Main Currents in Modern American History,* New York: Harper & Row, 1976, p. 68.

17 See especially, Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression,* New York: Oxford University Press, 1995, as well as his *Globalizing Capitalism: A History of the International Monetary System,* Princeton: Princeton University Press, 1996.

18 This argument is sustained in our *The Making of Global Capitalism: The Political Economy of American Empire*, forthcoming with Verso, but we advanced this position in relation to Marxist debates on the 'profit squeeze' at the time against David Yaffe (Leo Panitch, 'Profits and Politics', *Politics and Society* 7(4), 1977; also ch. 3 of *Working Class Politics in Crisis*, London: Verso, 1986), and more recently against Robert Brenner (Sam Gindin, 'Turning Point and Starting Points: Brenner, Left Turbulence and Class Politics', *Socialist Register 2001*).

In addition to downplaying the effect on productivity of workplace resistance as well as the refusal of workers to accept lower wages to restore profits after the downturn in profitability occurred, those who deny that working-class strength was a factor in causing the 'profit squeeze' fail to appreciate the full impact of compensation costs for capital at the time. Taking benefits as well as wages into account, compensation costs not only kept up with productivity growth but also, once adjusted by the producer price index (which reflects the price corporations get for their product), real compensation costs grew *faster* than productivity, and workers received a growing share relative to capital of the value added in industrial production.

19 See Charles W. Calomiris, 'Is the Discount Window Necessary? A Penn Central Perspective', *Federal Reserve Bank of St. Louis Review,* May, 1994; and Charles D. Ellis, *The Partnership: The Making of Goldman Sachs*, New York: Penguin, 2009, ch. 7.

20 C.P. Kindleberger, *International Money: A Collection of Essays*, London: Allen & Unwin, 1981, p. 103.

21 *Economic Report of the President, 2010,* Washington: US Government Printing Office, 2010, Table B-91. The 2007 *Economic Report to the President* (p. 36) summarized the situation in 2006 as follows: 'Moderate growth in hourly compensation along with solid productivity growth together with strong aggregate demand has driven the share of profits in gross domestic income to its highest level since 1966'.

22 For elaboration of the argument in this and the following paragraphs, see the new Chapter 12 on 'The Political Economy of the Subprime Crisis' to the second edition of Leo Panitch and Martijn Konings, eds. *American Empire and the Political Economy of Global Finance*, London: Palgrave Macmillan, 2009.

23 See Anita Chan, 'Labor Unrest and Role of Unions', *China Daily*, 18 June 2010, available from http://www.chinadaily.com.cn.

24 The following paragraphs draw on the 'ten theses on the crisis' in Greg Albo, Sam Gindin and Leo Panitch, *In and Out of Crisis: The Global Financial Meltdown and Left Alternatives*, Oakland: PM Press, 2010.

25 Marx, *Grundrisse*, pp. 705-6.