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Marxist Analysis of the Capitalist Crisis:

Bankrupt System Drives Toward Depression

by Walter Daum and Matthew Richardson

In autumn 2008 the capitalists of the world gazed into the abyss. From banks and stock-trading houses to mortgage and insurance agencies, every major private financial institution in the United States was exposed as effectively bankrupt. With the rest of the world's finances caught in the same web of debt and devaluation, Wall Street's fall would have brought the entire international economy down with it. Capitalists feared losing fortunes, while the workers and poor people of the world faced losing their very means of survival in an economic catastrophe that would have dwarfed the Great Depression of the 1930's.

March 2009: Thousands of Chinese workers flocking to a job fair. Tens of thousands of factories closed in China at the height of the global crisis, and over 20 million of China's 130 million migrant laborers lost their jobs.

The governments of the major capitalist powers responded by spending trillions of dollars to bail out their financiers. They succeeded in pulling the biggest banks and investment houses back from the brink. Capitalism thereby avoided an immediate plunge into all-out depression – a period of intractable economic crisis like the 1930's, when the stock market crash opened a decade of drastically reduced production around the world and permanent mass unemployment in even the richest countries.

But the bailouts did not stop the crisis from spreading. Industrial manufacturing, construction and trade plummeted, and waves of layoffs claimed tens of millions of jobs worldwide. Mainstream capitalist commentators are referring to the crisis as "the Great Recession" – an extreme version of the system's periodically recurring downturns that can be expected to be followed by upturns sooner or later. However, the origins of this crisis are far more fundamental to the system than the ups-and-downs of its business cycle.

The crisis at bottom reflects the fact that capitalism long ago exhausted itself as a progressive economic system. More immediately, the crisis follows from a long-term decline in the rate of profit. Despite U.S. and other capitalists' success in recent decades in cutting workers' real wages while whipping up productivity, despite the information revolution based on computers and the internet, despite the opening of China and other poor countries to unfettered super-exploitation, global profit rates have remained

Includes "What Marx Really Said about Crises" (page 14)

well below their post-World War II levels.

The decline was partly masked by the neo-liberal policies of big tax cuts and "corporate welfare" subsidies that gave a boost to corporate profits in the U.S. and other imperialist countries. And while the system's productive foundations stagnated, stock values soared to dizzying heights and ever-riskier loans and investments multiplied – in the deluded expectation of ever-rising returns. A devastating financial collapse was only a matter of time.

The massive rescue operations have solved none of this. The bailouts extended some lines of credit and revived hopes for future profits. But their main achievement was to relieve the financial capitalists of some "toxic assets" and their most burdensome debts, thus allowing market speculation to start inflating new bubbles of imagined wealth and amassing new mountains of debt. Thus stock markets have recovered almost half the fictitious value they had lost, without any corresponding revival in the underlying economy. Far from solving the crisis, the bailouts have only delayed the collapse of the financial house of cards while greatly expanding the eventual cost.

For as long as capitalism exists, the ups and downs of the economy will continue. But the depth of the current crisis is a warning that the system is preparing a catastrophe. The financial sector is building toward a crash that will wipe out vast amounts of the system's illusory values and usher in a downturn far deeper than any cyclical recession – a new Great Depression.

CAPITALISM IN QUESTION

Some capitalist leaders understand that the crisis has called into question the very foundations of their system. Germany's Chancellor Angela Merkel put it bluntly at the "New World, New Capitalism" conference organized by France's President Nicolas Sarkozy in Paris in January 2009:

> **I freely declare my faith in the mechanisms of the market economy. ... But if we cannot show that we as states ... are able to create a social order for the world in which these kinds of crises do not happen, then we will increasingly be asked whether it is really the right economic system.**

The danger for the ruling classes is that the masses will turn from simply questioning the capitalist system to launching struggles that will challenge their power. *Time* magazine made the point vividly as the crisis was developing:

> **When all that stands between hungry people and a warehouse full of rice and beans is a couple of padlocks and a riot policeman (who may be the neighbor of those who're trying to get past him, and whose own family may be hungry too), the invisible barricade of private-property laws can be easily ignored.**[1]

The idea of masses of working-class and poor people breaking the rules of private property and seizing desperately needed goods is scary enough for the capitalists. Scarier still is the prospect that such actions would point toward the masses' seizing control of the factories and other resources needed to produce those goods. To underline the danger to the system, *Time* implicitly invoked the specter of revolution. And that bought to mind the ghost of Karl Marx:

> **The social theories of Karl Marx were long ago discarded as of little value, even to revolutionaries. But he did warn that capitalism had a tendency to generate its own crises.**

Marx did indeed analyze the crises capitalism generates. But he also foresaw that the tremendous productive forces brought forth by capitalism would become stifled by the restraints of capitalist social relations, so that crises would become more terrible. At the same time, he pointed out that capitalism was bringing into being its own gravedigger, the international working class. Marx was not just a perceptive critic of capitalism but an advocate of its revolutionary overthrow.

Yet it is also true that many supposed revolutionaries long ago discarded Marx's social theories. These leftists shared the capitalists' illusions that the system was here to stay, and saw no need for a theory with revolutionary conclusions when their only aim was gradual reforms. Now those illusions are being shaken. Marx's teachings are needed more than ever – to be applied by the advanced workers of the world to guide the struggles ahead against this rotten system.

Further Reading...

"Karl Marx and the World Crisis," *Proletarian Revolution* No. 19 (1983), *www.lrp-cofi.org/PR/marx19.html.*

"After the Crash," *Proletarian Revolution* No. 31 (1988).

"S&L Swindle Exposes Capitalist Decay," *Proletarian Revolution* No. 38 (1991).

"Joblessness: Capitalist Crime," *Proletarian Revolution* No. 47 (1994), *www.lrp-cofi.org/PR/jobsPR47.html.*

"The Specter of Economic Collapse," *Proletarian Revolution* No. 58 (1999), *www.lrp-cofi.org/PR/collapsePR58.html.*

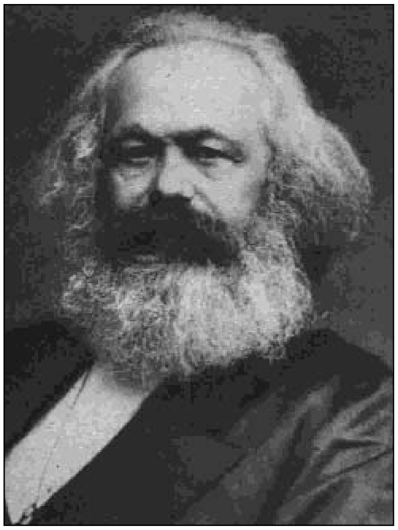
The Life and Death of Stalinism: A Resurrection of Marxist Theory. See ad on page 39.

THEORETICAL BACKGROUND

Three basic components of Marxist theory are essential for analyzing the period we live in and the roots of the crisis. We list them here and develop them below.

1. Cyclical crises. Cycles of boom and bust have occurred throughout the history of capitalism. Capitalism's crises are the bitter medicine required for the health of the system. The collapse of unprofitable firms helps purge inefficiencies and drive down workers' wages, thus laying the basis for an upturn. But as we will show, in the age of monopolies, that has changed.

2. Capitalism's epoch of decay. For over a century capitalism has been a decadent system that can no longer advance the productive forces in an all-round way. The onset of this imperialist epoch, foreseen by Marx, was recognized by Lenin and Trotsky when it came to a head in the cataclysm of the First World War. Further, in this epoch the law Marx discovered of the falling tendency of the rate of profit comes into full play and leads to major catastrophes like the Depression of the 1930's.



Karl Marx foresaw that the capitalist system would exhaust its progressive potential to expand the world's productive forces and would undergo increasingly destructive crises.

3. Fictitious value. Credit and banking are necessary components of capitalist production. But once debts and other paper claims to ownership are produced, they can acquire a nominal value that differs, sometimes vastly, from the real value of the commodities they represent. Bubbles of fictitious capital in the past would be largely wiped out in the periodic crises, but in this epoch they can become so huge that when they burst they can bring down the whole economy.

CAPITALISM'S CYCLICAL CRISES

The cycle of boom and bust arises from the fact that capitalism produces for exchange and for profit, not primarily for social use. Growth is unplanned and anarchic, so whenever the economy begins to boom, newly built factories and machines are set into economic motion for production by competing capitalists. At first those goods that reach the market can be sold profitably. But eventually the full output is available, and overproduction follows. Producing more than the market demands – that is, more than can profitably be sold – triggers a breakdown.

A crisis normally surfaces in the credit market, since the first producers who find a shortage of buyers fail to pay their bills, and the backlash of debts reverberates throughout the financial system. The result is a slump. Profits fall, and a wave of destruction of productive capacity follows: factory closures, liquidations and the wiping out of jobs. Weaker firms with more obsolete means of production fall by the wayside – while the surviving, more productive capitalists can pick up the losers' assets at bargain prices. Slumps also deepen exploitation, since rising unemployment intensifies competition among workers for jobs and allows bosses to cut wages. Thus the slump lowers the capital and labor costs of the surviving capitalists and sets the basis for a new round of expansion.

A capitalist crisis of overproduction does not mean that there are too many goods produced that people need. It means that more goods are produced than can profitably be sold, even if the unsaleable goods are desperately needed. Capitalism, despite its historical dynamism, is an irrational system. This is an expression of the contradiction between the productive forces and capitalism's relations of production, which Marx and Engels first called attention to in the *Communist Manifesto* of 1848:

> **For many a decade past the history of industry and commerce is but the history of the revolt of modern productive forces against modern conditions of production, against the property relations that are the conditions for the existence of the bourgeois and of its rule. It is enough to mention the commercial crises that by their periodical return put the existence of the entire bourgeois society on its trial, each time more threateningly. In these crises, a great part not only of the existing products, but also of the previously created productive forces, are periodically destroyed.**

At this stage, Marx and Engels believed that the disrupting cyclical crises they were witnessing would bring about the downfall of capitalism. The *Manifesto* continued:

> **The productive forces at the disposal of society no longer tend to further the development of the conditions of bourgeois property; on the contrary, they have become too powerful for these conditions, by which they are fettered, and so soon as they overcome these fetters, they bring disorder into the whole of bourgeois society, endanger the existence of bourgeois property.**

Marx and Engels later realized that capitalism had deeper resources, and that in particular it could take advantage of its periodic crises to cleanse its system and restart production on a higher level. The economic forces that would make crises and their consequences enormously more destructive – and "endanger the existence of bourgeois property" – had yet to come.

THE EPOCH OF CAPITALIST DECAY

Because of its dynamic growth, capitalism started off as an historically progressive economic system. It was able to advance the productive forces "organically" – that is, in an all-round way: each capital could preserve and enlarge its value and raise productivity by investing its own profits (or by borrowing capital and repaying loans out of is own profits). By the turn of the 20th century, capitalism had succeeded in developing the productive forces to the point where the world for the first time in history had the potential to overcome scarcity – the hitherto perennial human condition that led to the division of society into exploiting and exploited classes. That is, capitalism has laid the economic foundations for socialism. (Calling the system "historically progressive" refers only to its capacity to develop the productive forces. It does not mean denying its enforced immiseration of the working masses at home or its colonial pillage and savagery abroad.)

Capitalism had also created the class capable of replacing it: the modern proletariat. The working class's central role in production, its organization through the productive process, and the inevitability of collective class struggle made it not only the gravedigger of capitalism; it also pointed to the possibility of organizing production on a collective and non-exploitive basis.

At the same time, capitalism became a barrier to the advance of the productive forces: growth in one sector came at the expense of growth in others. For one thing, while the capitalists depended on nation states to protect their interests, the methods of production had expanded beyond national boundaries. The advanced capitalist powers were driven to pillage the resources and super-exploit the working masses of less developed countries – the central features of modern imperialism. As Lenin explained in the early 1900's, a chief international characteristic of the new epoch was the differentiation between the imperialist powers and the oppressed colonial or semi-colonial nations that they rule and exploit, along with the division of the world among the imperialist powers.

Secondly, as giant firms came to prevail over the economy, "free competition" was replaced by domination of each sphere by a handful of giant firms called monopolies. One effect is that a monopoly owns so many factories that a productive advance in one plant can undermine the value of the firm's other plants, thus reducing its own capital, not just that of rivals. So since any capitalist firm strives to preserve the value of its capital, the drive to advance productivity is restrained by monopoly ownership.

Moreover, monopoly firms are often "too big to fail"; that is, their size, myriad economic interconnections with other firms and political influence means that firms whose productive technique is backward can survive the slump phase and not be destroyed. The Bolshevik economic theorist Evgeny Preobrazhensky made note of this in 1931, when the Great Depression was developing:

> **Monopoly emerges as a factor of decay in the entire economy, its effect being to delay the transition to expanded reproduction. ... Never before has the social character of production bristled with such force against the private character of appropriation ... . Monopoly capitalism continually reopens backward enterprises, whereas free competition shuts them down.**[2]

In sum, in its epoch of decay, despite its technological advances, capitalism is able to expand the productive forces only in some sectors at the expense of growth in others. While capitalism has laid the basis for socialism, it survives by destroying the material and human achievements that it allowed to develop.

THE FALLING RATE OF PROFIT TENDENCY

What Marx once called "the most important law of political economy" is the tendency of the rate of profit to decline. This long-run tendency operates over and above the cyclical fall of the rate of profit during periodic slumps.

Here is how it works. Capitalism tends to increase the use of machines and technology in production. On the surface, this drive stems from the competition among capitalists that forces each to try to produce more cheaply to win a larger market. The underlying drive is the class struggle: the employers seek to force workers out of production, increase the "reserve army" of the unemployed and thereby weaken the power of the working class in the constant battles over wages and working conditions. As Marx put it, "It would be possible to write quite a history of the inventions made since 1830 for the sole purpose of supplying capital with weapons against the revolt of the working class."[3]

The expulsion of workers from the process of production has contradictory effects on the system. New value is only produced by living labor, actual productive workers, not by machines. That includes the surplus value that capitalists require for their profit. No capitalist can avoid the compulsion to advance technologically. All must try to gain competitive advantages over their rivals or at least keep abreast with them – and to do so they impose changes in the work process that increase their control over the pace and forms of labor. As a result, productivity tends to increase. This means that the labor value of each commodity tends to decline, and there is proportionately less living human labor in comparison to the investment in machinery and supplies. Since the exploitation of living labor is the source of the capitalists' surplus value, there also results a tendency of the rate of profit – the ratio of surplus value to the value of invested capital – to fall.

The growing productivity means that the means of production used also tend to decline in value, so the cost to the capitalists of new equipment declines. This produces a major countertendency to the falling tendency of the rate of profit: the cheapening of the cost of capital needed for investment. Specifically, the falling rate of profit tendency is predominant in the boom phase of the cycle, when new capital is invested and accumulated by investing the newly created surplus value. And the countertendency that cheapens the cost of invested capital is predominant in the slump phase, when capitals are devalued or destroyed. An additional countertendency, the increase in the rate of exploitation, also comes to the fore in the slump phase, when many workers become unemployed and all workers' wages are reduced.

Marx asserted that the falling rate of profit tendency would dominate these countertendencies, but this domination came into full force only in capitalism's epoch of decay. When monopoly dilutes the cleansing effect of slumps, that slows the cheapening of invested capital and therefore undermines the major countertendency to the falling rate of profit. Thus the falling rate of profit tendency predominates over its countertendencies – except when a massive destruction of capital occurs, as in the Great Depression or the World Wars. The result is that when major slumps occur, they became more catastrophic, wiping out more sections of the economy and taking much longer to recover from.

The falling rate of profit tendency is difficult to verify in figures, since reliable information on capitalist profits is impossible to find. Each capitalist firm conceals such information from its workers, from government tax agents and from rival firms through innumerable devices both legal and illegal. (And as we will see below, the crisis has driven home the fact that the complexity of these devices has reached the point where capitalists cannot know the value of their own holdings.)

But the trends can be seen indirectly over the long term. One indicator is the rate of growth: since capital accumulation comes out of profits, a falling rate of profit will lead to a falling rate of growth. A leading historian of economic data, Simon Kuznets, calculated that the rate of growth in U.S. capital stock, per decade, was about 60 percent from 1869 to 1909, and then fell to 43.3 percent from 1909 to 1929 and 29.6 percent from 1929 to 1955.[4] The long-term decline in growth rates is striking, especially in that the figures from 1909 on include the years of build-up to the two world wars. We will look further at post-World War II figures later.

VALUE AND FICTITIOUS VALUE

We now turn to the role of the credit system in accelerating the expansion of the capitalist economy, and likewise its crises. This role is especially notable in the epoch of decay, when capital becomes a barrier to its own expansion. Marx wrote:

> **The credit system appears as the main lever of overproduction and overspeculation in commerce solely because the reproduction process, which is elastic by nature, is here forced to its extreme limits ... . This simply demonstrates the fact that the self-expansion of capital based on the contradictory nature of capitalist production permits an actual free development only up to a certain point, so that in fact it constitutes an immanent fetter and barrier to production, which are continually broken through by the credit system. Hence, the credit system accelerates the material development of the productive forces and the establishment of the world market. It is the historical mission of the capitalist system of production to raise these material foundations of the new mode of production to a certain degree of perfection. At the same time credit accelerates the violent eruptions of this contradiction – crises – and thereby the elements of disintegration of the old mode of production.**[5]

Under the law of value that regulates a capitalist economy, the true value of any commodity is ultimately based on the amount of human labor time that is needed to produce it using current methods of production. This applies whether the commodity is a gallon of gasoline purchased at the pump, a truck whose tank is being filled with the gas, or the company that owns the truck.

This value underlies the daily stock and commodity market swings that make or break the fortunes of bankers and financial manipulators. Capitalists do not generally recognize that labor is the basis of value; their pundits often complain that saying so is to "wage class warfare," something that capitalists only find reprehensible when the working class does it. Individual commodities and the stocks that represent them may at times achieve market valuations far removed from the labor time embodied in them. That has been the case most recently with the prices of oil, various food commodities and housing in the U.S.

Marx defined fictitious capital as paper claims to the ownership of capital (like a factory or a stock of goods) that exist alongside the material capital itself. Such paper represents an entitlement to a share of future surplus value, which may or may not turn out to exist. These papers can be traded repeatedly, so that the price they bring diverges considerably from the labor value of the capital they nominally represent. For our purposes we will restrict fictitious value to mean an amount that greatly exceeds its labor value. Thus if the price of a commodity is substantially in excess over its production price based on labor value – say, if it has been the subject of speculative trading – it has a fictitious value. Likewise, if a financial paper confers a share of ownership of an asset, but represents a claim on surplus value beyond the amount that that asset can provide, it constitutes fictitious capital.

Fictitious value and fictitious capital are not simply artificial creations of greedy speculators. They are a natural development within the capitalist system, occurring in several ways. For example, bank credit is a capitalist necessity; it allows industries to operate and expand in advance of anticipated revenues, and thus it is a necessity for the smooth functioning of the economy. Banks can lend out at interest far more funds than they hold as deposits, since depositors are not expected to withdraw their money all at once. But if, say, a spate of businesses fail and their value drops drastically, and the banks that financed them suffer losses, then the depositors demanding their money will find that a lot of the value created by the banks has become fictitious.

Another generator of fictitious capital is the stock market. As we have seen, in theory the value of a share of stock is a portion of the value of the company that issues it, a value based on the labor embodied in the entire property of the firm. But in capitalist eyes a stock acquires value by virtue of the amount of profit it is expected to produce for its owner, either through company dividends or the future sale of the share at a higher price. This was the logic behind the "dot-com" bubble of the 1990's, when computer-related companies were given high market evaluations even though they had not yet earned any profit.

Another step away from reality occurs when a stock is traded at a high value solely because values are generally rising, and so the buyer expects to resell the stock at a higher price – independent of the expected profit earnings, not to mention the labor value it embodies. When speculators buy a stock or a quantity of commodities chiefly on the expectation that its price is going to rise, whatever its underlying value may be, that creates a bubble.

As the economy staggers, such bubbles have often been denigrated as fraudulent and labeled "Ponzi schemes." A Ponzi scheme is a scam in which early investors are paid off, with a profit, not by any economic activity generated by the investments but instead by the contributions of later investors, who in turn expect to be paid off by those who enter after them. Eventually, of course, there are no more investors or there is a disruption, and the scheme collapses. As the current crisis unfolds, several financial manipulators – most famously, Bernard Madoff – have been exposed as conscious Ponzi schemers. But more significantly, the whole practice of investing in something, whether houses or stocks, chiefly because its price is anticipated to rise indefinitely, is thoroughly Ponzi-like.

FICTITIOUS CAPITAL IN THE EPOCH OF DECAY

In this epoch additional forms of fictitious capital have appeared. One derives from the fact that capitalists, as we have shown, are compelled to continually modernize their plant and equipment. This not only expands the value of their investment; it also lowers the value of the commodities they produce, since each commodity can be produced with less expenditure of labor time. (Value depreciation does not always show up in actual prices, since currency inflation can boost the prices of goods even when their labor value is falling.) But not every capitalist firm keeps up with the most modern techniques. Those that don't find that the value of their commodities declines nevertheless, since value is determined by the labor time that is socially necessary – that is, by the system-wide standard that reduces labor time as productivity advances. But this means that for a backward firm, the value of the entire company falls as well, since its function of producing commodities can now be accomplished with less labor time.

Initially, when this process of capital accumulation through constant upgrading hit its stride, the periodic crises were the mechanism that re-adjusted capital values. Firms that didn't keep up failed, or were bought out at bargain prices by rival capitalists. Either way, their value fell. But as we have said, by the 20th century, the monopoly firms were often able to maintain their values artificially, despite comparative obsolescence. Hence a fictitious value.

A gross example of this phenomenon was the aged industry of the Stalinist USSR and its satellites. Stalinism can be regarded as the extreme example of a capitalist system designed to avoid cyclical crises. It maintained obsolescent industries well beyond their sell-by date, and was therefore unable to make use of the role of crises in benefiting a capitalist economy. This led to growing mountains of fictitious capital, and in the end, the result was low or even negative real rates of profit.[6]

In a parallel way, when world capitalism had faced a major crisis at the end of the post-World War II boom (see below), the dominant states did all they could to avoid a depression. The ruling classes feared the destabilization of their system as well as the radicalization of the working classes that had accompanied the Great Depression of the 1930's. They therefore prevented the massive destruction of capital that was necessary to restore a high rate of profit.[7]

Recent decades have seen the explosion of new forms of fictitious capital known collectively as derivatives. These are financial instruments based only indirectly on ownership of genuine assets, such as insurance policies that pay off if the value of some asset reaches a certain level, or futures contracts that guarantee the price of a farmer's crop at a specified future date. They were originally designed to insure against risk. But they can also be used for speculation, and they have proliferated to the point where enormous sums are invested in what amounts to little more than high-stakes gambling.

Whereas even overvalued stocks have some connection to real production, some derivatives are detached from any mooring in real ownership. (For example, a non-stockholder in a company can buy a "credit default swap," betting that that company will fail by a certain date.) The risk in such instruments is palpable, since unlike with many contracts (e.g., life insurance), in a crisis many debts will come due at the same time, thereby making them unpayable and exacerbating the crisis. By 2006 the value of such derivative contracts had come to exceed the value of world stock holdings by a factor of ten.

FINANCIALIZATION

Over the past quarter-century there has been a growing financialization of the economy, a shift of investment from the production of goods to the expansion of financial capital. (We are not referring to the term "finance capital," which Lenin used in his book *Imperialism: the Highest Stage of Capitalism* to indicate the control of industrial capital by financiers.) In the U.S., an increasingly dominant position within the ruling class was taken by the top financial capitalists, in order for the class as whole to better wage the class struggle and compete with its international rivals.

The financial sector is attuned to the acquisition of profit in general rather than to the preservation of existing investments in particular industries, regions or even countries. Utilizing the fluidity of capital in the form of money rather than fixed assets, it opened up much of the world to fiercer international competition, forced down wages through the impact of low-waged labor in poor countries, and privatized state-owned services and resources everywhere. As a side benefit, the profits of the financiers rose while those of the non-financial corporations fell.

This financialization has had two effects on the working of the law of value. One, the greater ability and willingness to invest in areas of super-exploited labor has undermined unions and labor rights in the U.S., imposed greater capitalist discipline on the working class and thereby driven wages down. Another is that this process has also cheapened the cost of some goods workers need, thus reducing the value of labor power, the cost of reproducing labor. And this effect has tempered the fall in wages.

Second, the build-up of fictitious capital and its many new forms have eliminated market discipline for evaluating these capitalist instruments. That is, bourgeois value theory based on "the market" proved to be worse than useless at the height of the crisis, as politicians and economists tripped over each other complaining that no one could possibly know the value of the "toxic" (fictitious) assets held by the major banks.

One of the first triggers of the financial crisis was the decision in August 2007 by BNP Paribas, the largest bank in France, to freeze withdrawals from investment funds linked to subprime mortgages in the U.S., stating that there was no way to accurately value them. The financial columnist William Greider wrote that "This crisis involves ethereal financial instruments of unknowable value – not just the notorious mortgage securities but various derivative contracts and other esoteric deals that may be virtually worthless."[8] The reality is that the assets were largely fictitious, so the banks' own stock values were plummeting to zero. By November 2008, for example, investors were so afraid of this reality that Citigroup's market value had plunged to \$20 billion, down from over \$250 billion in mid-2007. Treasury Secretary Paulson's bailouts in 2008 shelled out \$45 billion to salvage Citigroup, enough to buy this genuinely bankrupt bank twice over. And by March 2009 its value was down below $6 billion, so $40 billion of that bailout money had just evaporated.

A century and a half ago, Marx wrote a passage about what happens when fictitious values collapse and commodities revert to their true value:

In the midst of all the accidental and ever fluctuating exchange relations between the products, the labor time socially necessary for their production forcibly asserts itself like an over-riding law of Nature. The law of gravity thus asserts itself when a house falls about our ears. The determination of the magnitude of value by labor time is therefore a secret, hidden under the apparent fluctuations in the relative values of commodities.[9]

The multi-trillion dollar losses in the world's stock markets in 2008-2009 – at their low point in March 2009, they were down about half from their peak – illustrate the gravitational collapse of fictitious values.

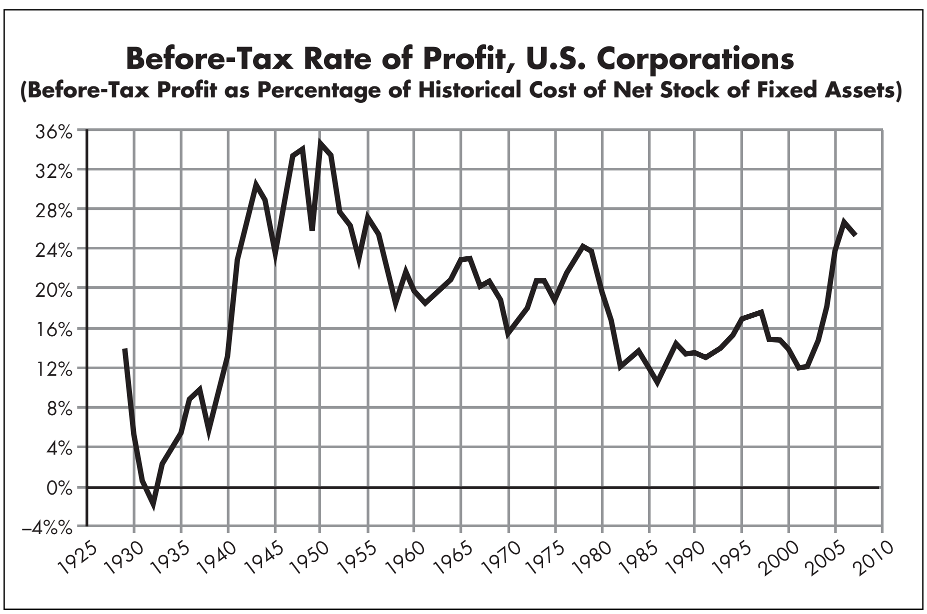
BEHIND THE CURRENT CRISIS

THE POST-WAR BOOM AND ITS DECLINE

Where did today's proliferation of fictitious capital come from? To answer, we must first look back at the long economic boom that followed World War II. Capitalism was able to overcome the Great Depression of the 1930's only by the most brutal means. The stock market crash of 1929 and the slump that followed wiped out vast amounts of capital, not only fictitious: stocks plummeted and banks shuttered, and the whirlpool of collapse forced tens of thousands of enterprises to close. The rise of fascism in Italy, Germany and Spain, military rule in Japan, counterrevolutionary Stalinism's smashing of the last remnants of workers' power in Russia – all meant that bloody dictatorships destroyed resistance to intensified capitalist exploitation in key industrial powers.

The destruction of capital and the immiseration of the working class that the economic crash and the counterrevolutions began was completed by the ensuing Second World War. Arms spending by the rival imperialist powers expanded production and dramatically reduced unemployment, but it greatly increased state debts and did not directly advance productivity. Victory in the war meant that the U.S. was able to repay its war debts, while the other powers, even those on the winning side, were weakened and ended up greatly indebted to America. Japan and Germany were subjected to U.S. domination for years, and Britain and France saw their empires dissolved and their ex-colonies pried open to American penetration – most significantly, the oil producers of the Middle East.

The initial post-war years also featured industrial dominance by U.S. industry. American military and economic hegemony allowed a greater concentration of resources than ever before, and the combination of high rates of exploitation, the rebuilding after destruction and an unparalleled level of international centralization of capital gave birth to the boom. The boom engendered a new expansion of fictitious capital, based on arms spending and state borrowing. The newly confident U.S. ruling class followed the Keynesian strategy of using state spending to dampen recessions and subsidize a degree of social benefits for sections of the working class. But whereas in the classical business cycles such balloons of fictitious capital were periodically burst by crises, the post-war balloon was continually inflated, as massive state intervention managed to put off any serious depression.



This graph shows the trend of the U.S. profit rate since the 1930's. It rises from the depths of the Great Depression in the 1930's to its highest values in the late 1940's after World War II. It then declines but remains high until the late 1960's, after which it falls to less than half its post-war levels. Finally, after 2000 it rises sharply, but this rise is due to fictitious value creation, the bubble that burst in the debacle of 2008. Source: Andrew Kliman, "The Destruction of Capital and the Current Economic Crisis," 2009; at akliman.squarespace.com.

The boom led to overproduction on a world scale, especially once Japan and West Europe recovered from wartime destruction and reached top rank in manufacturing. But since depressions are the system's tool for restoring the rate of profit, in their absence the high post-war rate of profit had to fall, which it did after 1967. U.S. capital in particular suffered from the change in fortunes; the astronomical military budgets became a drain on productive investment, which added to the growing obsolescence of American industry (notably in steel), in comparison with its advanced imperialist rivals. For two decades, slumps became less profound but more frequent; the postwar cycles averaged less than five years rather than the nearly ten years of Marx's day. Thus the falling rate of profit tendency came into play without the full restraining effect of the countertendencies that major crises invoke.

The build-up of fictitious capital added to the profits crisis, with a large quantity of paper capital chasing after a comparatively small pool of surplus value. This intensified the tendency of the falling rate of profit. There are several Marxism-oriented economists who have studied the rate of profit, making the best they can of official data. The adjoining graph, by Andrew Kliman, is one that demonstrates the falling rate of profit tendency. It shows that in the post-war period, for U.S. capital the rate of profit underwent a general decline through 2000. As we explain below, its rise in the 2000's was based on the speculative build-up of fictitious profits, not on the production of useful goods or services.

THE CAPITALIST OFFENSIVE

As their profit rate fell, the ruling classes initiated a stepped-up attack on the working classes. In the U.S., the post-war "bargain" with the labor bureaucracy (in which a moderate level of class struggle was able to win a slow but steady rise in wages, for some layers of workers especially) was ended; it was replaced by what one U.S. labor official complained was a "one-sided class war."

This offensive is generally credited to the governments of Republican Ronald Reagan in the U.S. and Conservative Margaret Thatcher in Britain. The key initiative, however, came from Paul Volcker, the head of the U.S. Federal Reserve appointed for that purpose by Democratic president Jimmy Carter in 1979. Volcker said openly on taking office as Fed chair in October 1979, "The standard of living of the average American has to decline." (During the 2008 presidential campaign Volcker served as an economic adviser to Barack Obama.) Accordingly, he engineered the tripling of interest rates, which produced a big rise in unemployment and mounting personal debts. The result was a decline in real wages and the leveling off of profit rates, ending their long stagnation.

Since then, the "one-sided class war" in the U.S. intensified and remained one-sided – because the top union bureaucrats refused to mobilize their membership, relying solely on their ties to the capitalists' Democratic Party. The decisive point came in 1982, when Reagan crushed the air traffic controllers' union, PATCO. Lane Kirkland, head of the AFL-CIO, said he had been flooded by telegrams and letters from labor officials urging him to call a general strike in response – which he refused to do. (See our *Socialist Voice* No.15 for details.) The enormous crisis of leadership of the working class is shown by the constantly growing wealth gap, the erosion of decent jobs and public services, and the lack of health insurance. And what applies to workers in the United States is all the worse for working people in the countries that imperialism dominates and super-exploits.

IMPERIALISM "GLOBALIZED"

The "Volcker shock" triggered the first in a series of international debt crises by sharply raising world interest rates and the exchange rate of the U.S. dollar, leading to what has been described as the "lost decade" of the 1980's for much of Latin America. It was the start of the neoliberal offensive, in which the debts of the semi-colonial countries skyrocketed from $75 billion in 1970 to over $600 billion ten years later.

The end of the post-war boom obliged imperialism to seek super-exploitable labor in "third-world" countries to squeeze more surplus value out of. The result has been the growth of highly stratified conditions of "development" in "third-world" countries – ranging from the economic rise of the "Asian tigers" (South Korea, Taiwan, Hong Kong, Singapore) through the highly unevenly developed economies of countries like China and Brazil, to the growing destitution of much of sub-Saharan Africa. The success stories of the "NICs" (Newly Industrialized Countries) are highly limited and qualified; overall, globalization is characterized by the imperialist powers prying open the dominated economies, demanding privatization and austerity measures to enforce the repayment of immense international debts.

A contribution to the anti-working-class attack was the fall of the Stalinist USSR. The Stalinist bureaucracy had destroyed the Soviet workers' state in the late 1930's, and the resulting system of statified capitalism was saddled with remnants of the gains of the workers' revolution, prominently a guarantee of full employment, that hampered exploitation and the ability of capital to move freely. Stalinist economy, an especially deformed and inefficient variant of capitalism, would eventually have no choice but to move away from state property and resort to traditional capitalist methods of keeping the working class down.

The USSR and the Eastern European states modeled after it had stagnated dramatically after the post-World War II boom, under the weight of their own form of fictitious capital (obsolete industry) and falling profit rates. Their system was in effect in permanent crisis, and it inevitably imploded. In the 1980's, during Gorbachev's reformist rule, his economic advisers admitted that growth rates for the decade and before had been fictional and were really close to or even below zero.[10]

After the collapse of the USSR, the Western imperialists moved in on the ex-"socialist" countries, looting privatized raw materials production and building up industry in regions where poverty and repressive regimes allowed for unprecedented rates of exploitation of workers. Meanwhile, China's still-Stalinist ruling class opened its economy to world capital; China became the champion of rapid economic growth through super-exploitation of a vast new working class drawn from a long-immiserated peasantry.

PROFIT RATES AND FINANCIALIZATION

Reflecting the post-boom stagnation, economic growth in the imperialist countries drastically slowed. Gross Domestic Product is a highly flawed measure of the totality of national economic activity, since it includes waste and unproductive factors as well as useful production and services. Nevertheless, its changes are indicative of the state of the economy.

The adjoining table shows that per capita GDP for the world rose at a rate of almost 3 percent annually in the post-war boom 1950's and 1960's, and dropped to 2.0 percent in the 1970's, 1.3 percent in the 1980's, and 1.6 percent in the 1990's. Then it rose to 3 percent

Annual Growth Rate of Per Capita World Gross Domestic Product

Years	Rate
1951-1960	2.8%
1961-1970	3.0%
1971-1980	2.0%
1981-1990	1.3%
1991-2000	1.6%
2001-2006	3.0%
1951-1973	2.9%
1974-2006	1.7%

Calculated from data at Angus Maddison, Statistics on World Population, GDP and Per Capita GDP, 1-2006 AD (March 2009), www.ggdc.net/maddison in the first six years of the present decade. If we take 1973 as the breaking point of the post-war boom, the annual increase was 2.9 percent during the boom years compared to 1.7 percent afterwards.

In the U.S., profits began recovering in the 1980's, thanks especially to heightened exploitation both at home and abroad. They were further aided by the increasingly generous tax cuts and "corporate welfare" handouts that became associated with the neo-liberal, free-market ideology. But profit rates from industrial production remained low compared to the quick fortunes to be made on the stock market.

As a result, profits were increasingly invested in the financial system for short-term gains. So while the rate of profit turned up starting in the mid-1980's, the rate of growth of the economy kept declining. According to the calculations of the French economists Gerard Duménil and Dominique Lévy, for both the U.S. and what they call "Europe' (a composite of Britain, France and Germany), while the rate of profit turned up starting in the mid-1980's after the post-boom decline, real economic growth did not: the rate of growth of the stock of fixed capital – machinery, buildings, etc. – kept declining. They conclude that "profits distributed in the form of interest and dividend payments do not flow back to the nonfinancial sector to contribute to investment."[11] This conclusion is consistent with our view that much of these "profits" are in reality artificial creations of speculation – that is, fictitious.

The apparent growth in the 2000's is particularly deceptive. Intensified exploitation of the working class and technological innovation fueled some growth. But most of the upturn was accounted for by the rapid expansion of fictitious capital, especially in finance. Many sources report that an unusually large share of profits went to the financial corporations: for example, *The Economist* magazine wrote that "finance ... accounted for a staggering 40% of corporate profits at the height of the credit bubble."[12] (Compare that to 14 percent in 1980.) Given what became of that bubble, it is clear that much of that profit was fictitious and has distorted calculations of the profit rate that measures the health of the capitalist economy.

Another financial observer suggested that most of the gains in U.S. production during the supposed boom of the mid-2000's "stemmed from the disastrous investment bubble in real estate." Stephen King, global chief economist at the HSBC bank in London, said, "What are you left with in terms of underlying growth? The answer is, not very much."[13]

Even earnings that otherwise would have gone for maintaining existing plant and equipment were invested instead in the financial sector, thereby adding to nominal profits but in reality contributing to the decay of the industrial structure. On the level of theory, this means that a portion of the constant capital needed for replacing used up machinery and materials was counted falsely as profit – another reason to suspect the fictitious character of declared profit rates. The social and physical infrastructure needed for sustained capitalist expansion was also grossly neglected – public health, education, highways and bridges, and flood control are all examples. The Hurricane Katrina disaster in 2005 and the collapse of the Minneapolis highway bridge in 2007 were only the most spectacular results of the crisis-driven removal of capital from productive uses.

Profits withdrawn from industrial expansion in the U.S. were also invested in labor-intensive manufacturing in low-wage countries, especially China. In turn, the rulers of these countries chose to invest much of their accumulated profits back in the U.S. financial market. They understood that such investments were essential for making sure their currencies were valued at a low rate compared to the U.S. dollar, a practice which kept their manufactured goods competitive on the world market compared to those from the U.S. and other imperialist centers. It also kept artificially high the prices of foodstuffs produced cheaply elsewhere using mechanized agriculture. China's policies hold vast masses of peasants tied to their land and to comparatively unproductive farming techniques, which serves both to make available a huge reserve army of laborers for manufacturing and to control the numbers migrating to the cities.

As we will see, by acting as the primary source of funds for the U.S. government's bailout of Wall Street, China's rulers have deepened their commitment to propping up U.S. capital, at the cost of their masses' continued impoverishment. The return flow of trade surpluses accumulated in these "developing" countries added to the paroxysm of speculation in the U.S.'s stock and housing bubbles. Again, the falling rate of profit in the U.S. thus led circuitously to investment not in industry at home but rather in risky financial instruments.

RECENT FINANCIAL SCHEMES

The financial sector acts as a drain on the "real" economy and the multiplier of fictitious capital and fictitious profits – not as the rational distributor of profits it is theoretically designed to be. Just as the growth of the USSR in the 1980's turned out to be largely fictitious, masked by the overvaluation of obsolete industries, the financial expansion of the present decade turned out to be made up of fictitious gains.

All fictitious capital bubbles eventually burst. So when the 1990's stock market bubble deflated in 2000, investors turned to real estate – and naturally housing prices began to rise. This encouraged unscrupulous lenders to offer "subprime" mortgages, for which the interest rates were artificially small at first and designed to rise in a few years. Often enough, this was a pure swindle: the perpetrators expected the new homeowners to default so that then they could resell the abandoned house at a higher price. These scams were allegedly designed to help out potential home-buyers whose income was too low get a regular mortgage. It turns out that about half of all subprime loans had been palmed off on people with decent credit ratings; many were deliberately sold to Blacks and Latinos who had previously been denied home loans.

The expectation of a permanent rise made this scam in effect a Ponzi scheme; it collapsed, triggered by the cyclical downturn that began in 2006. Millions of homeowners could not afford their rising credit bills and rising mortgage costs, given their stagnating wages; the result was a rapid rise in mortgage defaults. The scheme led to tragedy for many mortgage purchasers and especially victimized Black and Latino homeowners when the higher variable rates kicked in. And when the bubble burst in 2007, it left investors as well as homeowners high and dry. The bourgeoisie's long-term austerity program – holding down working-class pay for three decades – came home to roost when the Ponzi scheme based on working-class mortgage payments collapsed and detonated the Great Recession.

Once detonated, the collapse deepened because these risky mortgages had been divided up, repackaged and sold to speculators globally – a process ironically mislabeled "securitization." So when the crunch came, no one knew who precisely owned what and how much any of the fancy financial packages were worth. This led to a tightening of credit, since banks could not assess their clients' ability to repay loans. Thus the panic spread.

THE CURRENT SCENE

ECONOMIC RECOVERY?

A year after the Wall Street crisis drove the ruling classes into panic, capitalist commentators and politicians are celebrating the end of the "Great Recession." The euphoria was triggered by the stock market upturn in the U.S. over the summer and then by reports of a 3.5 percent rise in the Gross National Product in the fall quarter (subsequently revised down to 2.8 and then further to 2.2 percent). There was also a small drop in the unemployment rate for November, which supposedly indicated a turnaround. And then there was the announcement that major banks had returned chunks of their bailout money, allegedly giving the government an actual profit on its loans. In December Federal Reserve head Ben Bernanke was named *Time* magazine's "Person of the Year" for having saved the world from another Great Depression.

However, living conditions for the masses of people in most of the world are already depression-like. In the U.S., still the world's richest economy, twenty percent of the working population is without full-time work, even though only half of those are officially counted as unemployed. More than ten percent of families are stuck with credit card debts they can't pay off; twelve percent of home mortgages are in foreclosure or default. The same percentage depends on food stamps to eat. Over 100,000 file for bankruptcy every month. More than $5 trillion in pensions and savings were wiped out when the stock market collapsed, leaving many workers' dreams of a comfortable retirement replaced by a nightmarish uncertainty about how they will survive in their old age. Average hourly wages are still falling. And states and cities continue to threaten and carry out major layoffs and cutbacks in vital services.

The capitalists' back-slapping at a time of growing misery for the masses indicates not only their contempt for humanity. It also serves to steady their own nerves and deflect mass anxiety which could be a prelude to unrest. It is worth noting further that their competitive pursuit of profit blinds them to the broader interests of their class and the long-term prospects of the system they rule. As we have already explained, the bailouts and stimulus plans of the capitalist powers have not addressed the general decline of profit rates, the underlying cause of the crisis. The same trend of expanding fictitious capital bubbles in the financial sector while the underlying economy of industrial production, construction and trade stagnates has quickly reasserted itself. Over a year after the financial crisis broke, global rates of industrial production and trade have increased by a few percent, barely denting the preceding 15-20 percent plunges. Meanwhile, the values of shares on world stock markets have risen 10 to 20 times as fast.[14]

Despite the multi-trillion dollar handouts, the big banks are still reluctant to lend out funds to businesses to get the economy moving. In mid-December Obama held well-publicized meetings with chiefs of big and small banks to urge them to get funds to desperate homeowners and small businesses. The continuing credit freeze is due to bankers' reluctance to make loans that might not be repayable in a deteriorating economy. And Obama himself is reluctant to push for new stimulus spending to create jobs, public works and new production. One reason is that the White House recognizes that continued unemployment is crucial for forcing workers to accept the lower wages and benefits that are essential to improving capitalist profits. Another reason is that Washington must try to avoid new spending proposals and instead pay down its debt, in order to stabilize the world's financial system and stop the bleeding of dollars from the U.S. Treasury.

As for the bailouts in the U.S. (see the lead article in this issue), the claims for their success are greatly exaggerated. For example, the banks' touted repayments of the government funding they got turn out to be only a drop in the bucket. A *New York Times* article (Dec.17, 2009) put it bluntly:

> **Even as the biggest banks repay their government debt in what is being heralded as a successful rescue program, four troubled giants of the financial world remain on government life support.**
>
> **These companies, the American International Group, Fannie Mae, Freddie Mac and GMAC, are not only unable to repay the government, they are in need of continuing infusions that make them look increasingly like long-term wards of the state. And the total risk they pose to the taxpayer far exceeds that of the big banks.**

In other words, the bank bailouts were even vaster than admitted, and the prospect of their being repaid any time soon is nil. And their cost continues to expand. From $7.4 trillion in November 2008, the estimated total had grown to $12.8 trillion by March 2009 and is now expected to surpass $14 trillion, the level of U.S. GDP. Of course, the Federal government will have to pay its creditors interest on that debt, beginning with over $200 billion in payments in 2009 alone. Washington will surely use the need to repay its massive debt as reason to attack public services as well as cut the jobs, wages and benefits of those who work to deliver them.

IMPERIALIST COOPERATION – AND CONFLICT

Concern is growing that Washington won't be able to keep up with its rising debt payment obligations. Even the financial commentators of the *New York Times* felt compelled to raise the fear that the "government faces a payment shock similar to those that sent legions of overstretched homeowners into default on their mortgages." (Dec. 23, 2009.)

A default by the U.S. on its debt payments would trigger a tidal wave of capitalist collapse which no nation could escape and would certainly trigger a global depression. For that reason, a U.S. default is not a danger in the immediate future, if only because Washington can use the threat of default to leverage more loans from other powers. The U.S. economy, like some of its banks, is itself considered "too big to fail" without other countries

Lavish eighteen-course banquet for imperialist leaders at G8 Summit on food crisis in Japan, July 2008. Financial speculation drove up world food prices and threatened tens of millions with starvation.

extending it whatever credit they can. The pressure of repaying bailout debts will be a major factor driving the struggle between rival capitalist states in the coming period.

But for the moment, the imperialist powers are mainly looking to deepen their exploitation of the neo-colonial countries. Already tensions are rising between the imperialist powers of Western Europe and the poor nations of the East. Thus when Germany announced that it would not help bail out increasingly bankrupt East European states, Hungary's prime minister bemoaned the threat of a "new Iron Curtain" dividing rich and poor in Europe. Twenty years ago, Western capitalists had hoped that a peaceful united Europe under their domination would emerge in the wake of the collapse of the Stalinist-ruled systems. The current crisis is widening the divide between imperialist exploiters and their victims. It will also spur escalating competition between Europe's rival imperialist powers that will inevitably split their superficial union.

Since World War II, the United States has been the predominant imperial country. After the fall of the USSR in 1991, it has been the sole superpower, and as such it has to not only look out for its own interests but also serve imperialism as a whole. In the latter capacity its task is to keep the myriad global rivalries from getting out of hand, suppress lesser powers who might try to defy the imperialist grip – and above all prevent mass working-class struggles from endangering capitalist rule.

During the Bush II years, the U.S. squandered its prestige as the world's richest, most powerful and supposedly most democratic nation and intensified the hatred of people everywhere. The other imperialist rulers seek to gain advantages from America's declining predominance, but they also still feel the need to maintain the U.S. as the keystone of the imperialist arch – the stone whose weight holds apart its opposing sides and thus keeps the whole structure from falling. Obama's election brought high hopes to rival imperialists (and some weaker ruling classes) who yearn for a world where the U.S. plays a more stabilizing role as first among relative equals and maintains a stable balance of power.

In this year's economic crisis in particular, there was some jostling over whether China's cash-rich rulers would keep lending enough funds to maintain the interdependency under which U.S. firms borrow from Chinese capitalists to super-exploit Chinese workers who make goods for U.S. consumers. Since China's economy depends on keeping hundreds of millions of peasants and workers desperately poor, it remains fundamentally weak and was shocked by the sudden decline of the U.S. consumer market. China has little choice but to lend more dollars to the U.S. despite the risk that it will not be repaid and cannot force repayment from what is still the unrivaled superpower.

One report quoted a top Chinese banker as saying that China would have to continue buying U.S. Treasury bonds, despite the fact that America's continued economic decline would mean a falling value for the U.S. dollar – which would translate into both less competitive prices for Chinese manufactured goods and a depreciation of China's investments in the U.S. "Once you start issuing $1 trillion-$2 trillion ... we know the dollar is going to depreciate, so we hate you guys but there is nothing much we can do."[15] And Chinese Premier Wen Jiabao said, "We lent such huge funds to the United States and of course we are concerned about the security of our assets and, to speak truthfully, I am a little bit worried."[16]

The fate of the Chinese and American economies are now bound by more than a trillion U.S. dollars worth of debt. U.S. policy makers are already proposing to allow the value of the U.S. dollar to fall in order to cut its foreign debt before it repays so much as a penny. Financial policy will inevitably be a focus for great conflict between the two. But time will tell whether such differences drive the U.S. and China into open conflict, or whether the two find greater mutual interest at the expense of other powers' economic interests.

CAPITALIST GLOBALIZATION MEANS IMPERIALISM

The last two decades have often been described as the years of capitalist "globalization." Those years did indeed see industrial production and distribution more globally integrated than ever before: products as varied as shoes, computers and cars could be designed in Western corporate headquarters, then manufactured to precise specifications in factories where labor was cheapest, then sold in far-flung markets. In the poorer countries, policies protecting local industries from foreign competition were brought down, and corporations from the U.S., Germany and Japan shifted production across the globe to exploit cheaper labor in regions from Southeast Asia to the union-free states of the U.S. South.

These developments spurred various commentators to propose that capitalism's historic dependence on nation states was coming to an end, and that the old divisions between nations would subside. Some saw the development of giant "transnational" corporations as leading to a new stage of capitalism in which rapacious mega-companies marauded the planet, free from the last ties to their homelands. The rapid expansion of China's economy was cited as evidence that the old division between imperialist powers and their exploited and oppressed victims was being overcome. The creation of the European Union was put forward as evidence that Europe's national hostilities were being transcended and that the rest of the world could follow its example.

None of this was true. The central dynamic of globalization was the imperialist powers' success in breaking down protectionist barriers to their superexploitation of labor and natural resources, particularly in the weaker, neo-colonial economies of the so-called "Third World." That is, "globalization" described only relatively superficial new aspects of old-fashioned imperialism.

Many years before the collapse of the Stalinist economies of Russia and Eastern Europe, while most commentators on both the right and the left were pointing to their supposed strength, our analysis of those pseudo-socialist statified capitalist societies emphasized their underlying stagnation. We predicted that as Russia's global power declined, Cold War hostilities between East and West would most likely give way to hostilities between the great imperialist powers of industrial capitalism: the U.S., Germany and Japan. Our analysis further made clear that the USSR was the weak link in the imperialist chain – that its collapse was only a foretaste of what capitalism faced as a whole. The full details are in our book, *The Life and Death of Stalinism* (1990); here is a summary paragraph we wrote in 2003:

> **Today, profit-making around the world is low overall and falling. The world is approaching a depression more severe than that of the 1930s. This profit crisis has been sweeping the globe over the last two decades, breaking out first in the weaker national economies and moving toward the most powerful. The same capitalist economic crisis that underlay the collapse of the Stalinist fake-communist (really state-run capitalist) economies of Russia and East Europe in the late 1980s drove the collapse of South Asian economies and the further deterioration of the Latin American countries in the 1990s. Now even the imperialist countries of Western Europe and Japan are in a slump. The U.S. alone has so far avoided collapse thanks to its super-exploitation of the neo-colonial world's cheap resources and labor and its enforcement of massive debt repayments, as well as by attacks on the working class's standard of living at home. But the U.S. ruling class knows it is teetering on the edge.**[17]

In fact, the U.S. ruling class was not as aware as it needed to be that its economy was on the edge of a serious crisis. Moreover, the world is as yet a long way from armed conflicts between the great powers. Germany and Japan have yet to even properly begin to re-arm themselves, and the economic clashes between the greatest powers are not yet so acute as to warrant the risks of more aggressive global moves. And the military powers that pose the most challenge to the U.S. are economically weaker states like Russia and China. Russia is still an imperialist power in its own right[18], while China's expanding economy is based on keeping a huge army of underemployed workers subject to imperialist superexploitation.

SOCIALISM OR BARBARISM

The deepening economic crisis will sharpen the clashes among the imperialist nations and other major capitalist states – in alignments which cannot yet be accurately predicted. The generosity the great powers showed in bailing out their own financiers will be matched by the increasing ferocity with which they pursue control over the cheap resources and labor their capitalists need. As competition between imperialist firms becomes increasingly desperate, so too will the clashes between nation states seeking to defend the interests of their own capitalists.

The crisis has already driven the rulers of the world to back off from their already feeble efforts to deal with environmental disasters like global warming. The drastic changes that are necessary require close international cooperation well beyond what the dog-eat-dog world of imperialism can manage, and the elimination of the powerful oil and coal industries (with the loss of the capital invested in them). The revolutionary workers' movement long ago inscribed on its banner the alternative: *socialism or barbarism!* This time, in the age of nuclear weapons and environmental emergency, capitalism increasingly threatens the very existence of our species.

The decades of imperialist globalization have revealed more clearly the cruel absurdity of humanity still having to suffer economic crises, war and environmental degradation. In the age of robotics and the internet, genetic engineering and space stations, there is no human need that does not have the potential to be fulfilled in abundance, no disease of the body or poison of the earth that does not have a possible cure. What stands in the way is the capitalists' ownership of the economy, along with the states, cops and armies they arm and train to defend their power.

Imperialism's last decades have had another unintended effect, one that the ruling classes of the world will learn to regret: they have produced a more globalized, international working class than ever before. As the imperialists fight to divide and re-divide the world amongst themselves, threatening ever more terrible wars, the international working class, now gathered in factories and workplaces in every corner of the globe, has the power and interest to overthrow the capitalist system and build a world of abundance, equality and peace in its place. The blind work of the capitalist system has made it more possible than ever before to fulfill Marx and Engels' battle-cry: *Workers of All Countries, Unite!*

With nothing to sell but their ability to labor, the workers of the world have no fundamental interest in maintaining the capitalist system. Drawn from across regions and nations into cooperative labor in capitalism's workplaces, the system itself trains the working class in a disciplined, collective organization that it readily turns against their rulers in mass struggle. This life experience leads the working class toward a conscious recognition of its interests and tasks in seizing power from the capitalists. Consciousness means leadership: the most politically conscious workers need to organize themselves so that the masses of workers radicalizing in the course of struggle find a growing vanguard party drawing the lessons at each point and showing the way forward.

Such a vanguard leadership will bring together the scientific understanding of capitalism first developed by Marx and Engels along with the lessons of struggle of the workers and oppressed people of the world. It will take the form of a centralized world party of socialist revolution based on the political program for this imperialist epoch inspired by the first workers' revolution, the Bolshevik revolution of 1917, and the teachings of Lenin and Trotsky – a re-created Fourth International. That revolutionary leadership is needed to help the whole working class draw revolutionary conclusions and prepare it for the seizure of power.

The working class in power will use the Marxist understanding of capitalism's economic functioning to overcome its laws of scarcity and exploitation. It will implement an economic plan that reorganizes production toward the goal of abundance. That will end the basis for society's division into classes, and a classless communist society of freedom will be able to rise in its place. ●

NOTES

1. *Time,* April 11, 2008.
2. Preobrazhensky, *The Decline of Capitalism,* pp. 34-35.
3. Marx, *Capital*, Vol. I, Chapter 15.
4. Kuznets, *Capital in the American Economy*, p. 65.
5. Marx, *Capital*, Vol. 3, Chapter 27.
6. For our analysis of Stalinism as a statified form of capitalism, see *The Life and Death of Stalinism*, Chapter 5.
7. See our articles "Karl Marx and the World Crisis" in *PR* 19, or "After the Crash" in *PR* 31. Both are reprinted in the LRP pamphlet *The Specter of Economic Collapse.*
8. *The Nation*, Sept. 19, 2008.
9. Marx, *Capital*, Vol. 1, Chapter 1, Section 4.
10. See "Socialists in Wonderland," *Proletarian Revolution* No.34.
11. Duménil and Lévy, *Capital Resurgent: Roots of the Neoliberal Revolution,* 2004, Chapters 3 and 14.
12. *The Economist,* December 11, 2008.
13. *New York Times,* January 5, 2010.
14. Global production and trade data, regularly updated and compared to similar figures for the months after the crash of 1929, can be found on the website *A Tale of Two Depressions* of economists Barry Eichengreen and Kevin H. O'Rourke, at *www.voxeu.org/index.php?q=node/3421.*
15. *Financial Times,* February 12, 2008.
16. *www.Chinadaily.com*, March 14, 2009.
17. LRP statement on the Iraq war, *www.lrp-cofi.org/archive/Iraq20030321.html.*
18. See the LRP statement on the Russia-Georgia war of 2008, *www.lrp-cofi.org/statements/russia-georgia_war.html.*

Next: "What Marx Really Said about Crises"

What Marx Really Said about Crises

When Bush's Treasury Secretary Paulson embarked on the biggest government intervention in financial markets since the 1930's, conservative commentators hunted down copies of Marx and Engels' *Communist Manifesto* in order to condemn the government for taking it as their bible. For example:

> **Karl Marx proposed 10 measures to be implemented after the proletariat takes power, with the aim of centralizing all instruments of production in the hands of the state. Proposal Number Five was to bring about the "centralization of credit in the banks of the state, by means of a national bank with state capital and an exclusive monopoly."**
>
> **If he were to rise from the dead today, Marx might be delighted to discover that most economists and financial commentators, including many who claim to favor the free market, agree with him.**[1]

No, Marx would not have been overjoyed at the prospect of handing trillions of dollars to the capitalist bankers – he stood for seizing the banks and industries so that they could be put to use in the interests of the working class. This writer, unlike others who made a similar point, at least had the honesty to quote Marx fully, including his prerequisite for taking over the banks: "after the proletariat takes power." Of course, the pro-capitalist economists and financial commentators cited do not at all agree with Marx – they are hardly advocates of proletarian power.

The economic bailouts have been labeled "socialism for the rich," because the bankers get their losses covered by the state, while they take their profits in the good years. This is a fair comment if taken ironically. But the notion that capitalist government intervention is leading down the road to socialism and Marxism has nothing to do with reality.

What the right-wing politicians and pundits are really posturing against is the enlarged role that governments are playing in the economy, in part because they don't want the working classes to get any ideas of making its own demands on the state. Genuine Marxists explain that an even more decisive governmental role is necessary to deal with the economic catastrophe, but that only a workers' government in a revolutionary workers' state would be able to eliminate crises by implementing a central economic plan to end the anarchy and irrationality of capitalism.

Not only establishment commentators have been citing Marx as an authority on the crises of capitalism. So, naturally, have those who call themselves Marxist. It is not surprising when bourgeois writers overlook Marx's chief conclusion that the only way to end capitalism's crises is to overthrow the system. The shame is that the "Marxists" also typically get Marx wrong – and likewise act as if Marx had spent his life writing recipes to reform capitalism rather than abolish it.

DENYING THE EPOCH OF DECAY

One such notion rests on pointing to capitalism's crisis cycles – and alleging Marx's authority for the claim that this is the heart of capitalism's irrationality. In the previous article, we cited *Time* magazine's attention to Marx's warnings about capitalism's "tendency to generate its own crises", and noted that the focus on his analysis of booms and slumps misses the deeper Marxist analysis – namely, that in the system's epoch of decay the crises threaten to become long-lasting and drive toward depression and imperialist war.

This misrepresentation of Marx also has its proponents on the left. For example, the U.S. Spartacists wrote:

> **The destructive irrationality of the capitalist system is highlighted by the boom-and-bust cycle, this time centered on the U.S. housing industry. ... The boom-and-bust cycle, driven by the anarchy of the market, is intrinsic to the capitalist system of production and was analyzed a century and a half ago by Karl Marx.**[2]

While these words are true as far as they go, they barely hint at Marx's analysis, and that is as far as the Spartacists take it. On one level, they overlook Marx's understanding that crises are a necessary medicine for the system if it is to be restored to health on its own terms. But far worse is their sly rejection of the concept of capitalism's epoch of decay that was elaborated by Lenin and Trotsky. Thus with the current economic crisis in full flower, they quoted Trotsky as follows:

> **So long as capitalism is not overthrown by the proletarian revolution, it will continue to live in cycles, swinging up and down. Crises and booms were inherent in capitalism at its very birth; they will accompany it to its grave.**[3]

The fact that capitalism has had crises and booms all along is meant to support the Spartacists' idea that the crises don't basically change their character in the epoch of decay. However, the full passage that they partially quote from Trotsky says otherwise.

> **The fact that capitalism continues to oscillate cyclically after the war merely signifies that capitalism is not yet dead, that we are not dealing with a corpse. So long as capitalism is not overthrown by the proletarian revolution, it will continue to live in cycles, swinging up and down. Crises and booms were inherent in capitalism at its very birth; they will accompany it to its grave. But to determine capitalism's age and its general condition – to establish whether it is still developing or whether it has matured or whether it is in decline – one must diagnose the character of the cycles. In much the same manner the state of the human organism can be diagnosed by whether the breathing is regular or spasmodic, deep or superficial, and so on.**[4]

That is, cycles themselves do not prove anything about the health of the system, since they are inherent in capitalism whether it is healthy or not. And the specifics of the present crisis, coming after a "boom" in which U.S. workers' wages did not rise but their mortgage and credit-card debts did, show clearly that it is not an indicator of robust health. Unlike the Spartacists, the leading capitalist thinkers today understand that while even severe slumps are useful for their system, the present crisis is something much worse. They saw it spread and deepen despite their assurances that it was under control. They also have enough historical memory to know that if the crisis is not tempered it will lead to stepped-up economic rivalry and potentially war.

Capitalism's ultimate irrationality is not just that it cannot manage the economy in a planned and crisis-free way. It is that this obsolete system threatens the world with an economic, environmental and military holocaust.

As it happens, the Spartacists have actually taken notice of one of the main features of the epoch of decay, the domination of the falling rate of profit tendency. They reprinted an article they first published 35 years ago, "Fiscal Fiddling Can't Stop Depression: Marx vs. Keynes," which refers in passing to "a historical tendency for the rate of profit to fall." As if they meant to prove to the world that their analysis has nothing to do with Marx, they attribute this tendency not to Marx but to "many bourgeois economists (including Keynes)." (*Workers Vanguard*, March 13, 2009.) Thus what Marx called the "most important law of political economy," which the Spartacists ignore when trying to present a "Marxist" explanation of capitalism's collapse, is credited to anti-Marxists.

SWALLOWING UNDERCONSUMPTIONISM

The most common reformist notion is the idea that crises are triggered by workers' getting paid too little to buy back all the goods they produce. This is the theory of underconsumptionism. Here, to take just one of many examples, is the explanation offered by *Socialist Alternative* (Feb. 5, 2008), the U.S. paper of the Committee for a Workers International (CWI):

> **Marx decisively showed how capitalism was doomed to periodic crises due to these internal contradictions, specifically the contradiction between the private ownership of capital – the factories, banks, etc. – by a tiny mega-rich minority, and the socialized nature of production, in which millions toil to produce goods and profits controlled by this elite. In order to make this profit, the bosses pay workers only a fraction of the wealth they produce. This leaves workers unable to buy back all the goods they have produced, leading to crises rooted in overproduction and overcapacity.**

This is pure underconsumptionism hidden behind the word "overproduction." In reality, not only did Marx *not* "decisively show" this theory – he decisively refuted it. Marx pointed out that the working class is *never* able to buy back all the goods it produces, since these goods include means of production like machines and industrial inputs that only capitalists buy. If the workers could buy back all the goods they produce, there would be no surplus for maintenance, improvement or expansion, or for the capitalists' profits; the system would not just face periodic crises but would have come to a crashing halt from the start.

Marx explains that the value of a newly produced commodity is measured by the amount of labor generally required for its production, and then breaks that value down into three component parts in his formula $c+v+s$. In this, c represents *constant capital* (the value of materials used up in production, as well as that portion of the machinery, etc., embodied in the commodity), v is *variable capital* (the portion of value used to pay the workers for their labor), and s stands for *surplus value* (the value exploited from the workers and used by the capitalists to fund expanded investment as well as their personal consumption). Thus s and c are amounts that have to be taken by the capitalist class, not the workers, so there is no contradiction in the fact that the working class only buys back a portion of its own product.

Of course, the consumption of the masses is a factor in crises. Once a crisis begins, some firms fail, workers are laid off and spend less, so sales of consumer goods drop. That triggers the collapse of further businesses. But workers' consumption is not the *cause* of capitalism's crisis cycle. Marx answered the underconsumptionsts by observing that the crisis phase of the business cycle breaks out at the point when the share of v is rising and therefore s is falling, so the capitalists are getting too little profit, not too much:

> **It is sheer tautology to say that crises are caused by the scarcity of effective consumption, or of effective consumers. ... But if one were to attempt to give this tautology the semblance of a profounder justification by saying that the working class receives too small a portion of its own product and the evil would be remedied as soon as it receives a larger share of it and its wages increase in consequence, one could only remark that crises are always prepared by precisely a period in which wages rise generally and the working class actually gets a larger share of that part of the annual product which is intended for consumption. From the point of view of these advocates of sound and "simple" (!) common sense, such a period should rather remove the crisis.**[5]

UNDERCONSUMPTIONISM IN PRACTICE

As Marx points out, the purpose of underconsumption theory is to argue that if the workers were paid more, the crisis would be alleviated. This in fact is still a very common argument by misleaders of the working class. The "AFL-CIO NOW" blog argued that passing the Employee Free Choice Act would aid the economy and benefit everybody:

> **It's clear that wage stagnation, economic insecurity and the decline of workers' voice at the workplace underlie the dire economic situation in which we find ourselves – a crisis of debt, sagging demand, job loss and failures in housing and health care. To create a broadly shared prosperity and an economy that's strong in the longer term ... we need to pass the Employee Free Choice Act and restore workers' ability to bargain for a better life.**

This is an appeal to capitalists as well as workers, arguing that all classes would benefit from the stability that paying workers more would provide. And while we fully agree that workers should fight for jobs, health care, decent housing, debt relief and all the other necessities that the economic crisis makes urgent, we also point out that this requires major working-class struggle *against* the capitalists, not a "broadly shared prosperity" with them.

In the same reformist spirit, the International Socialist Organization chimed in against EFCA's detractors:

> **The idea that EFCA would further strangle an already hard-hit job market flies in the face of economic reality and even the opinion of countless mainstream economists .... One of the factors in the deepening economic crisis is a sharp decline in consumer demand. While the credit crunch is causing companies to scale back investments, economically wounded consumers can't afford to buy goods and services, leading businesses to scale back more or move towards bankruptcy, shedding workers and creating more unemployment, which further curtails demand.**[6]

The implication is that passing EFCA would raise wages and thereby strengthen consumer demand and boost the economy. But workers demanding higher wages should not fool themselves into thinking that their gains will help the capitalists as well. At least the ISO has the decency to credit its underconsumptionist idea to "countless mainstream economists" rather than Karl Marx.

Fighting for reforms is necessary as long as most workers are looking for solutions within the system. But also needed is something the ISO refuses to do: honestly explaining that capitalism cannot afford major and lasting reforms; and in a period of severe crisis, even keeping what workers have already won will be more and more difficult. The top capitalists have gained from the past 35 years of sagging wages and have shown no inclination to offer even tiny sops since the post-World War II boom came to an end. That is why genuine Marxists explain that the only real solution is working-class revolution to overthrow the system. The long period of capitalist stagnation has led much of the radical movement to believe that the system has within it resources to restore something like business as usual without a violent upheaval. The real lesson of Marx's dissection of capitalism's economic laws of motion is that the system drives toward a depression – and the international conflicts and wars that would accompany it. Not only does the working class have to fight against the attacks which the crisis can only intensify. Its most politically far-sighted vanguard workers must prepare to lead their fellow workers in revolutionary struggles. That means building a vanguard revolutionary party based on Marxism's scientific understanding of capitalism and the socialist solution to its crisis.!

NOTES

1. Martin Masse in the Canadian *Financial Post,* Sept. 29, 2008.
2. *Workers Vanguard*, March 14, 2008.
3. *Workers Vanguard*, Feb. 13, 2009.
4. *The First Five Years of the Communist International*, Volume 1, "Report on the World Economic Crisis and the New Tasks of the Communist International, [Part II]," Second Session, June 2, 1921.
5. Marx, *Capital* Vol. II, Ch. 20.
6. *Socialist Worker,* Feb. 20, 2010.)