

From Financial Crisis to World-Slump: Accumulation, Financialisation, and the Global Slowdown

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Abstract

This paper assesses the current world economic crisis in terms of crucial transformations in global capitalism throughout the neoliberal period. It argues that intense social and spatial restructuring after the crises of 1973–82 produced a new wave of capitalist expansion (centred on East Asia) that began to exhaust itself in the late-1990s. Since that time, new problems of overaccumulation and declining profitability have plagued global capitalism. Interconnected with these problems are contradictions related to a mutation in the form of world-money, as a result of its complete de-linking from gold after 1971, which stimulated a fantastic growth in financial instruments and transactions, and generated a proliferation of esoteric ‘fictitious capitals’ whose collapse is wreaking havoc across world financial markets. The intersection between general conditions of overaccumulation and a crisis in financial structures specific to neoliberalism has now produced a deep world-slump. Inherent in this crisis is a breakdown in forms of value-measurement that is throwing up intense struggles between the capitalist value-form and popular life-values, the latter of which comprise the grounds for any real renewal of the socialist Left.

Keywords

economic crisis, overaccumulation, world-money, financialisation, value-struggles

From financial crisis to world-slump

At first glance, therefore, the entire crisis presents itself as simply a credit and monetary crisis.¹

In April of last year, the International Monetary Fund observed that we are living through ‘the largest financial crisis in the United States since the Great

1. Marx 1981, p. 621.

Depression'.² But that was to understate things in two ways. First, the financial crisis is no longer largely about the US. It has gone global, rocking the UK, the Eurozone, East Asia, and the so-called 'emerging market economies'. A wave of devastating national and regional crises is just getting started, having already hit Iceland, Hungary, Latvia, the Ukraine, and Pakistan. Secondly, this is no longer simply a financial crisis; a global economic slump is now hammering the so-called 'real economy'. Having started in the construction-, auto- and electronics-sectors, the slump is now sweeping through all manufacturing industries and spilling across the service-sector. As the Detroit Three automakers reel from losses of \$28.6 billion in the first half of 2008, two of their number teeter on the verge of collapse.³ World-trade is in a stunning free fall, contracting for the first time since 1982. US merchandise-trade dropped 30 per cent in December of last year, while China's imports plummeted 43 per cent a month later. Exports from Japan and Taiwan dropped off the table in January, declining by an eye-popping 45 per cent. Not surprisingly, the Baltic Dry Index, which tracks shipping rates (and demand for cargo ships) is still 84 per cent below its 2008 peak, despite recent rises, while air-cargo traffic is languishing, down 23 per cent at the end of last year.⁴ As a result of these trends, the US economy is now contracting at an annualised rate of more than six per cent, the Japanese economy twice as fast – all of which is without precedent in the last quarter-century.

Catastrophic forecasts of the sort that only handfuls of leftists dared to indulge in, often all too glibly, have now become standard fare, with the chairman and CEO of Merrill Lynch and the former chairman of Goldman Sachs both talking of a global slowdown comparable to the Great Depression, and the head of the International Monetary Fund declaring that the US, Europe and Japan are 'already in depression'.⁵ Extreme (and ahistorical) as such predictions are, it is easy to see why world-bankers are so shaken.

2. This is a considerably expanded and updated version of a paper presented to a Plenary Session on 'The Global Financial Crisis: Causes and Consequences' at the 2008 *Historical Materialism* Annual Conference, 'Many Marxisms', held at the University of London, 8 November 2008. I would like to thank the editors of *Historical Materialism* for the opportunity to first present it there. A subsequent version, completed in December 2008, was posted at <<http://www.marxandthefinancialcrisisof2008.blogspot.com>>. Thanks to Andrew Chitty for making it available there. This version significantly updates and extends those earlier papers. I would like to thank Sue Ferguson for comments on those earlier versions and the anonymous reviewers for *Historical Materialism* for comments on the December 2008 draft.

3. GM and Chrysler are particularly imperilled, with GM, which has not turned a profit since 2004, having recorded a \$31 billion loss for 2008.

4. *The Economist*, 2009a, p. 59.

5. Farrell 2008; Reuters 2008; Whitley and Shamim 2009.

Over the course of 2008, global stock-markets dropped by nearly 50 per cent, wiping out perhaps \$35 trillion in paper-assets and plunging us into ‘the worst bear market since the 1930s’.⁶ All five of Wall Street’s investment-banks are gone – kaput.⁷ More than 250,000 jobs have evaporated in the US financial-services industry. And now, as the effects of global overaccumulation turn financial crisis into world-economic slump, we have entered the second phase of a deepening downturn. In response, governments everywhere confront a dilemma. Problems of overaccumulation – more factories, machines, buildings, fibre-optic networks, and so on than can be operated profitably – can ultimately be resolved only via bankruptcies, plant-closures and mass layoffs. Yet, the social and political costs of pure market solutions could be devastating. Take the case of the North-American automobile industry. Since 2000, the Detroit Three have eliminated 250,000 jobs. But, in the context of a deepening slump, further cuts are in store. In February of this year, General Motors announced additional layoffs of 47,000 and 14 plant closures, while Chrysler plans to chop 35,000 jobs. Yet, even with huge government bailouts, such restructuring may not be enough to keep the companies afloat. The ramifications of a full-fledged meltdown, however, would be devastating. The Center for Automotive Research estimates that a 50 per cent contraction, never mind failure, of the Detroit Three would wipe out nearly two and a half million US jobs in the assembly-, auto-parts and related industries in the first year alone.⁸ As a result, governments are intervening on a massive scale, tossing away free-market nostrums in a desperate effort to stabilise the system. So, if the first phase of the global crisis centred on the financial sector, with a stunning series of bank-collapses, the second phase is concentrated in manufacturing, with a wave of failures, bailouts and massive downsizing of non-financial corporations. But downsizing and restructuring will, in turn, trigger big drops in global demand (as laid-off workers cut back consumption and corporate demand retrenches), which, in turn, will hit firms in services (such as hotels and business assistance) and hammer the current-account balances and financial systems of scores of nation-states, sparking yet further banking crises.

As world-demand and world-sales dive, the effects of overcapacity (factories, machines, buildings that cannot be profitably utilised), which have been masked by credit-creation over the past decade, will kick in with a vengeance.

6. Greenspan 2009. The quote comes from Authurs and Mackenzie 2008.

7. Bear Stearns, Lehman Brothers and Merrill Lynch have collapsed entirely, while Morgan Stanley and Goldman Sachs have been restructured as bank-holding companies, not classic Wall-Street investment-banks.

8. Van Praet 2008.

Experts are already predicting that US vehicle-sales will plummet by about one third in 2009 – from 16 to 10.5 million, perhaps lower – imperilling the very future of the US-based auto-makers. World-sales of personal computers, mobile phones, steel, and semiconductors are collapsing by 10 per cent and more, inducing frantic price-cutting in order to generate corporate revenues.⁹ Meanwhile, East Asia, which was the heart of the neoliberal wave of expansion (1983–2007), to be discussed below, is now the centre of the overaccumulation storm. By the final quarter of 2008, the Japanese economy was contracting at an annual rate of 12.7 per cent, its steepest fall since the global recession of 1974. And the numbers were worse for other parts of East Asia, with Singapore's GDP shrinking at an annualised rate of 17 per cent and South Korea's at a staggering 21 per cent rate.¹⁰

At the heart of the East-Asian slump is a collapse of the production- and supply-chains across the region that frequently converge in China's manufacturing industries. Yet, with global markets and world-trade reeling, these export-oriented production-chains are in a tailspin. Japan's exports fell by an incredible 35 per cent in December of last year, and Taiwan's were off by 42 per cent, while South-Korean exports dove nearly 33 per cent the following month. Central to these drops was the 27 per cent decline in Asian exports to China, the bulk of which consists of parts and components for assembly and re-export.¹¹

Pivotal to the downturn in East Asia are the dynamics of the Chinese economy. The centre of the wave of accumulation of the past twenty-five years, as global production-chains ran through its manufacturing base, China is now at the nexus of the overaccumulation-crisis. While predictions that Chinese industry is running at only 50 per cent of capacity may be extreme, there can be little doubt that huge numbers of factories have closed, while many are operating at dramatically reduced levels.¹² In the southern manufacturing zone that runs from Guangzhou to Shenzhen, as many as one half of all plants may have closed over the past year. The giant plastic

9. Waters 2008; Nuttall 2008; Marsh 2008.

10. Gee 2009a; *The Economist* 2009b.

11. *The Economist* 2009c; Jung-a 2009.

12. The estimate that Chinese plants are running at 50 per cent of capacity comes from Noboyuki Saji, chief economist for Mitsubishi UFI Securities, following a trip to China. While this seems extreme, there is certainly anecdotal evidence to this effect, as in the report by the marketing manager for CEEG, which produces solar panels in Nanjing, that his firm operated at 50 per cent of capacity during the final quarter of 2008 (see Gee 2009). Moreover, Chinese government statistics suggest that the country's steel industry had excess capacity of one-third in 2005, while the iron alloy industry was operating at only 40 per cent of capacity at the time (see Lardy 2007, pp. 5–6). On Saji's predictions see Sanders 2008.

manufacturer, Hon Hai, is slashing its Shenzhen workforce from 260,000 to 100,000.¹³ Sitting in Chinese warehouses are said to be stockpiles of refrigerators equal to three years of demand. Not surprisingly, steel output dropped 17 per cent in October, signalling a deepening slump in the appliance- and machinery-industries in particular. But more ominous was the huge slump in Chinese trade, with exports dropping 17.5 per cent in January, while imports sagged a shocking 43 per cent.¹⁴ A growing number of economists are now suggesting that an import-slump of that magnitude might signal the unthinkable, an actual contraction of China's economy. Equally telling is the 33 per cent plunge in foreign direct investment in China, a clear sign that global investors are retreating from new accumulation. As export-markets collapse, foreign investment nosedives, and factories cut back, unemployment is mounting. More than 25 million rural migrant-workers have already lost their jobs, resulting in an unemployment-rate approaching 20 per cent for migrant-workers.¹⁵ Trying to manage an economy that needs economic growth rates of eight per cent a year just to absorb the massive flows of rural migrants into industrial centres, Chinese officials now describe the still worsening employment situation as 'grim' and worry openly about social unrest.

While East Asia is experiencing the most massive collapse thus far of exports and industrial output, other 'emerging market' economies are tracing the same downward path. The crunch has hit India, with exports plummeting 12 per cent in October and half a million jobs in export-industries vanishing in the final quarter of 2008. But much worse is in store, with the Federation of Indian Exporters predicting that 10 million export-sector jobs will disappear in 2009, a figure twenty times greater than official forecasts.¹⁶

Now, with the full effects of global overcapacity in play, the spectre that haunted Japan throughout the 1990s – deflation – has emerged. Core prices in the US fell one per cent in October 2008, the biggest drop since 1947, when records began, and continued to fall over the next two months. Meanwhile, producer-prices slumped 3.3 per cent in China in January, with some analysts suggesting they will fall by 10 per cent over the course of 2009.¹⁷ Overaccumulation, asset-deflation and price-cutting now threaten a downward spiral in prices and profits that would spell a seriously prolonged global slump.

13. *The Economist* 2009d, pp. 69–70.

14. Batson 2008; Gee 2009.

15. Official figures claim 20 million rural migrants have lost their jobs, representing an implied jobless rate of 15.3 per cent (see Anderlini 2009), but more realistic estimates suggest that as of the end of January 2008, at least 26 million migrants had been laid off.

16. Bloomberg 2008.

17. Dyer 2009.

And we are very far from the endpoint. Despite a stunning series of bailouts of the banking system in the Global North approaching \$20 trillion, or 30 per cent of world GDP, the international financial system continues to stagger.¹⁸ Hundreds of billions more in losses will have to be written off by world-banks. The International Monetary Fund has now increased its predictions of losses on US-originated credit ‘assets’ by ten times – to \$2.2 trillion. Nouriel Roubini of New York University estimates that the real figure will be in the range of \$3.6 trillion.¹⁹ So, huge losses still lie ahead. More banks will fail, more countries will be forced to turn to the IMF in order to stay afloat. The global economy is now enmeshed, therefore, in a classic downward feedback loop: financial meltdown having triggered a recession, a slump in the ‘real economy’ will spark a new round of banking crises, putting very big institutions at risk. In the wake of \$65 billion in write-downs (with more to come), for instance, Citigroup, the second-largest bank in America has been kept afloat only thanks to a whopping \$300 billion US government-bailout. And European banks, particularly those with large holdings of US financial assets or loans to Eastern Europe, face devastating losses. So severe is the crisis that nationalisation of banks in order to avert financial collapse is now the preferred solution even on much of the political Right, with former Federal Reserve chairmen Paul Volcker and Alan Greenspan embracing the cause.²⁰ In fact, mobilising a plethora of euphemisms for government-takeovers – including ‘pre-privatisation’ – the US state has now taken a 40 per cent (and rising) stake in Citigroup, once the country’s largest bank, and 80 per cent ownership of AIG, the world’s largest insurance company.²¹

The current crisis is thus unlike any others of recent decades in terms of scope and depth. While previous financial shocks in the US were contained –

18. On the scale of the bailout, the Bank of England 2008, *Financial Stability Report*, n. 24 (October 2008) estimated \$7.2 trillion. But estimates by CreditSights that the US government had already committed \$5 trillion by that point to keep the financial system afloat suggested a higher figure (see Moyer 2008). Then, in late November, the US government earmarked an additional \$1.1 trillion to its bailouts, designating \$300 billion to rescue Citigroup and another \$800 billion to buy troubled mortgage-backed securities and to extend credit for borrowers with student loans and credit-card debt. Commentators were then suggesting that the price tag for the US bailouts had hit \$7 trillion (see McKenna 2008). In February 2009, the Obama administration in the US obtained a stimulus package of nearly \$800 billion and further pledges to the banking sector that could exceed another \$1 trillion. Indeed, since November of last year, the bailout-commitments of the US governments have grown by 73 per cent, taking them to a total of \$12.8 trillion, or almost the equivalent of US GDP. That would push the total global bailout quite close to \$20 trillion. See Pittman and Ivry 2009.

19. Wolf 2009.

20. Luce and Guha 2009.

21. Stewart 2009.

the savings-and-loan meltdown of the early 1990s, the collapse of Long Term Capital Management (1998) or the bursting of the dot.com bubble (2000–1) – this one has moved from a financial meltdown to a generalised economic crisis. And, unlike crises that were regionally confined – East Asia (1997), Russia (1998), Argentina (2000–1) – this is a globalising crisis at the heart of the system. We confront, in other words, a *generalised global crisis* in the reproduction of capital and of the relations between capital and global labour that have characterised the neoliberal period. The neoliberal reorganisation of world-capitalism is now undergoing a systemic shock.

Like any systemic crisis, it has produced an ideological period of uncertainty. Consider, for instance, the pronouncement from Alan Greenspan, who headed the Federal Reserve Bank of the US for eighteen years, that he is in ‘a state of shocked disbelief’ as to how a system based on ‘the self-interest of lending institutions’ could have found itself in this pickle. Or, take the report published by the Institute for Policy Analysis at the University of Toronto that bears the title, ‘We don’t have a clue and we’re not going to pretend we do’. Neoliberal claims for the magical properties of self-regulating markets are rapidly losing traction, even among their advocates.

In this context, the Left has an enormous opportunity to provide critical analysis, strategic vision, and mobilisational proposals. This paper largely restricts itself to the first of these: critical analysis of the crisis. In what follows, I argue that we need a more dynamic, historical and nuanced account of what has happened to world-capitalism over the past quarter century than has been generally offered. Too many radical analyses focus either on regulatory frameworks or the crisis of profitability of the 1970s to explain what is happening today. In so doing, each approach ignores crucial features of the dramatic processes of restructuring and accumulation that ran across the neoliberal period – and that laid the basis for the current crisis. I further argue that this crisis should be analysed in terms of a breakdown in prevailing value-forms, including models of value-measurement, and that this breakdown opens up new spaces for *value-struggles* – struggles over the very forms for reproducing social relations – that could trace the outlines of a radical and systemic counter-project to that of capital.

Rethinking the neoliberal era: capitalist restructuring, expansion, and overaccumulation, 1983–2007

On the Left, most analyses of the crisis have tended to fall into one of two camps. On the one hand, we find a series of commentators who view the financial meltdown as just the latest manifestation of a crisis of profitability

that began in the early 1970s, a crisis that has effectively persisted since that time. In another camp is a large number of commentators who see the crisis as essentially caused by an explosion of financial transactions and speculation that followed from deregulation of financial markets over the past quarter-century.

The latter, who focus principally on the deregulation of financial markets, suffer from a failure to grasp the deep tendencies at the level of capital-accumulation and profitability that drove deregulation and that underpin this crisis. They confuse policy *reactions* to the globalisation of production and finance with *causes* of the current crisis. It is, of course, true that financial deregulation is a contributing factor in the current crisis. But, rather than driving the process of financial liberalisation, deregulation followed and responded to structural transformations – most notably the rise of the multinational corporation with international financing requirements, the global outflow of dollars as the US built up growing current-account deficits in the late 1960s and early 1970s, and the development of Eurodollar markets and off-shore banking – that eroded the pillars of the Bretton Woods framework for world-finance. As deregulated off-shore banking thrived, domestically-based commercial and investment-banks pressed for regulatory changes that would enable them to capture a share of the business that had moved off-shore.

Emphasis on financial policy over structural transformation produces fundamental explanatory and political problems. First, proponents of the deregulation-thesis lack an explanation as to why this crisis has not been restricted to financial markets; they are unable to probe its interconnection with problems of global overaccumulation. Secondly, because these commentators are prone to describe the problem in terms of neoliberal policy-changes, rather than capitalism, they advocate a return to some sort of Keynesian re-regulation of financial markets. In addition to downplaying the deep structural transformations that have occurred within capitalism since the Bretton Woods agreements, this view also displaces socialist politics in favour of arguments for ‘a renewed leashed capitalism’ of the sort that ostensibly prevailed after 1945.²²

Those analyses that effectively read the current crisis in terms of a decline in the rate of profitability from the mid-1960s to early 1970s have the merit of focusing on deeper problems at the level of capitalist accumulation, and, for this reason, I will engage them at considerably more length. For the most part, however, these approaches tend to be amazingly static, ignoring the specific

22. Pollin 2007, p. 153. Another analysis focused on deregulation of financial markets is Wade 2008.

dynamics of capitalist restructuring and accumulation in the neoliberal period. There is a particularly unhelpful tendency in many of these analyses to treat the entire thirty-five year period since 1973 as a ‘crisis’, a ‘long downturn’, or even a ‘depression’.²³ Yet, such assessments downplay the dramatic social, technical and spatial restructuring of capitalist production that occurred across the neoliberal period, all of which significantly raised rates of surplus-value and profitability, and led to a volatile – indeed ‘turbulent’ – but nonetheless real process of sustained capitalist expansion, centred on East Asia. Only by grasping some of the central features of that process can we adequately explain the current crisis.

But, since these claims are controversial in Marxist quarters, I want to first set down three methodological and theoretical protocols meant to guide our analysis of global capitalism over the past quarter-century. On the basis of these, I will then offer three principal theses concerning the contradictory arc of expansion and crisis-formation that has characterised world-capitalism during this period. Let me start with methodological and theoretical protocols.

I insist, first, that we need to treat the world-economy as a totality that is more than the sum of its parts. This may seem a mundane protocol but, as we shall see, it is one that is regularly breached. Much discussion of the neoliberal period has focused on a number of capitalistically developed nations – most frequently the US, Germany and Japan – and treated the world-economy as largely an aggregate of these parts. This is both methodologically flawed and empirically misleading.²⁴ It is at the level of world-economy that the laws of

23. Makoto Itoh regularly refers to the period since 1973 as a ‘great depression’ (see Itoh 1990, p. 4, 5), a position he reiterated in his lecture at the 2007 *Historical Materialism* conference in London. Chris Harman (1984) rightly rejects his earlier position that we are living in an age of ‘permanent crisis’ of capitalism, but he continues to argue that capitalism since 1973 has exhibited ‘an overall tendency to stagnation’ (see Harman 2007). Robert Brenner (1998; 2006; 2002) has deployed the term ‘long downturn’ to describe the state of the world-economy since 1973. Brenner is attentive to some of the dynamics of change within the world-economy throughout this period, but he too tends to see the system as mired in a protracted slowdown that comprises an era of ‘crisis’. I attempted to re-construct parts of Brenner’s analysis in terms of Marxian value-theory in McNally 1999. Smith 1999 makes a generous attempt to do something similar at a more methodological level. A very important response to Brenner from a value-theory standpoint, and one that raises the critical questions of credit and international finance, as well as the problem of rational-choice theory, is offered by Fine, Lapavistas and Milonakis 1999. As I will almost certainly be misread on this point, I want to underline that I see the period of the past thirty-five years as indeed one of ‘global turbulence’, a sustained period of intense capitalist restructuring that has reorganised global capitalism, produced sharp cyclical and regional crises, and generated a sustained period of growth without, until now, a global crisis like those of 1974–5 and 1980–2.

24. ‘To analyse the parts and aggregate to the whole is “vulgar”’ (Weeks 1999, p. 213). This

capitalism are most fully and concretely enacted. The law of value works itself out on the plane of total social capital, and it is at the level of the world-market that money acquires the form of world-money. 'It is only foreign trade, the development of the market to a world market, which causes money to develop into world money and *abstract labour* into social labour', argued Marx.²⁵ It follows from this that an assessment of global capitalism cannot pivot on evaluating 'the performance of the advanced capitalist economies',²⁶ however significant that might be. Nation-states and 'national economies' cannot be the fundamental units of analysis, however much we need to attend to their importance as points of concentration within the system. But capitalism is a world-system whose imperative is the unbounded drive to accumulate, not to develop 'national economies'.²⁷ For this reason, explanatory priority must be placed on the operation of capitalism as a *global* system.

Secondly, it is vital to recognise that an assessment of world-capitalism cannot make its focus the performance of national economies *per se*. Capital does not invest in order to boost Gross Domestic Product (GDP), national income, or aggregate national employment. It invests in order to expand itself via the capture of shares of global surplus-value (although what individual capitalists attend to are rates of return on total investment). But, the capture of surplus-value can – and does – happen in circumstances that are sub-optimal from the standpoint of the macroeconomic performance of national economies. So, interesting and important as such macro-economic indicators may be for any number of reasons, they are not the measures of phases of expansion or crises of capital. Indeed, as I will argue below, capitals in the 'core' economies of the world-system have demonstrated a systematic tendency to move investment outside the core in search of higher rates of return. This can, and frequently has, produced more robust rates of capital-accumulation in select regions outside the core, while contributing to slower rates of growth in the dominant economies.²⁸ But we can only grasp these complex patterns

does not mean that it is illegitimate to break wholes into parts for analytical purposes. Instead, it means that the process of reconstructing the whole from its parts cannot be additive. The parts must be theorised at increasing levels of concreteness in terms of the totality of relations that constitute them as just that – parts that are comprised in and through the whole.

25. Marx 1971, p. 253.

26. Brenner 2006, p. xxii. I am frequently taking issue with aspects of Brenner's analysis here. I do so because he offers the richest and most nuanced case for the 'long-downturn' thesis. All serious Marxist political economists are deeply indebted to Brenner's work, however much they may differ with him on theoretical, methodological and empirical grounds.

27. 'The tendency to create the world market is directly given in the concept of capital itself' (Marx 1973, p. 408).

28. The classic case throughout the 1990s was Japanese capital. As Japanese based multinationals invested feverishly throughout the rest of East Asia in an aggressive campaign to

of reproduction of capitalism if we look at it as a global social relation, rather than as a set of contending national economies.

Third, the unique quarter-century long postwar-boom (1949–73) ought not to be the benchmark against which everything else is deemed a ‘crisis’. That great boom was the product of an exceptional set of social-historical circumstances that triggered an unprecedented wave of expansion. But, prolonged expansion with rising levels of output, wages and employment in the core-economies is not the capitalist norm; and the absence of all of these is not invariably a ‘crisis’. It is utterly misleading to imagine that capital is in crisis every time rates of increase in world or national GDP fall below five or six per cent per annum. Indeed, where wage-compression characterises a phase of capitalist expansion, this may be favourable to profitability while sub-optimal in terms of the growth of consumer-demand and annual rates of national economic growth. Yes, capitalist expansion under such conditions throws up limits to itself. But this is what we should expect of all capitalist ‘régimes of accumulation’. The capitalist mode of production is inherently contradictory at multiple levels; every pattern of capital-accumulation involves self-generated limits.

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With these preliminary reflections in mind, I now want to turn to the neoliberal era of the past twenty-five years or so. My analysis will build upon three main theses:

Thesis One – Following the recessions of 1974–5 and 1980–2 and the ruling-class offensive against unions and the Global South that took off in this period, severe capitalist restructuring did generate a new wave of capitalist growth, albeit a much more uneven and volatile one than occurred during the great boom of 1949–73. By attacking working-class organisations and undermining states in the Global South; by raising the rate of exploitation and spatially reorganising manufacturing industries; by generating huge new reserves of global labour (via accelerated ‘primitive accumulation’); through massive foreign direct investment, particularly in East Asia; by introducing new systems of work-organisation and labour-intensification (lean production), and new technologies – by all these means, rates of exploitation were increased, South-to-North value-flows were accelerated, and the rate of profit was significantly boosted from its lows of the early 1980s. In the process, new

boost their profitability they contributed to a domestic slowdown in capital-formation at the very time ‘the national economy’ desperately needed private (as well as public) stimulus.

centres of global accumulation were created. To be sure, all of this has entailed ‘global turbulence’ – volatile restructuring, periodic recessions, heightened global inequalities, and national and regional crises.²⁹ But it has, nonetheless, also involved a period of sustained expanded reproduction of capital.

Thesis Two – Alongside and interacting with these changes, a wholesale re-organisation of capitalist finance occurred, stimulated by a metamorphosis in forms of world-money (analysed in Section 4 below). The result was a collapse of the gold-dollar standard, the emergence of floating exchange-rates, heightened financial volatility and uncertainty, and a proliferation of new financial instruments designed to hedge risk in a context of unstable monetary relations. These risk-hedging instruments opened up enormous new fields for financial services and profits, while also creating an inordinately larger sphere for financial speculation. Meanwhile, as financial profits dramatically expanded as a share of total profits, new credit-instruments were created for both financiers and consumers. These transformations greatly expanded the sphere of purely financial transactions and ‘financialised’ capitalism in its neoliberal phase – and, in so doing, laid down major financial fault-lines that were sure to crack in the event of systemic pressures.

Thesis Three – The upward trend in profit-rates from the early 1980s sustained a wave of capitalist expansion that began to falter in 1997, with the crisis in East Asia. The East-Asian crisis signalled the onset of new problems of overaccumulation that shape the contours of the present crisis. After that regional crisis (and particularly after the bursting of the dot.com bubble in the US in 2000–1) a massive expansion of credit *did* underpin rates of growth, concentrating profound sources of instability in the financial sector. So, while the entire period after 1982 cannot be explained in terms of credit-creation, the postponement of a general crisis *after* 1997 can. A decade-long credit-explosion delayed the day of reckoning. But, as the credit-bubble burst, beginning in the summer of 2007, it generated a major financial crisis, one that was bound to be severe given the enduring processes of financialisation throughout the neoliberal period. And, because of underlying problems of overaccumulation that had first manifested themselves in 1997, this financial crisis triggered a powerful global economic slowdown.

Let me now take each of these arguments in turn.

29. Brenner’s notion of ‘global turbulence’ since 1973 thus has decided merits, and accords with much of his own empirical description more cogently, in my view, than does his concept of a ‘long downturn’.

Capitalist restructuring and global accumulation, 1983–2007

Central to my argument is the claim that intense processes of capitalist restructuring throughout the neoliberal period created a new social-spatial reconfiguration of capital and a new, uneven and volatile wave of capitalist expansion (and drove key processes of the phenomenon known as ‘globalisation’). Through a dialectic of global restructuring that has reconfigured labour and capital both within and outside the core, the world-capitalist economy has been decisively remade. I will take different sides of this dialectical process in turn.

While some commentary often seems to suggest that very little restructuring of capital has occurred at the core of the system since the crises of 1973–82, it is clear that major re-organisations of work-process and technology have in fact taken place.³⁰ In the first instance, this involved significant destruction of capital, as plants were closed and workers sacked:

Britain lost 25 per cent of its manufacturing industry in 1980–84. Between 1973 and the late 1980s the total number of employed in manufacturing in the six old countries of Europe fell by seven millions, or by about a quarter, about half of which were lost between 1979 and 1983.³¹

Similar processes were at work in the US. Taking the case of the domestic steel-industry, we find that more than a quarter of a million jobs were lost by the end of the 1980s as large mills were shut and downsized, and new technologies and work-processes introduced. Throughout this restructuring, new mini-mills – such as Birmingham Steel, Nucor and Oregon Steel – established viable accumulation-régimes and seized market-share.³²

Such processes of downsizing, work-reorganisation (‘lean production’) and technological revolution occurred in the midst of a concerted and increasingly successful offensive against the organised power of the working class. Union-density declined dramatically and persistently in the US, Canada, UK, France, Spain, and elsewhere³³ as capital pushed down real wages, shed labour, broke down shop-floor organisation of workers, sped up and intensified work-processes, and introduced robotics and computerised production-systems.

30. This is how Brenner’s account is frequently read – and some of his own formulations contribute to this reading. Brenner’s actual historical narrative, however, is much more nuanced and does capture some aspects of the intense restructuring that took place throughout this period.

31. Hobsbawm 1994, p. 304

32. For an informative bourgeois account of the transformations in US steel see Ahlbrandt, Fruehan and Giarratani 1996.

33. See Moody 1997, p. 183.

The cumulative effects of these processes were profound. In the first instance, they involved a sustained and significant rise in the rate of exploitation. Detailed calculations by Simon Mohun on the US economy indicate, for instance, that after 1979,

The value of labour power fell for the remainder of the century (as productivity grew but hourly real wage rates for production workers did not), so that the rate of surplus value (the ratio of money surplus value to the wages of productive labour) increased by about 40%.³⁴

This increase in the rate of surplus-value in the US went hand in hand with major improvements in the productivity of new capital-investment. As both Mohun and Edward Wolff further show, the tendential rise in the organic composition of capital³⁵ that characterised the period 1947–82 was abruptly reversed during the period of vigorous neoliberal expansion (1982–97) and the productivity of new investment rose. In the language of bourgeois economics, ‘aggregate capital-productivity’ increased; in Marxian terms, after 1982 new capital-inputs were able to generate larger increments of surplus-value.³⁶ On both sides of this equation – the rate of surplus-value and the composition of capital – increases in labour-productivity figure decisively.

None of this need surprise those who favour a dialectical reading of Marx’s account of the ‘tendency for the rate of profit to decline’. After all, in the manuscripts that make up these sections of *Capital*, Volume III, Marx treats the famous (and famously misunderstood) ‘law’ as a dialectical unity of a tendency and its counter-tendencies.³⁷ During periods of ferocious restructuring

34. Mohun 2008, pp. 6, 24. See also Mohun 2006, Figures 4 and 5, pp. 357–8. In Husson’s estimation (1999, p. 86), increases in the rate of exploitation figure even more decisively in restoring profit-rates in Europe than in the US.

35. The organic composition of capital (often known as the capital:labour ratio) refers to the ratio between the means of production and labour under a given set of value-relations. For more on this concept and its relation to the ‘technical composition of capital’ and the ‘value composition of capital’ see Fine and Harris 1979, and Fine and Saad-Filho 2004, Chapter 8.

36. Wolff 2001, pp. 316–19; Mohun forthcoming, pp. 2–3 of 24. There are differences in the ways in which Wolff and Mohun derive their evidence, but it is clear that they are mapping the same trends.

37. As Michael Heinrich points out (2007, pp. 200–1), Marx’s treatment of this ‘tendency’ is much more open-ended than suggested by the three-chapter structure Engels created (Chapters 13–15 of *Capital*, Volume III), and certainly more so than mechanical readings lead one to believe. For one of the earliest and clearest dialectical interpretations of Marx’s ‘law’ see Fine and Harris 1979, Chapter 4; Kliman (2007, pp. 30–1) takes a similar position. All of these authors recognise that a Marxian theory of crisis cannot be directly derived from this ‘law’ (among other things, Marx’s theories of money, credit and finance would first have to be brought into play) although the ‘law’ does, in my view, grasp crucial contradictory dynamics of the accumulation-

of capital in response to a crisis of profitability (of the sort that characterised the era 1973–82), key ‘counter-tendencies’ are likely to dominate – unless massive organised working-class resistance can effectively prohibit such restructuring.³⁸ In the absence of such powerful class-resistance, crises will serve as moments of reorganisation that create conditions for increases in labour-productivity and rates of profit – which, in turn, make renewed expansion possible.

While it is absolutely right to insist that Marx’s ‘law’ is not an empirical one,³⁹ real-world movements in the rate of profit are nonetheless crucial to the dynamics of accumulation.⁴⁰ And it is decidedly clear in this regard that, after falling consistently from 1964–82, profit-rates experienced a significant recovery after 1982, as detailed studies for both the US and Europe have shown. True, profitability did not return to the levels of the mid-1960s. But sustained recovery at lower levels is still that – sustained recovery that makes possible ongoing accumulation. And the available evidence from virtually all sources – Mohun, Moseley, Wolff, Duménil and Lévy, Husson, and Brenner – shows just such a recovery until 1997, as Figure 1 indicates.⁴¹

As this figure shows, profit-rates in the US systematically declined from the mid-1960s until the bottom of the recession of 1982, when they recorded their low point. After that, the trend line moves persistently upward until 1997.

But the recovery of profitability in the dominant economies is only part of the story. If we expand our range of vision to take in developments outside the core capitalist economies, the picture is remarkably illuminating. As part of the intense restructuring of capital that emerged across the global recessions of 1974–5 and 1980–2, direct investment by corporations did become more international in orientation. The mid-1980s are a decisive turning point in this regard, as capital based in Japan and Germany, having long trailed

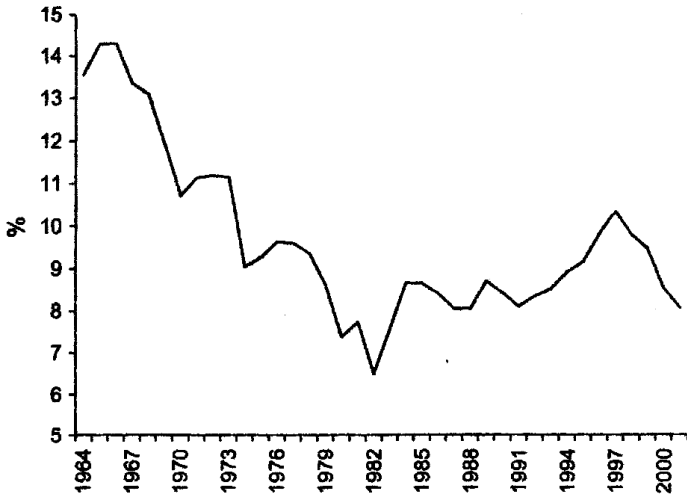
process that are bound up with crises. For an important statement of Marxian crisis-theory based upon a dialectical interpretation see Weeks 1981, Chapter 8.

38. But let me reiterate that the domination, at such moment, of the counter-tendencies to the tendency for the rate of profit to decline is inherent in the ‘law’ itself. This is what it means for the law to be a unity of tendency and counter-tendencies.

39. Fine and Harris 1979, Chapter 4.

40. Freeman (1999, pp. 38–40) notes that money-profit-rates and labour-profits are by no means identical. Nevertheless, his calculations show both rates moving in synchronicity.

41. While I have drawn this Figure from Mohun 2006, p. 348, it corresponds entirely with the evidence presented by Moseley (1999 and 2003), and broadly with that of Duménil and Lévy (2004, p.24) and Husson (1999, p. 85), as indeed with that of Brenner (2006, pp. 292, 334) for the US economy.

Figure 1. The pre-tax average rate of profit, USA, 1964–2001

Source: Mohun 2006, p. 348.

US- and UK-based capital in terms of foreign direct investment (FDI), turned outward in dramatic fashion.

The Plaza Accord, which forced up the value of the Japanese yen and the German mark relative to the dollar, clearly played a major role in terms of the timing and the pace of the shift to FDI by capitalists in those two countries. But it did not, by itself, create the trend to globalised investment. And globalised it was. In the four years from 1985 to 1989 alone, FDI by Japanese firms tripled. From 1991 to 1995, manufacturing FDI rose another 50 per cent. This explosion in foreign investment owed much to efforts by Japanese corporations to reduce costs and boost profits by way of building regional production-chains that could take advantage of lower labour-costs in Taiwan, South Korea, China, Malaysia and so on. As a result, the share of manufacturing output produced abroad by Japanese multinationals soared; as did trade between Japan and its East-Asian neighbours who were increasingly linked through regional production-systems. German-based capital pursued a similar strategy, with FDI by German firms quadrupling from 1985 to 1990, and doubling again by 1995.⁴²

By the 1990s, then, East Asia had become the centre of a new burst of world-accumulation. In the space of six years, 1990–6, for instance, total

42. Data on Japanese and German FDI come from OECD, *Economic Survey of Japan* and *Economic Survey of Germany*, various years.

capital-formation in East Asia (excluding Japan) jumped by nearly 300 per cent. Over the same period, capital-formation increased by 40 per cent in the US and Japan and a mere 10 per cent in Europe.⁴³ A structural shift of immense importance was reshaping the world-economy.

As capital-investment became more ‘global’ after 1985, major transformations occurred in world manufacturing and the world working class.⁴⁴ *Across the quarter century 1980–2005, the world’s ‘export-weighted’ global labour-force quadrupled.* Most of this growth occurred after 1990 and about half of it took place in East Asia, where the working class increased nine-fold – from about 100 million to 900 million workers. South Asia, too, saw significant growth in both industry and the number of industrial workers.⁴⁵ While the accuracy of these calculations can be debated, more conservative estimates still suggest that the world working class doubled in size over the past two decades.⁴⁶ To get some sense of the spatial reorganisation of global industry over the neoliberal period, consider the size of the manufacturing working class in China relative to the G-7 countries (the US, Canada, Japan, France, Germany, Italy and the UK), as summarised in Table 1.

Table 1: Number of manufacturing workers in China and the G-7 countries (2002)

China	G-7 Countries
109 million	53 million

Sources: Banister 2005 and Bureau of Labor Statistics 2005

Here we get a powerful indicator of the explosive growth of manufacturing in East Asia (outside Japan), and in China in particular.⁴⁷ These figures are

43. Brenner 2006, p. 300.

44. It is important to underline that much of the world was left out of these processes of capitalist globalisation. Most of Sub-Saharan Africa, much of Latin America and the Middle East, parts of South Asia saw very little increase in fixed-capital flows.

45. IMF reports 2007a and 2007b. The ‘export-weighted’ measure of the industrial working class is constructed by weighing a country’s labour-force in relation to its ratio of exports to GDP. This, of course, tends to underestimate the size of working classes overall. But it does provide a useful index of the relative growth of the world working class.

46. Paus 2009.

47. Of course, manufacturing workers in the G-7 countries are much more productive than in China, largely because of the more sophisticated technologies with which they work. It may well be that they create value equal to their Chinese counterparts. Nevertheless, there can be no denying the crucial spatial re-organisation of global manufacturing or the dramatic industrial expansion in China.

especially striking when we realise that state-owned enterprises in China shed around 35 million workers during this period.⁴⁸ The fact that, by 2002, there were twice as many manufacturing workers in China than in the G-7, where the number has been in a pretty steady decline for decades, is indicative of major structural transformations that have taken place in the global economy throughout the neoliberal period. Without accounting centrally for these developments – that is, by setting them at the heart of an account of the neoliberal period – we fail to grasp key dynamics of the system in recent decades. But making these shifts central requires that we analyse capital as a total global system, rather than as an aggregate of a few of its dominant economies.

Sticking with China for a moment, it is striking that its real GDP increased 12 times between 1978 and 2005, as it rode massive foreign investment and annual rates of capital-formation that surpassed those of Japan, Taiwan and South Korea during their boom years.⁴⁹ While it is true that the Chinese economy became home to much of the world's low-cost manufacturing – dominating industries such as footwear, clothing, sporting goods and toys – this is far from the whole story. For it is equally true that China has, in recent years, joined the ranks of the world's largest exporters of electronics and information-technology hardware.⁵⁰

Of course, none of this would have been possible without extensive processes of 'primitive accumulation', as hundreds of millions of Chinese peasants have fled rural poverty and dispossession in search of wage-labour. And these processes have by no means been restricted to China. The neoliberal period has, in fact, been characterised by a dramatic decline in the number of people living on the land – so much so that, for the first time in human history, the majority of the world's inhabitants now live in urban spaces.⁵¹ Over the past quarter-century, intense processes of rural impoverishment, dispossession and war have swelled the ranks both of the employed global working class and the global reserve army of labour.⁵² And this has provided vast reserves of potential wage-labour that have underpinned the dramatic growth of global manufacturing outside the capitalist core.

* * *

48. Lardy 2002, p. 1.

49. Lardy 2007, p. 2. For useful summaries of China's extraordinary economic growth see Harvey 2005, Chapter 5, and Glyn 2006, pp. 88–95.

50. Lardy 2002, p. 3.

51. Davis 2006.

52. See McNally 2006, pp. 89–108.

Let me now recapitulate this part of my argument.

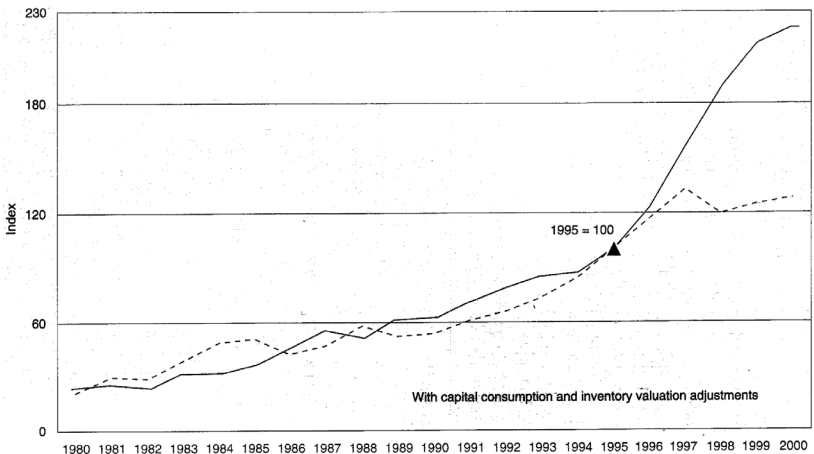
In response to the recessions of 1974–5 and 1980–2, the world's ruling class unleashed an offensive against unions and the Global South that created intense capitalist restructuring and a new wave of volatile but real capitalist growth. After 1982, a significant restoration of profitability took place, and this underpinned major processes of expanded capitalist reproduction (particularly in East Asia). It is true that profit-rates did not recover to their peak levels of the 1960s, and that overall growth-rates in the core-economies were not as robust. It is also true that there were sharp cyclical contractions, as in 1992, and profound regional crises. But these are of the nature of capitalist growth and accumulation, which is inherently uneven, contradictory and volatile. It remains the case, nonetheless, that a dynamic period of growth, centred on industrial expansion in East Asia, enabled capitalism to avoid a world-crisis for twenty-five years. And this volatile process of growth, and the unique financial forms that have accompanied it, have determined many of the specific features of the current crisis.

It will not do to say that, for twenty-five years, crisis was 'postponed' because credit was pumped into the system.⁵³ It is certainly true that, since the 1970s, governments in the core-economies have responded to economic downturns and financial shocks with monetary stimulation. And this has played a role in generating sectoral crises (for example, the dot.com meltdown) as well as national and regional crises (Russia 1998, Argentina 2000–1). But it does not follow that aggressive credit-creation artificially buoyed an otherwise stagnant global economy for a quarter-century. This is so for three reasons. First, as we have seen, there was a real recovery in profitability that enabled actual accumulation to occur during the neoliberal period. As commentators have regularly noted, much of the capital-investment of this period was based on retained earnings by firms, not borrowing. Second, sustained asset-inflation – the 'bubble economy' – takes off from about 1996 on, not from 1982.⁵⁴ Asset-inflation then received continual fillips as central banks, led by the US Federal Reserve, repeatedly drove interest-rates lower to stave off a recession in response to the East-Asian Crisis (1997), the failure of the Long Term Capital Management hedge-fund (1998), the Russian Crisis (1998) and the dot.com meltdown (2000–1). It is only from 1996–97 that asset-values persistently and dramatically depart from wealth-creation. Indeed, one of the crucial figures

53. While Brenner is often read this way, he in fact dates the bubble-economy from the 'reverse Plaza Accord' of 1995. See Brenner 2002, p. 134. Kliman 2009 does seem to argue that growth since the 1970s has been essentially debt-driven. Notwithstanding my respect for Kliman's work in value-theory, I think that he is wrong on this point.

54. Schiller 2008, p. 49.

Figure 2



— NYSE Composite Index - - - Corporate profits after tax

Source: Brenner 2002, Figure 5.2, p. 140

produced by Brenner demonstrates precisely this pattern, with US profits recovering consistently from 1980 to 1997, and the New York Stock Exchange index simply tracking that recovery until 1996, after which point the NYSE continues to rise while profits turn down – a clear indication of the formation of a ‘bubble-economy’ *after* that point. Figure 2 tracks this pattern.

The third reason for claiming that pump-priming and credit-creation alone could not have enabled capitalism to avoid a generalised capitalist crisis for a quarter-century is both a logical and empirical one. It is inconceivable that the massive FDI flows into East Asia, the new industrial zones with tens of thousands of factories and millions of workers, the huge increases in the size of the world working class, could all have been generated simply by central banks creating credit. Credit-creation can frequently extend a boom, as I believe it did after 1997, but it cannot on its own create a quarter-century of secular expansion. Never in the history of capitalism has such a feat been possible and I see no reason, logical or empirical, to believe that central banks found a new magic in this regard during the age of neoliberalism. If this was the whole answer, if everything had simply been credit-driven, then all the historical evidence suggests that an enormous global financial crisis of the sort we are witnessing today would have had to occur *much* earlier. If they want to argue to the contrary, the onus ought to be on the proponents of such a view to demonstrate theoretically and empirically how a relapse into a global slump was staved off by thirty-five years of monetary and financial pump-priming.

Short of demonstrating a new central-bank magic, we need to be able to explain the partial but real successes of capital in restoring profit-rates throughout the 1980s; the generation of new centres of global accumulation, such as China; the creation of huge new global labour-reserves (by means of ongoing ‘primitive accumulation’); the re-subordination of the Global South under neoliberalism; and the associated metamorphoses in financial markets, all of which enabled neoliberal capitalism to avoid a generalised economic and financial slump for a quarter of a century, only to lay the grounds for new crises of overaccumulation and financial dislocation. In doing so, we will be able to make better sense of the unique forms and patterns of this crisis by relating them to specific changes in the neoliberal organisation of capitalism – and the fault-lines inherent in it.

Those fault-lines first manifest themselves, as I shall argue below, as the neoliberal recovery in profit-rates and the wave of capitalist expansion it sustained began to run up against powerful limits by the late 1990s. The 1997 crisis in East Asia was the first sign of a new, emerging crisis of overaccumulation. After that regional crisis (and particularly after the bursting of the dot.com bubble in 2000–1), a massive expansion of credit *did* underpin rates of growth, concentrating profound sources of instability in the financial sector. So, while the entire period after 1982 cannot be explained in terms of credit-creation, the postponement of a general crisis *after* 1997 can. But as the accompanying credit-bubble burst, beginning in the summer of 2007, it generated a major financial crisis. And, because of underlying problems of overaccumulation, this financial crisis necessarily triggered a profound global economic slowdown.

To summarise, then, as well to anticipate some details, my argument rests on the following claims: 1) the neoliberal offensive succeeded in raising the rate of exploitation and profits, thereby inducing a new wave of global accumulation (1982–2007); 2) this expansion took place in the framework of transformations in money and finance that enabled financial-service industries to double their share of total corporate profits, creating increasingly ‘financialised’ relations between capitals; 3) when the first signs of a new phase of overaccumulation set in, with the Asian Crisis of 1997, gargantuan credit-expansion, increasingly fuelled after 2001 by record-low interest-rates, postponed the day of reckoning, while greatly ‘financialising’ relations between capital and labour; 4) but when financial markets started to seize up in the summer of 2007, underlying problems of overaccumulation and declining profitability meant that financial meltdown would trigger global slump; and 5) neoliberal transformations in money and finance have given this crisis a number of unique features that the Left ought to be able to explain.

‘Financialisation’ and the mutation of world-money

With these considerations in mind, I want to clarify the idea of financialised capitalism. For there are deep and important reasons why this crisis began in the financial system, and why it has taken unique forms – and these must be explained if we wish to illuminate the concrete features of this slump. However, in many respects, the term *financialisation* can be, and has been, highly misleading. To the degree to which it suggests that finance-capitalists and their interests dominate contemporary capitalism, it is especially so. And, where it has been taken to imply that late capitalism rests on the *circulation* rather than the production of goods – as if we could have one without the other – it has contributed to absurd depictions of the world-economy today. Moreover, the lines between industrial and financial capital are, in practice, often quite blurred, with giant firms engaging in both forms of appropriating profit. General Electric, for instance, is as much a bank as it is a manufacturing corporation, while General Motors and Ford have increasingly relied on their finance-divisions in order to reap a profit. Prior to its collapse, Enron was essentially a derivative-trading company, not an energy-firm. All of these firms financialised themselves to important degrees in response to the rising profitability of the financial sector during the neoliberal period – a point to which I return.

What the term ‘financialisation’ should capture, in my view, is that set of transformations through which *relations between capitals and between capital and wage-labour have been increasingly financialised* – that is, increasingly embedded in interest-paying financial transactions. Understanding this enables us to grasp how it is that financial institutions have appropriated ever larger shares of surplus-value. It is as a way of capturing these structural shifts that I intend to use the term financialisation. In order to avoid misunderstanding, and to close off bad theorising often associated with the concept, I will identify it specifically with the complex interconnections among three key phenomena of the neoliberal period that have underpinned the dizzying growth – and now the stunning collapse – of the financial sector. The three phenomena at issue are:

- i) the mutation in the form of world-money that occurred in the early 1970s;
- ii) the financial effects of neoliberal wage-compression over the past thirty years; and
- iii) the enormous global imbalances (revolving around the US current-account deficit) that have flooded the world-economy with US dollars

Let me now take up the first of these.

* * *

Commentators have rarely noted the curious conjunction that has defined capitalist globalisation in the neoliberal era. On the one hand, globalising capital has involved an intensification of capitalist value-logics – removal of extra-market protections designed to subsidise prices of subsistence-goods (for example, food or fuel); weakening of labour-market protections for workers; privatisation of state-owned enterprises; deep cuts to non-market provision of healthcare and other social goods. On the other hand, this intensification of value-logics has occurred through the medium of more unstable and volatile forms of money. As a result, *value-forms have been extended at the same time as value-measures (and predictions) have become more volatile*. This has given neoliberal globalisation a number of distinct characteristics and a propensity to enormous credit-bubbles and financial meltdowns of the sort we are witnessing at the moment. The following bullet points trace this second, and largely neglected side of the process.⁵⁵

- The breakdown of Bretton Woods saw not only liberalisation of capital flows, but also globalisation alongside a weakening in the world-money properties of the US dollar. Under Bretton Woods, the dollar was equivalent to 1/35th of an ounce of gold, and major currencies were fixed in proportion to it. Changes in these currency proportions (exchange-rates) were infrequent and generally small. But, with the end of dollar-gold convertibility in 1971 and the move to floating exchange-rates,⁵⁶ currency-values became increasingly volatile. As a result, the formation of values at the world-level became much more uncertain and less predictable.
- With the end of convertibility, the dollar became a fully-fledged international credit-money – grounded in fictitious capital (the US national debt), and lacking any substantive grounding in past labour (in this case, gold). As we shall see, this produced fertile ground for financial speculation.
- As a result of the de-commodification of the dollar and the move from fixed to floating exchange-rates for currencies, the *measure-of-value* property of money – the capacity of money to express the socially-necessary

55. I recognise the telegraphic style of this argument, which will be developed systematically in a future study on world-money.

56. These are rates that literally fluctuate all day each and every day according to values determined on world-markets.

(abstract) labour-times and market-values inherent in commodities – was rendered highly unstable.

- With increased uncertainty in value-relations, risk-assessment and hedging against risk became crucial activities for all capitals, especially for those whose business-operations required moving in and through multiple currencies (all of whose values were fluctuating more widely). It is in this context that markets for derivatives exploded. In the first instance, derivatives are instruments designed to hedge risk. They allow, for instance, a corporation to enter a contract that provides an option to buy a currency (dollars, yens, euros or whatever) at a set price. While this option-contract costs a fee, it also provides greater financial predictability for the firm.
- But, while this aspect of derivatives follows conventional business-logic, there has been an amazing proliferation of such instruments to cover just about every imaginable risk. And, huge numbers of such derivative-contracts represent nothing more than financial gambling. This is because I can buy insurance against ‘risks’ to assets I do not own. I may, for instance, purchase a derivative known as a Credit Default Swap (discussed further below) against the risk of GM defaulting – and I can do this even if I own none of GM’s stocks or bonds. Rather than protecting my investment, then, in this case I am buying a CDS as a bet that GM *will* fail, hoping to collect in the event of the company’s failure. It is as if I could take out an insurance-policy on someone I suspect to be dying, and then wait to collect. Thus, while their explosive growth follows on the new volatility of money since 1971, derivatives have also evolved as speculative bets on the movements of specific currencies, interest-rates, stocks or bonds, even when I do not own any of these assets. I can even buy a derivative-contract simply as a bet on the weather-pattern or the result of a sporting event. Derivatives also create opportunities for speculators to exploit value-gaps between markets (arbitrage), when currency-movements make some asset relatively cheaper or pricier in one national market compared to another.
- This volatile régime of world-money gave an enormous impetus to foreign-exchange trading and to a whole plethora of options, hedges and swaps related to it. In fact, foreign-exchange trading is now far and away the world’s largest market, with an average daily turnover above \$4 trillion according to the Bank for International Settlements, which represents an 800 per cent increase since 1988. To that market must be added a currency-derivatives market of more than half that much again.
- As a result of this growth, derivatives-markets have come to massively eclipse markets in stocks and bonds. In 2006, for instance, more than

\$450 trillion in derivative-contracts were sold. That compares with a global stock-market of \$40 trillion and world bond-markets of about \$65 trillion at the time. And the profits that can be made on selling derivatives are much higher than on selling stocks and bonds, thereby fuelling the growth of financial markets and the profits of the financial sector.⁵⁷

- The heightened instability of world-money, the explosion in foreign-exchange trading, and the rise of instruments designed to hedge risk (derivatives) and, finally, the speculative activities associated with these have all encouraged a whole range of financial instruments designed to capture *future values*; that is, shares of surplus-value that have not yet been produced. The result has been a proliferation of *fictitious capitals*, such as mortgage-backed securities and Collateralised Debt Obligations (which are discussed further below).

All of these developments, which are structurally related to the mutation in the form of world-money that took place in the early 1970s, as any commodity-basis to world-money was abandoned and exchange-rates were allowed to float, constitute an essential basis of financialisation in the neoliberal period.⁵⁸

Neoliberal wage-compression, social inequality and the credit-explosion

It follows from this analysis that the financialisation that defines capitalism in its neoliberal form consists in structural transformations that corresponds to a particular conjuncture, not a financial coup or the rebirth of the *rentier*.⁵⁹ In the first instance, this is manifest in the doubling of the share of US corporate profits going to the financial sector compared to its share during the 1970s and 1980s. While the proportion of profits going to finance doubled to more than 28 per cent by 2004, the share going to the broader financial services sector – Finance, Real Estate and Insurance (FIRE) – also doubled to nearly 50 per cent of all US corporate profits.⁶⁰

57. Lucchetti 2007.

58. My argument, to be clear, is not that the operation of the law of value requires a commodity-money, but, rather, that the move to a fully-fledged system of credit-money at the world-level comprises a major metamorphosis in the formation of values at the world-level.

59. The idea of a financial coup, dating from 1979 and ostensibly led by Paul Volcker, then head of the US Federal Reserve, has been advanced by Duménil and Lévy 2004, pp. 69 and 165.

60. Leonhardt, 2008. For the FIRE sector more broadly, see Krippner, 2005, and Duménil and Lévy, Chapter 13.

The growth of financial markets and profitability is tied to processes of neoliberal wage-compression that also underwrote the significant recovery of the rate of profit between 1982 and 1997. Wage compression – which is a key component of the increase in the rate of surplus-value in the neoliberal period – was accomplished by way of social and spatial reorganisation of labour-markets and production-processes. Five dynamics figure especially prominently here: i) the geographic relocation of production, with significant expansion of manufacturing industries in dramatically lower-wage areas of East Asia and, to a lesser degree, India, Mexico, Eastern Europe, and so on; ii) the downward pressure on wages triggered by a huge expansion in the reserve army of global labour resulting from massive dispossession of peasants and agricultural labourers, particularly in China and India; iii) the increase in relative surplus-value brought about by the boosts to labour-productivity (output per worker per hour) resulting from the combined effects of lean-production techniques and new technologies; iv) increases in absolute surplus-value triggered by an increase in work-hours, particularly in the United States; v) sharp cuts to real wages brought about by union-busting, two-tiered wage systems, and cuts to the ‘social wage’ in the form of a reduction in non-wage social benefits, such as health-care, food- and fuel-subsidies, pensions and social-assistance programmes.

Where successful, all of these strategies have reduced the living standards of working-class people while spectacularly concentrating wealth at the top of the economic ladder. Data from the US are especially instructive in this regard. According to detailed studies, which may, if anything, underestimate the polarisation, between 1973 and 2002, average real incomes for the bottom 90 per cent of Americans fell by 9 per cent. Incomes for the top one per cent rose by 101 per cent, while those for the top 0.1 per cent soared by 227 per cent. These data have recently been updated to show additional increases in household-inequality in the US all the way through 2006.⁶¹ And a recent report from the Organisation for Economic Co-operation and Development charts similar trends for most major capitalist societies.⁶²

Inevitably, even more unequal relations appear once we look beyond income to the ownership of corporate wealth. Whereas, in 1991, the wealthiest one per cent of Americans owned 38.7 per cent of corporate wealth, by 2003 their share had soared to 57.5 per cent.⁶³ And similar effects are evident at the global level. According to the Boston Consulting Group, for example, since 2000 the 16.5 per cent of global households with \$100,000 or more to invest watched

61. Picketty and Saez 2006.

62. OECD 2008.

63. Johnston 2006.

their assets soar 64 per cent, to \$84.5 trillion, prior to the recent crash. The vast bulk of that wealth resides in the portfolios of millionaire-households. Although they comprise just 0.7 per cent of the globe's total households, these millionaire-households now hold over a third of the world's wealth.⁶⁴ And it is these households, particularly in the conditions of renewed overaccumulation of capital since the late 1990s, who have enormously boosted demand for interest-bearing financial assets.

Just as the wealthiest households demanded a plethora of financial instruments in which to invest, large numbers of working-class people turned to credit-markets – particularly in the context of dramatically lowered interest-rates after 2001 – in order to sustain living standards. And the provision of greater amounts of credit to such working-class people – in the forms of mortgage- and credit-card debt in particular – was underpinned by the provision of 'cheap money' (low interest-rates) designed to prevent the deepening of the slowdowns that began in 1997 and in 2001, and by growing demand from wealthy investors for 'securitised' debt-instruments (that is, mortgage- and credit-card debt packaged like securities for purchase) that offered higher rates of return. The process of the securitisation of debt – repackaging it as a purchasable income-generating 'security' – enabled working-class debt to comprise a significant source of new financial instruments for banks, pension-funds, financialised corporations, wealthy investors and the like. And, here, I want to highlight a largely ignored point about the distribution of the US debt build-up. For, while mainstream commentators have focused on the 'reckless' spending and borrowing habits of US consumers, the epicentre of the borrowing binge was the financial system itself, as banks and 'shadow banks' (like hedge-funds) bought the very junk they were creating. For instance, while US consumer-debt relative to GDP doubled between 1980 and 2007, financial-sector debt more than quintupled in the same relative terms during those years.⁶⁵

All of these trends led to a quadrupling of private and public debt in US, from slightly more than \$10 trillion to \$43 trillion, during the period of Alan Greenspan's tenure as President of the Federal Reserve (1987–2005).⁶⁶ And, as Figure 2 illustrates, the great acceleration in this debt build-up came after 1997, as the recessionary dynamics of global overaccumulation became more evident. Moreover, as I discuss below, since 2000 the rate of credit-creation in many economies has been much faster than that in the highly indebted US

64. Boston Consulting Group 2007.

65. Wolf 2008.

66. Phillips 2008.

and UK, presaging a series of local crises, of the sort we have already seen in Iceland, Hungary, Latvia, the Ukraine and Pakistan.

Global imbalances, prolonged slump: from Asian crisis to the crash of 2007–8

As I have suggested, a new wave of global capitalist expansion began in 1982, as two recessions (1974–5, 1980–2) coupled with mass unemployment, cuts to the social wage, an employers' offensive against unions, a 'free-trade' offensive against the South, and the accelerated introduction of lean-production methods all raised the rate of surplus-value and general levels of profitability. Spatial restructuring of capital to take advantage of low wages, particularly in labour-intensive manufacturing and assembly, had the same effects. The centre of the new wave of accumulation was East Asia. And it was there, fifteen years into the new cycle of growth, that the first symptoms of a new crisis of overcapacity manifested themselves.

While many commentators treated the Asian crisis of 1997 as simply a matter of global flows of finance (which exited the region *en masse* at the time), the regional financial outflows reflected severe pressures of overaccumulation of capital, as I argued at the time.⁶⁷ The investment-boom in East Asia created enormous excess-capacity in computer-chips, autos, semi-conductors, chemicals, steel, and fibre-optics. 'A persistent trend to overcapacity', observed the World Bank at the time, had induced 'price wars and intense competition'.⁶⁸ One key indicator of these problems of overcapacity and price-wars is the *consumption deflator*, which measures prices in consumer-goods. That index shows that US prices for consumer-durables – electronics, appliances, cars and more – began to decline in the autumn of 1995. This signal of rising productivity and overproduction offers an important clue as to the structural underpinnings of the crisis that broke out in East Asia (the centre of the manufacturing boom of the neoliberal era). Equally important, the consumption-deflator shows that prices for consumer-durables continued to fall from 1995 right into 2008, one of the reasons the rate of inflation was relatively low, though still positive, and a clear indication that problems of overaccumulation created by the expansion of 1982–97 have not been resolved.⁶⁹

67. McNally 1998.

68. World Bank 1998, Chapter 2.

69. Bureau of Economic Analysis, various years. Turner 2008, pp. 21–2, is one of very commentators to underscore the significance of these developments. While I have important

It is at this point – after the Asian crisis of 1997 and the slide back toward recession following the bursting of the dot.com bubble in 2000–1 – that two interconnected phenomena become crucial to postponing a general slump: monumental growth of debt-loads; and the US current-account deficit (its shortfall in trade in goods and services and interest-payments with the rest of the world), which combined to allow the American economy to operate as the ‘Keynesian engine’ of the global economy over the past decade. And, here too, as we shall see, the new form of world-money played a central role.

Although it may seem paradoxical, it was the recently-hammered East-Asian economies (plus China) that drove the next decade of growth (1998–2007). Obeying the logic of capitalism, these economies were forced to cut exchange-rates of local currencies, shed labour, reduce costs and dramatically restructure industry. Very little capacity was shed, however. Instead, it was both re-organised and snatched up by foreign investors seeking to capture valuable assets from distressed and ailing firms. Renault’s takeover of Samsung Motors, and Volvo’s buyout of Samsung’s construction-equipment division loom especially large in this regard; but similar phenomena, including purchase of large stakes of Korean firms, occurred in steel, electronics and other sections of the auto-industry.⁷⁰ Having driven down costs through the course of the crisis, East-Asian firms were soon exporting their way back to growth, developing huge trade-surpluses and soaring international reserves (mainly dollars). But this export-led growth was sustained overwhelmingly by the growing trade- and current-account deficits in the US. As commentators have noted, the American economy effectively became ‘the consumer of last resort’. By 2000, for instance, US imports accounted for almost one-fifth of world-exports, and four per cent of world gross domestic product. But this level of consumption of foreign goods could only be sustained by 2006 at the cost of an \$857 billion US current-account deficit (the shortfall in trade in goods and services and in interest-payments with the rest of the world). The recovery after 1997, in other words, was built on the pillars of exceptionally low US interest-rates, particularly from 2001; steady growth in consumer-indebtedness; and a swelling US current-account deficit. Absent those, there would have been no sustained recovery after 1997 – and across the related crises in Russia (1998),

differences with Turner’s analytical framework, he does see the general problem of overaccumulation. Of course, productivity gains will keep price increases low or even negative, and some of the downward pressures on prices were certainly productivity-induced. But the clear evidence for overcapacity by the mid-1990s, particularly after the 300 per cent jump in capital-formation in East Asia (outside Japan) from 1990 to 1996, indicates that overaccumulation was a central part of the story.

70. See Burkett and Hart-Landsberg 2001, p. 27. Kincaid (2001, pp. 111–12) correctly notes that very little destruction of excess-capacity occurred as a result of the Asian crisis.

at Long Term Capital Management (1998), Brazil (1999) and Argentina (2000–1).

No other country but the US could have run sustained current-account deficits of this magnitude for so long. And, had it not broken convertibility with gold, it would have been confronted by another run on US gold-supplies. But operating now as inconvertible world-money, dollars had to be accepted by those governments with whose economies the US was running a deficit. And, because the euphoria of a 'boom' built on asset-bubbles, in both financial investments and real estate,⁷¹ created real investment opportunities – even if these were increasingly built on sand – foreign investors kept pouring funds into US markets. Foreign central banks, particularly in East Asia and the OPEC nations did the same, taking the dollars shipped out to cover American current-account deficits and cycling them back into the US, therein subsidising the credit-driven consumer-boom. Because the US dollar is the main form of world-money, it remained attractive, so long as the American economy looked vibrant, despite sustained – and unsustainable – current-account deficits and a gigantic decline in US international net worth.

Meanwhile, however, the investment-boom in China had exacerbated the problems of global overcapacity that first flared up in 1997. These began to manifest themselves in the Chinese economy from around 2005 on. According to the Chinese government's National Development and Reform Commission, China's steel industry had developed an annual capacity of 470 million metric tons at a time when actual output equalled only 350 million metric tons. This excess-capacity of 120 million metric tons was greater than the *total* real output (112.5 million metric tons) of the world's second-largest steel-producing country, Japan. Even worse, problems of overaccumulation haunted the iron-alloy industry, where capacity-utilisation had slumped to a mere 40 per cent by 2005. And significant overcapacity plagued the auto-, aluminium-, cement- and coke-industries.⁷² Detailed studies suggested, for example, that by 2005 China's home-appliance market had overcapacity-rates of 30 per cent in washing machines, 40 per cent in refrigerators, 45 per cent in microwave ovens and a mind-blowing 87 per cent in televisions.⁷³

71. For a hundred years after 1895, US house-prices rose in tandem with the rate of inflation. Then, from 1995 to 2007, they rose 70 per cent faster, creating an extra \$8 trillion in paper-wealth for US home-owners, paper-wealth that became the basis for the great borrowing-binge of the period. See Baker 2007. It is important to emphasise, however, that financial-sector debt in the US grew faster than consumer-debt during this period – a point to which I return below.

72. Wu 2005, p. 11.

73. Lardy 2007, pp. 6–7.

So, with overcapacity again weighing down profit-rates,⁷⁴ and signs of asset-bubbles forming in the US and other economies (notably the UK, Spain and Ireland), the capitalist world-economy was increasingly vulnerable to shock. Moreover – and this is a point that has eluded many analysts – as soon as the US bubble-driven boom showed signs of faltering, a flight from the dollar and the US economy was inevitable. Indeed, private investors started to move out of dollar-based investments from 2002 on.⁷⁵ But, in 2007, the flow of capital out of the US turned into a torrent. As US profits peaked in the third quarter of 2006 and then entered a period of decline, private investors saw the writing on the wall. Private-capital flows into the US turned abruptly negative in the third quarter of 2007, with an annualised outflow of \$234 billion – a stunning drop of \$1.1 trillion from the previous quarter (when flows were positive to the tune of \$823 billion).⁷⁶ A reversal of this sort was absolutely without precedent. And it indicated that, contrary to some pundits, capital could flee the US economy and its currency as readily as anywhere else. What saved the US economy from a dizzying collapse of the dollar and an even more brutal seizure of credit-markets was continued investment (particularly in Treasury bills and bonds) by central banks in East Asia and oil-producing Middle-Eastern states. Tellingly, if Chinese reports are to be believed, much of this investment was provided only after US president George Bush begged his Chinese counterpart, Hu Jintao, to keep up purchases of US bonds, and after then-US Treasury Secretary Hank Paulson succumbed to China's withdrawal of investment in the debt of US government-agencies by effectively nationalising the mortgage-lenders Fannie Mae and Freddie Mac.⁷⁷

But private capital had spoken. Belief in the US 'boom' was evaporating. The real-estate bubble began to deflate, mortgage-backed securities entered their free fall, hedge-funds (first at Bear Stearns) collapsed, followed by investment-banks. The rout was on – and it is far from over. In the process, the capacity of whopping US current-account deficits, underpinned by debt-fuelled consumer-spending, to buoy the world-economy appears to be exhausted. Yet, to rebalance the global economy, to eliminate huge US deficits and enormous East-Asian surpluses, means to destroy the source of demand that enabled growth in a period of overaccumulation – and it would also mean much larger falls in the US dollar. For this reason, short of a long slump that destroys huge amounts of capital, it will be extremely difficult for the

74. For estimates on the decline of profitability in China see O'Hara 2006, pp. 400–1.

75. Brenner 2006, p. 327.

76. Bureau of Economic Analysis. See the discussion in Turner, pp. 90–1.

77. Pilling 2008; Gapper 2008.

world-economy to find a new source of demand sufficient to restart sustained growth.

Fictitious capital, continuing financial crises

Meanwhile, we will continue to be treated to a great destruction of capitals, both real and fictitious. The concept of fictitious capital was developed by Marx with two key features in mind. First, fictitious capitals are paper-claims to wealth that exist alongside the actual means of production, stocks of goods and reserves of labour-power that capitals mobilise. Yet, they can be bought and sold many times over, as if they were that wealth itself: this is why the prices of stocks can come to bear an absurdly inflated relation to the actual value and profitability of a firm. Secondly, fictitious capitals lay claim to future wealth, that is, to shares of profits or wages that have not yet come into existence. So, when a bank creates a financial asset that provides the right to the principal and interest-payments from my credit-card debt – a process, as we have seen, known as *securitisation* – it is not selling an existing asset but a claim to income that *may* be created in the future. Should I lose my job, however, and default on my credit-card debt, then the ‘asset’ sold by the bank is revealed to be totally fictitious, a mere piece of paper – nothing more than an IOU that will never be repaid. And, during the neoliberal period, for the three reasons I have outlined, we have seen an extraordinary build-up of fictitious capitals (paper-claims to future wealth) within the system.

A key structural underpinning for this is the mutation in the form of world-money that produced enormous new industries devoted to currency-trading, and the related derivative-instruments – futures, options, swaps and the like – that have proliferated over the neoliberal era.⁷⁸ As much as there are sound structural reasons for a proliferation of risk-hedging derivatives in an era of floating exchange-rates, derivatives have also provided a huge field for purely speculative activity – for financial gambling, as speculators make bets as to which currencies, commodities or national interest-rates will rise or fall, and reap profits or losses according to the accuracy of their bets. Of course, the profits on the trading of such instruments have to come from somewhere – and that somewhere has been the non-financial corporate sector, whose share of total profits has systematically fallen across the neoliberal era, while the financial share has soared, as we have seen. Secondly, the great polarisation of

78. It is of course true that futures and options-contracts, mainly on raw commodities, have existed for a very long time. But the explosion in these instruments and the size of their markets is a phenomenon that follows the move to floating exchange-rates in 1971–3.

incomes produced both a huge demand from the wealthy for interest-paying financial instruments, which was eventually met by the extension of gigantic amounts of credit (particularly for mortgages, housing-backed loans, and credit-cards) to working-class households desperate to sustain living standards. Since 2000, mortgage-backed ‘securities’ have been the flavour of the month, often in the form of Collateralised Debt Obligations (CDOs) – that is, debts backed up by collateral (in this case houses). But, if the value of the underlying asset (houses) plummets, no longer equal to the paper-debts themselves, then the ‘collateral’ is increasingly fictitious. And that is exactly what has happened. As housing prices have fallen off a cliff in the US, Ireland, UK, Spain, and elsewhere, the actual values of CDOs have collapsed, forcing banks to write off billions of dollars in assets. At the moment, a large proportion of CDOs are actually trading at prices between 20 and 40 cents on the dollar.

This is what it means when Marx says a crisis involves a destruction of capital. The ‘values’ of fictitious capitals – stocks, bills and all kinds of paper-assets – which were previously treated as if they were real assets (and against which financial institutions borrowed), enter a freefall. At the same time, real capital is destroyed, as factories are mothballed, corporations go bust and sell off their buildings, machines, land, customer lists and so on at bargain basement prices. And what is particularly troubling for the ruling class is that, even after something approaching \$10 trillion in bailouts, the destruction of capital is still in the early innings.

It is quite clear that huge global companies, of the scale of GM and Chrysler, are going to collapse or be merged, while others like Saab will go a similar route. The same will happen in the electronics-industry. Factories will be permanently closed, millions of jobs will be eviscerated. The OECD estimates eight million additional job losses in the major economies next year, while the International Labour Organisation predicts job losses of 50 million by the end of 2009.⁷⁹ With half that number or more (26 million) already accounted for by layoffs of migrant-workers in China, the odds are that the final number will be much higher. Meanwhile, as the slump in the ‘real economy’ continues to feed back into the financial sector, it is clear that more bank-meltdowns are in store.

There are, after all, a lot more ticking time-bombs in the financial system. Consider, for instance, the rising defaults on credit-card debt. And then contemplate the mountain of commercial paper, much of which was sold to finance Leveraged Buy Outs (LBOs) – that is corporate takeovers made possible by borrowing funds and issuing IOUs. As corporate profits plummet,

79. Schwartz 2009.

it gets harder and harder for firms that floated such paper to meet their payments. Many will go under. For that reason, LBO commercial paper now trades at between 60 and 70 cents on the dollar.⁸⁰ Consider also the coming decline in commercial mortgages, as businesses, faced with falling sales and disappearing profits, cannot keep up their mortgage-payments on land and buildings. Those losses will wobble more banks. But perhaps the biggest fault-line runs through the market in Credit Default Swaps.

As we have seen, a CDS is essentially an insurance-policy taken by a creditor as a protection against default by a debtor. When all is well in the economy, it is a nice source of revenues for the insuring party. But, in a crisis, it can be deadly. It is as if a life-insurance company all of a sudden had to pay out on a rapidly rising percentage of its policies. But, whereas death-rates are relatively constant (at least for those whose lives can actually be insured), in the midst of a financial crisis default-rates are not. To make matters worse, any investor can buy a Credit Default Swap, even if they do not own a single share of the company in question. This encourages speculators to literally bet on the failure of a particular company. If you think GM will default on its debt, for instance, buying a CDS on GM debt is a great way to get a payout many times higher than what the CDS costs. As a result, as speculative bets build up, the insuring party (the seller of CDSs) is on the hook for a growing number of claims in the event of default. In crisis conditions, however, the insurer can quickly go under, unable to pay out to every claimant. But, in that event, nobody is protected any longer against default of the toxic waste they might be holding. And that means complete and total financial-market panic. This is the secret behind the US government bailout of AIG, the world's largest insurance-company.

AIG holds about \$1 trillion in CDSs. In the early fall of 2008, it defaulted on just \$14 billion in Credit Default Swaps. That was enough to thoroughly wobble the market. The government had no real option if it wanted to avoid a devastating panic-cycle but to bail out AIG. Yet, a mere five weeks after having injected \$85 billion into the giant insurer, the US Treasury had to pump in \$65 billion more, taking the total to \$150 billion – the largest such bailout in history. Tellingly, of the government funds AIG has drawn, fully 95 per cent have been used to cover losses in a single sector of the Credit Default Swap market.⁸¹ And there are likely to be bigger CDS losses to come – both at AIG and elsewhere – as there may be as much as another \$54 trillion in CDSs out there. Default on a small fraction of this could induce

80. Strasberg and Lattman 2008; *Financial Times* 2008.

81. Stewart and Waldie 2008.

another major financial-market collapse.⁸² Indeed, predicting losses for 2008 of \$60 billion – a US corporate record – AIG is now facing further losses on a different set of Credit Default Swaps, those it sold on commercial (as opposed to residential) mortgages. Consequently, in February, it entered new talks with the US government for yet a third bailout.⁸³ And, here, questions of market-regulation and transparency become important.

Because most derivatives, including CDSs, are sold outside regulated markets, nobody really knows who holds what, or how much. That is why banks have become so leery of lending to one another. Some institutions are sitting on time-bombs, trying to conceal massive amounts of financial toxic waste. But no one knows exactly who it might be. As bankers at Lehman Brothers said to US government officials when the two groups reviewed Lehman's books, '[w]e have no idea of the details of our derivatives exposure and neither do you'.⁸⁴ That's why, despite giant injections of liquidity into the banking system, credit-markets are still stuck in low gear. There are very large financial crises yet to unfold. All parties involved know it. Until all of that junk is washed out of the system – which means all parties involved booking massive losses of the sort AIG keeps taking, or the state socialising these losses – the financial crisis will not be over.

Capitalist measurement, the value-form and the violence of abstraction

This returns us to some of the specific features of the current crisis, which have too often been neglected on the Left. For, as money has become more volatile, its measure of value-function has become more problematic. While capitalist investment always involves wagers on future results, the conditions of such wagers have become riskier in a context in which the international values of national currencies have become less predictable. After all, the profits made by foreign branches of a corporation – say in Korean *won* or Turkish *lira* – can be completely wiped out when repatriated to the home office, as a result of drops in the values of those currencies.

Derivatives, by allowing corporations to contract to buy a currency at a particular exchange-rate some time in the future – or to purchase the right to borrow at a certain rate of interest in a given currency – have played a crucial

82. Cox 2008. See also Phillips 2008.

83. Kuykendall 2009.

84. Guerrero and Bullock 2008. Gowan 2009 (p. 18) rightly emphasises the non-transparency of the pricing of CDOs as contributing to the 'form' of the financial crisis. As I emphasise in the next section, beyond the problem of non-transparency, there were fundamental and inherent flaws in the very models that have been used to price CDOs and other derivatives.

role in helping capitalist enterprises manage these risks. Indeed, they have become the key financial instrument for doing so.⁸⁵ Moreover, as we have seen, along with the proliferation of derivatives designed to hedge the risk of currency-fluctuations, has come an explosion of others meant to put a price on protection against any and every risk – from the effects of climate-change on Florida’s orange-crop to the likelihood that Evo Morales’s government in Bolivia will nationalise the hydrocarbons-industry. And this requires that derivatives be capable of computing all concrete risks – climatological, political, monetary, and more – on a single metric. They must, in other words, be able to translate concrete risks into quantities of *abstract risk*.⁸⁶

The central concept here is known as Value at Risk (VaR). First developed in the early 1990s, VaR has become the fundamental basis upon which financial institutions and investors assess the riskiness of their investment-portfolios. Indeed, over the past decade, it has also been the basis upon which banks establish their own capital-requirements. Using a set of models that share a common mathematical framework, VaR is supposed to measure literally any asset under any and all conditions. Crucial to the operation of VaR assessments is the assumption that all points in time are essentially the same and, therefore, that tomorrow will be just like yesterday and today. As a result, the timeframe upon which VaR measures are based rarely extend beyond a few weeks. Even ‘long-view’ assessments, known as ‘historical VaR’ deploy data that stretch only one or two years back. So, in the summer of 2007, for instance, such models utterly discounted the possibility that house-prices in the US might stop rising steadily, never mind decline. After all, they had not done so during the recent past, the time period whose data were plugged into the models.⁸⁷ And so, time is reified, treated as a purely quantitative variable, and qualitative breaks or ruptures in a temporal continuum are ruled out.

One recognises here the logic of the value-form as analysed by Marx, in which all commodities, irrespective of their concrete characteristics, must be measurable on a single metric (value), and priced as mere quanta of money (the universal equivalent), and, further, in which all concrete labours must be treated as commensurable – that is, as quantities of *abstract* human labour. But as the powers of money to do this pricing reliably – to provide relatively

85. It is the great merit of the work of Dick Bryan and Michael Rafferty (2006) to have attended to the significance of derivatives in late capitalism. I dissent from their view, however, that derivatives *are* money in late capitalism. Instead, I interpret them as, in the first instance, financial instruments that are designed to overcome problems associated with inconvertible world-money by bridging the spatio-temporal ‘gaps’ in value measurement that characterise our era. In this sense, they perform some monetary functions, but by no means all.

86. See Li Puma and Lee 2004, pp. 143–50.

87. For a lay person’s introduction see Nocera 2009.

predictable measures of value – have declined (see Section 4 above), derivatives have increasingly filled in the gaps. Yet, by deploying reified, mathematical concepts of space and time, the models which guided derived pricing have effectively imploded. *As a result, a classic crisis of capitalist measurement is manifesting itself, in part in the form of a breakdown in risk-measurement and derivatives-pricing.*

During every crisis, value-measurement is radically disrupted and destabilised. Pressures of overaccumulation and declining profitability induce a destruction of values that re-organise the foundations of capitalist production. In the process, existing capitals are de-valued, until a new and relatively stable valuation is found. In fact, for Marx, an essential feature of crises is that they destroy the old value-relations that persisted through a period of boom, overaccumulation and declining profitability in order to lay the basis – through destruction and devaluation of capital and labour-power – for a new set of value-norms.⁸⁸ Today, as we have seen, derivatives offer an indirect way of trying to measure value by way of measuring risk. But, in the midst of this crisis, the risk-measurement models that have guided derivatives-markets have completely and utterly failed. This was admitted in an especially interesting way by Alan Greenspan:

A Nobel Prize was awarded for the discovery of the pricing model that underpins much of the advance in derivatives markets. This modern risk management paradigm held sway for decades. The whole intellectual edifice, however, collapsed in the summer of last year...⁸⁹

As we have seen, in trying to measure abstract risk, the models in question attempt to create indicators of current and future value-relations by predicting the riskiness of investment or economic activity in a given situation (and the appropriate premium or ‘risk reward’ that ought to be expected). Inherently, these models involve violent abstractions, to use Marx’s term, insofar as they reduce concrete social, political, climatological and economic relations to a single scale of measurement, often with life-threatening implications, as we shall see. The process of abstraction these models undertake involves treating space and time as mathematical, as nothing more than different points on a grid. This homogenisation of space and time assumes that what applied at any one spatio-temporal moment applies in principle at any other. But crises destroy any basis for such assumptions – they bring about the ‘collapse’ of ‘the whole intellectual edifice’ on which they rest, as Greenspan notes. As a result,

88. Marx 1971, pp. 518–19.

89. Greenspan 2008.

nobody knows any longer the value of trillions of dollars worth of financial ‘assets’ – Collateralised Debt Obligations (CDOs), Asset Backed Commercial Paper, and much more. Lack of knowledge of ‘the details of... derivatives exposure’ is thus not a problem unique to Lehman Brothers; it is a *systemic* problem that will not quickly or readily be resolved. As a result of financialisation of neoliberal capitalism, therefore, the crisis of value-measurement is expressed in the first instance in markets for financial instruments, like derivatives. But it is, at root, a classic case of a crisis of value-measurement, caused by collapses in value brought on by overaccumulation, falling profits, and unsustainable build-ups in fictitious capitals.

Debt, discipline, dispossession: value-struggles and the crisis

Thus far, I have focused on developments on the side of capital, largely abstracted from its (mutually constituting) relation with global labour.⁹⁰ But, of course, every crisis of capital also involves immense suffering and hardship for the world’s workers. And this one is no different. At the same time, crises are also moments in which the subordination of labour to capital must be re-organised, and in which new spaces of resistance can be pried open. They are also moments in which capital violates its own free-market nostrums and uses public resources to bail out the system, thus opening up space for debates about alternative uses of public powers. Systemic crises are, therefore, moments of great danger and opportunity for the world’s workers. It is not within the bounds of this paper to attempt any sort of analysis of actual correlations of class-forces and capacities. But it is worth drawing attention to a few salient features of the current moment.

Recall that this crisis is deeply related to debt-markets, and that working-class debt figures centrally here. Debt, of course, is one of the oldest class-relations; repayment of loans has been a great mechanism for transferring wealth from direct producers to landlords and moneyed capitalists. In the neoliberal context, debt has become a powerful weapon for disciplining the working class in the Global North. After all, the pressure of debt-repayment (based on the threat of losing houses, cars, etc. should one fail to make payments) forces extreme capitalist work-discipline on people. Not only do pressures of financial payments push people to work long hours, but, in a

90. For the record, by global labour I refer to all members of that social group, dispossessed of means of economic subsistence, which has no option but to *try* to sell its labour-power. This includes the unemployed, the casualised, and the majority of those eking out an existence in the so-called ‘informal sector’.

context of growing use of casual, temporary, contract, and precarious employment, it also increases the sheer stress of juggling multiple jobs. While there is an element of exaggeration in the idea that neoliberalism has been based on ‘the real subsumption of labour to finance’,⁹¹ the formulation does grasp the powerful disciplining effects of the increased financialisation of relations between labour and capital, of the ever-greater incorporation of workers into financial and credit-markets.

Debt is also, of course, a weapon of dispossession. Again, this is as old as class-society itself. But, in the neoliberal period, debt has been used at multiple scales to engage in processes of ‘accumulation by dispossession’.⁹² National debts have been occasions for the transfer of state-assets in the South – electrical utilities, mines, national airlines and the like – to investors from the North, as Structural-Adjustment Programmes imposed by the IMF have mandated privatisation of government-holdings. Similarly, as we have seen with the Asian Crisis of 1997, corporate debts can also be occasions for the transfer of such private assets. Moreover, there can be little doubt that capital in the North will attempt to use impending financial and currency-crises in the Global South to similar ends. As prices plummet for food and raw materials (copper, oil, coffee, cocoa, timber, rubber and more) dozens of poorer countries will encounter big drops in their export-earnings. This will inhibit their capacities to import food, medicine and other essentials, as well as to service existing debts. Moreover, as private-capital flows into ‘emerging market economies’ plummet by about two-thirds in 2009, rates of investment and job-creation will turn down sharply.⁹³ Trade and currency-crises may ensue, driving poor nations into the dreaded hands of the IMF. Already, Iceland, Hungary, the Ukraine, Latvia and Pakistan have had to turn to the IMF. And more will follow. Once again, the IMF will join with governments and banks in the North to set loan-conditions that open countries in the South to plunder of their assets. The only alternative will be to repudiate debts, as Ecuador rightly plans to do, and to mobilise against the imperial order embodied in the domination of the IMF, the World Bank and financial institutions in the Global North.

Beyond the level of the global debts of states, debts on smaller scales continue to be used as levers to seize peasant lands and dispossess millions,

91. Bellofiore and Halevi forthcoming.

92. The term, of course, is David Harvey’s resonant reformulation of Marx’s concept of the ‘so-called primitive accumulation of capital’. See Harvey 2003, Chapter 4. There are some unclarities in Harvey’s deployment of this concept, however, as Ellen Meiksins Wood (2006, pp. 9–34) points out.

93. Institute of International Finance 2009. Of course, private-capital flows lead to displacement, exploitation and social inequality. The problem is that, in a capitalist context, their absence also produces joblessness and poverty.

thereby gaining capitalist access to oil, minerals, timber, lands for eco-tourism, and more – all the while swelling the global reserve-army of labour.⁹⁴ Meanwhile, ‘natural disasters’, from Katrina to the tsunami, have provided ideal conditions for government-sponsored displacement-programmes in the US, Thailand, Sri Lanka, and Indonesia that re-enact the economic violence of ‘primitive accumulation’ as described by Marx.⁹⁵

Such processes of accumulation have given rise to powerful movements of the rural poor – think of Via Campesina, the Landless Workers’ Movement in Brazil, or the Save Narmada Movement in India, the latter of which has fought mass displacement by giant dam-projects. Such movements are likely to resurge in many parts of the world as this crisis intensifies processes of dispossession. Indeed, recently, in the wake of the global financial crisis, major riots against displacement swept China’s Gansu province, and pitched battles against eviction have broken out in poor quarters of Cambodia’s capital, Phnom Penh as well as in the Dharavi district of Mumbai, which has been so absurdly depicted in the Oscar-winning film, *Slumdog Millionaire*.⁹⁶

However much they can be derailed or diverted, all such struggles implicitly challenge the domination of society by the capitalist value-form. They assert the priority of life-values – for land, water, food, housing, income – over the value-abstraction and the violent economic and social crises it entails. And one of the tasks of the Left is to highlight this conflict – between life-values and capitalist imperatives – that comes to the fore dramatically during times of crisis, in order to pose a socialist alternative that speaks directly and eloquently to the most vital needs of the oppressed. Moreover, the politics of massive government-bailouts, in which the debt of major financial institutions is assumed by the state, raises important openings for campaigns to reduce and eliminate working-class debt and debts in the Global South. At the same time, it opens political space for mobilisations to use the massive funds designed to save banks in order instead to build social housing, repudiate the South’s debts to the North, socialise failing industries, convert them to green production, and preserve jobs.

It is, as we have seen, the logic of the value-abstraction to express utter indifference to use-values, notably to the needs of the concrete, sensuous beings who are bearers of labour-power. What matters for capital is not the capacity of a given commodity to satisfy specific human needs; instead, what counts is its capacity to exchange for money, to turn a profit, to assist

94. See McNally 2006, pp. 96–108.

95. On Katrina see Dyson 2006. On displacement after the tsunami see Klein 2007, pp. 476–87.

96. Manthorpe 2008; Schiller 2009; Sengupta 2009.

accumulation. Bread, steel, water, houses, clothing, computers and cars count only as potential sums of money; their specific use-values are ultimately irrelevant to the drive to accumulate. Capital is thus indifferent to the concrete need-satisfying properties of particular goods. For capital, they are all interchangeable, merely potential sums of expandable wealth. The rich diversity of human needs is thus flattened out (abstracted) by the expansionary drive of capital. The question of food illustrates this particularly clearly.

In recent years, traders in raw commodities have come to treat four different use-value groups as interchangeable. They claim to have effectively integrated commodities that serve as transportation-energy, heat and power, materials for plastics and other goods, food and water. All four are said to have become part of a single equational system in which they are literally interchangeable, indeed in which they are effectively a single complex use-value that operates as if it were a *uni-commodity*. One commodity-trader explains,

... we don't care what commodity you buy. We call it bushels-to-barrels-to BTUs convergence. Take corn: it can now create heating and transportation... And you can use petroleum to create plastics or to create fertilizer to grow food – suddenly we are indifferent to what commodity we are buying to meet our demands.⁹⁷

But, while capital is indifferent to the concrete commodity in question, working people cannot be. It matters enormously whether the corn being grown will be used for food, as opposed to fuel for trucks or for heating factories. Survival for millions can literally turn on market-dictates in this regard. All of this graphically underlines the value-struggles at the heart of capitalism in general, which are posed with a dramatic urgency in the midst of a crisis such as this. And it is not simply the 'automatic' operations of capitalist markets that are at issue here. Similarly, the political decisions of the world's rulers obey the same market-logics, as we have seen throughout the course of the global bailouts. Again, the case of food vividly illustrates this.

Last spring, as rising food-prices pushed millions of people toward starvation, governments pledged \$22 billion in emergency-funding for the world's hungriest. While that was a paltry sum, even more paltry is the amount that was actually delivered – merely one tenth of what was pledged, or \$2.2 billion, according to the UN Food and Agriculture Organisation.⁹⁸ Yet, somehow, governments in the Global North have in short order come up with about \$20 trillion to bail out financial institutions – nearly 10,000 times as much as

97. Quoted in Sanders 2008.

98. Waldie 2008.

they have anted up to feed the world's poor. Compressed in that simple fact is the most basic case for socialism.

And, despite falling food-prices, the current slump is going to deepen the global food-crisis. Lack of credit with which to import food and production-cutbacks by farmers in the face of falling prices are expected to exacerbate food shortages in much of the Global South. And, to make matters worse, governments in the South, squeezed by falling prices for the commodities they export, are trying to cut back on food-imports, in order to avoid balance-of-payments crises. All of this foreshadows severe crises of hunger and starvation. Not surprisingly, the Food and Agriculture Organisation now predicts that food-riots 'could again capture the headlines', the way they did in 2007 and early 2008.⁹⁹ Not only are such riots one of the most longstanding forms of plebeian revolt against the dictates of the market; they also pose the most fundamental questions about the nature of a society that condemns millions to starve while funnelling untold trillions into global banks.

Looking forward

We are, in sum, into the second stage of a profound systemic crisis of neoliberal capitalism. The first stage involved a staggering financial shock that toppled major banks and elicited a multi-trillion dollar bailout of the global financial system. The second stage will entail the collapse, merger, and/or effective nationalisation of major corporations – especially in the auto- and electronics-industries and knock-on slumps in the service-sector. Unemployment will ratchet higher – much higher. And the ongoing collapse of sales and profits will topple (or lead to the nationalisation of) more financial institutions. While it is impossible to predict exactly how this crisis will play out and how long the slump will last, all the indications are that it will be deep and protracted. And some things are particularly clear.

First, the crisis will induce an enormous centralisation of capital. Already, banks have been merged on a huge scale. In Japan, the crisis of the 1990s saw three national banks emerge from a field that once boasted more than ten. In Britain, the merger of Lloyds bank with HBOS will create a single institution with 40 per cent of all retail-banking in the UK. Bank-mergers in Brazil have produced one of the 20 largest banks in the world and the largest in Latin America. Meanwhile, pressure is growing for a merger of GM and Chrysler or for their merger with other firms – moves which would close large numbers of plants and axe tens of thousands of jobs. At the same time, Volkswagen and

99. Blas 2008.

BMW, smelling blood, are building new plants in the US in the hope of capturing market-share from the wounded Detroit Three.¹⁰⁰ In Japan, a merger of electronics-giants Panasonic and Sanyo is also in the works. Meanwhile, China's auto-industry is undergoing a planned consolidation under the leadership of Shanghai Automotive, while Chinese firms in the resource-sector are on a buying spree, signing deals and gobbling up assets.¹⁰¹ As they centralise, by direct takeovers or by combining former rivals under one corporate owner, capitals try simultaneously to get a leg up on their competitors and to concentrate their power over labour so as to drive down wages, benefits and total employment.

Second, this crisis will also pose again the question of the balance of global economic power and the role of the dollar. One of the key problems making for financial instability is the diminished capacity of the US dollar to act as a stable form of world-money. In fact, despite its recent rise as a 'safe haven' in the midst of financial panic, the longer-term will likely see the dollar come under renewed downward pressure, creating more instability for the world-economy. This has prompted economists at the UN to advocate reforms to the international monetary system that would move towards a multi-currency regime of world-money.¹⁰² Moreover, the Russian and Chinese governments have recently been severely critical of the dominant role of the dollar while they diversify their foreign reserves. And the Chinese government is now publicly discussing a move away from dollar-based investments once the crisis eases.¹⁰³ Notwithstanding the impressive rise of the euro in less than a decade – to the point that it exceeds the dollar in international bond-markets and nearly equals it as a means of payment in cross-border transactions – there is no rival currency with the economic depth to displace the dollar. As a result, the world-economy is likely to drift toward a more fractured régime of world-money, with two or more currencies pushing for larger shares of global financial transactions. This could lead to pressures to develop an Asian currency-bloc capable of rivalling the dollar- and euro-zones. It could also indicate new forms of competition between rival imperial projects – not the forms of territorial and military rivalry of the nineteenth and first half of the twentieth centuries, but competition between blocs for greater control of financial markets and global monetary privileges.¹⁰⁴ Interestingly, elements of this have been grasped

100. Linebaugh 2009.

101. Associated Press 2009; Hoffman 2009.

102. Morris 2008.

103. Champion and Batson 2009; Dyer 2009a.

104. McNally 2008.

by the US National Intelligence Council, whose *Global Trends 2025* predicts a world order characterised by ‘multipolarity’ rather than simple US dominance.

Third, centralisation of capital and competition between blocs will also be played out by way of attempts to spatially re-organise capital, so that economies in the Global North can displace the effects of crisis onto ‘emerging market economies’ and nations in the Global South. There has been a major build-up of credit in a whole number of ‘emerging market economies’ in recent years, and these debt-loads will produce a variety of crises. Especially vulnerable will be countries like Turkey and South Africa, where economic growth has been driven by huge inflows of foreign capital. At some point during this crisis, if investors become wary of the prospects of these economies in the midst of a world-slump, capital outflows will trigger major financial and currency-crises.¹⁰⁵ Those economies may then encounter their own version of the Asian crisis. And, if the IMF is called in, Western governments will press to buy up assets on the cheap, as was done to South Korea in particular in 1997, after IMF loan-conditions facilitated perhaps ‘the biggest peacetime transfer of assets from domestic to foreign owners in the past fifty years anywhere in the world’.¹⁰⁶

As sharp regional crises unfold, therefore, major conflicts between governments in the North and South may emerge (over loan-repayment, IMF conditions requiring greater liberalisation and privatisation and so on), with the capacity to ignite powerful social struggles. Already, the government of Iceland has been toppled as a result of a social upsurge against IMF-driven austerity. In Latin America, where a number of governments – Bolivia, Venezuela, Ecuador and Paraguay – already strike an oppositional stance towards the US-dominated economic order, such struggles may well assume an anti-imperial form. Campaigns for debt-repudiation, bank-nationalisations and the like could become part of significant social upheavals.

Fourth, just as nations at the top of the imperial order will try to inflict greater hardship on the South, so we can anticipate moves toward even more draconian restrictions on the movement of migrant-labour. At the same time as they press for ‘free movement’ of capital, governments at the core of the system also demand tighter control and regulation of the movement of labour. With the deepening of the economic crisis, many have already started to play the anti-immigrant card. Britain, in particular, has signalled a tightening up of immigration-policy, as has Canada, and others will surely follow. As businesses fail, factories close and unemployment mounts, protectionism – ‘Buy

105. For an important discussion of these themes see Hanieh 2008.

106. Wade and Veneroso 1998.

American', 'British Jobs for British Workers' – is likely to fuel xenophobia and immigrant-bashing. Government-officials and parties on the Right will continue to fan xenophobic sentiments of the sort that were on display earlier this year in countries like South Africa, where migrants from Zimbabwe in particular suffered violent assaults, or in South Korea, where undocumented migrants from the Philippines have been subjected to mass deportation. This crisis will thus put a premium on a Left for which anti-racism and defence of migrant-workers are absolutely central to a politics of resistance.

Finally, this crisis also puts a premium on left responses that are clearly *socialist* in character. The notion of calling for a 'leashed capitalism'¹⁰⁷ in the face of such a colossal failure of the capitalist market-system represents an equally colossal failure of socialist imagination. If ever there was a moment to highlight the systemic failings of capitalism and the need for a radical alternative, it is now. True, the Left must be able to do this in a meaningful and accessible language, by way of formulating concrete socialist demands and strategies that speak eloquently and powerfully to real and compelling needs and interests of oppressed people. And this will certainly involve fighting for specific reforms – to save jobs, build social housing, cancel Third-World debts, invest in ecologically sustainable industries, feed the poor. But, as Rosa Luxemburg pointed out more than a century ago, while Marxists have a duty to fight for social reforms, they ought to do so in a way that builds the revolutionary capacities of the world's workers to remake the world.¹⁰⁸ And one crucial part of this involves popular education and agitation for socialism. Not to advance the critique of capitalism as a system, and not to highlight the need for a systemic transformation that will break the hold of the capitalist value-form over human life, is to squander an opportunity that lurks within this moment. This is a moment that calls out for bold, thoughtful socialist responses – a moment when socialist theory, joined to practical struggles, can become 'a material force' for changing the world. But this requires insisting, in the face of capitalist disorder, that another world really is possible.

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107. Pollin 2007, p. 153.

108. Where the goal is socialism, Luxemburg writes: 'The struggle for reforms is its means; the social revolution its aim' (Luxemburg 1970, p. 36).

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