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The explosion of the current world crisis: an illustration of the instability of capitalism. A Marxist view*

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Abstract

Karl Marx demonstrated that capitalism as a mode of production is a structurally unstable system; this has been illustrated by the recent period, especially the current crisis. This article is a contribution to a Marxian explanation of the current crisis, analyzing it as an expression of the tendency of the rate of profit to fall; it focuses on the first stage of the development of the crisis, understood as an outcome of the instability of capitalism and it identifies its specificities. Illustration du fait que la crise est propre au capitalisme et que cette crise apparaît de manière prévisible, même si la forme qu'elle prend ne pouvaient pas être prévues. Such instability is manifest through the recurrence of crises and we argue that each crisis emerges from the remedies used to counter the previous one and that it also contains the germs of the next crisis, all crises and instability being basically founded on the tendency of the rate of the rate of profit to fall, as first explained by Marx in *Capital* Volume III. This applies to world capitalism in general though we focus on its core economy, US capitalism. The first part deals with the immediate origins of the current crisis – the conditions of the period of growth from 2003 to 2006. The explosion of the real estate bubble in the summer of 2007 first led to a financial crash and then turned into a fully-fledged world-wide economic recession. It was, in turn, rooted in the remedies used to resolve the previous crisis. A substantial destruction of the least efficient capitals allowed a restoration of accumulation. This pattern of recurring crises is seen as the expression of a historical trend of overaccumulation of capital, which needs a subsequent devalorization. The second part investigates the methods that have been used to combat the crisis, in terms of public expenditure, of destruction of capital, and of national strategies.

Keywords: capitalism, economic crisis, rate of profit, exploitation, debt

JEL: E32, N58, P16

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The current world economic crisis put an end to a short period of relatively strong economic growth (2003-2006), which was comparable to the late 1990s, and which came after serial crises that became more and more frequent from the 1980s. Some of the most notable episodes in the history of this late twentieth century downturn were the stock market crash after the Mexican debt crisis in 1987 –comparable to the 1929 crash in market shares –, the real estate crisis in the United States, in Europe and in Japan in 1990, the crisis in the European monetary system in 1992-1993, the crisis in Mexico in 1994-1995, the financial crisis in Asia and in Russia, which became international, in 1997-1998, the crisis in Brazil in 1999, the crisis in Turkey in 2000, the crises in the Internet sector and in Argentina during 2001-2002. As for the current crisis, it was triggered by the collapse of the American real estate sector and we will discuss the extent to which it can be seen as a strong signal of the growing failures in the world economy, that we will present as the expression of the instability of capitalism. Indeed, this crisis is not contingent, its occurrence was necessary, even if it was impossible to forecast it precisely. This article therefore aims to treat this crisis as an expression of the basic contradictions that have always underlined capitalism, especially in the present imperialist period¹. We mainly focus on the United States, not because the American economy has been the sole victim – even not the main victim – of the crisis, but because the crisis originated from there: since the U.S. economy is leading world capitalism and is ruling over other countries (still 24.9% of the world GDP in 2009, long before China with 8.3% – IMF, 2011²) – even if this rule is very shaky and unstable –, its evolution has a major impact on the rest of the world³. This is particularly true since capitalism entered in its imperialist phase, in the early 20th century⁴, the national economies being structurally interdependent to each other. Overall, we see the crisis as an expression of the tendency of the rate of profit to fall, and then as an expression of the instability of capitalism, as a conflict between the development of the productive forces and the incumbent relations of production. We develop our analysis from Karl Marx's *Capital* Volume 3, with Paul Boccara's theory of overaccumulation-devalorization (Boccara, 1973), and we refer to Andrew Kliman most recent interpretations (Kliman, 2010). For Boccara, capitalism, as an unstable system, crosses various stages of expansion and of depression that are explaining each other, such regulation being based on the overaccumulation and devalorization of capital. We consider that the search for maximizing the rate of profit is the basic motive of the capitalist development, and that the increase (respectively decline) of the rate of profit both corresponds to a period of expansion (respectively depression) and prepares the next phase of depression (respectively expansion). In periods of economic growth (with a relatively high rate of profit), the capitalist

class needs an additional amount of labour force for a further accumulation. This means that labour demand (by firms) increases more rapidly than labour supply (by workers). In a context of class struggle, such a situation favors an increase in wages and, since variable capital becomes relatively more expensive than constant capital, the capitalist class increases the organic composition of capital. This corresponds to a situation of overaccumulation of capital and leads to a decrease of the amount of surplus labour, and then to a fall in the rate of profit, and then the economy enters in a period of depression. In order to restore the rate of profit, it becomes then necessary – the amount of surplus value being limited – to devalorize capital in order to restore the rate of profit. Such a devalorization corresponds to redundancies (variable capital) and closures (both variable and constant capital). It allows then a restoration of the rate of profit, in the context when class struggle is relatively favourable to the capitalists. The paper aims to explain how the current crisis, not being necessarily the last crisis of capitalism, is another illustration that capitalism is not a stable system and it cannot survive without support of the state. On the basis of an analysis of the crisis as an expression of the tendency of the rate of profit to fall, we will trace its most immediate and obvious expressions by examining its basic structural mechanisms (I), and we will discuss the nature of the devices implemented by the actors against the crisis in order to restore the rate of profit (II).

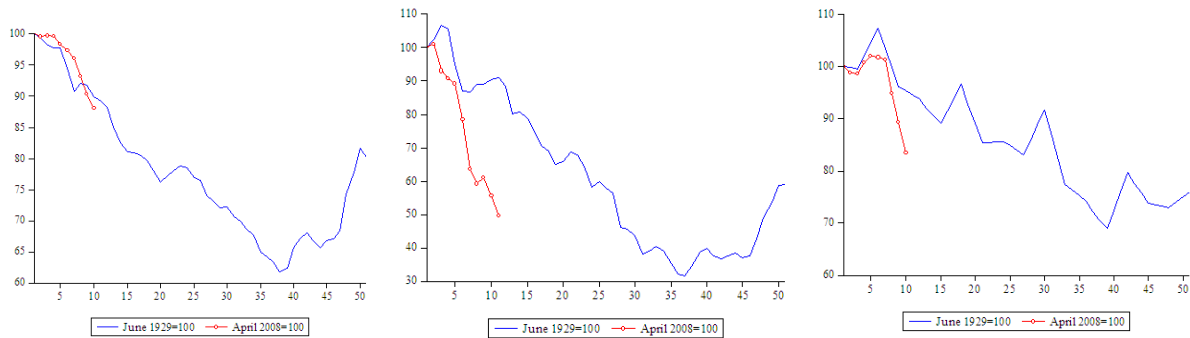
I. AT THE HEART OF CAPITALISM: THE MOST VIOLENT CRISIS SINCE 1929

We saw that financial crises occurred much more frequently in the last thirty years in the thirty years after the recovery of world capitalism from the Great Depression triggered by the Wall Street Crash of 1929. Besides, before the current crisis, no crisis has ever been as violent as 1929's. The following graphs propose that, at its beginning, the current crisis was even more violent than 1929's.

World Industrial Output, Now vs. Then

World Stock Markets, Now vs. Then

The Volume of World Trade, Now vs. Then



Source: Eichengreen and O'Rourke (2009) Source: Global Financial Database

Source: League of Nations Monthly Bulletin of Statistics

Scale: months

The current crisis broke out in 2008; it was preceded by the burst of the real estate bubble in the United States in 2007. Since this was not the trajectory of previous crises, and due the strong peculiarity of the current crisis, mainstream economists did not anticipate the current crisis and its severity. We see the crisis as paradoxically triggered by the conditions that allowed a strong growth between 2003 and 2006 (I.1) and as an aftershock of the crisis of 2001-2002 (I.2).

I.1. A burst based on the previous period of growth

A paradox appeared after the 2001-2002 crisis: whereas we could have expected some further instability, the economic growth turned stable and relatively high after the Internet crash. Between 2003 and 2006, the growth rate was 3.5% in the United States and on the world scale, it reached its peak level since the early 1970s: the world output grew up by 3.5% a year, including 3.9% in 2006⁵ (UN, 2008, p. 1). The current crisis is an echo of that period which, on the one hand, corresponds, to a large extent, to an increase in exploitation and inequalities (I.1.1), and on the other hand, was basically unstable (I.1.2).

I.1.1. Heightened exploitation and inequalities

A significant paradox of the strong economic growth since the Internet crisis was the absence of any corresponding rise in social welfare. It is founded, among other factors, on an intensified exploitation of working people, as expressed in sharp increase in income inequalities. This is particularly evident in the United States, the 'core' of the world economy.

Between 2000 and 2007, the median real income of the households in the United States slightly decreased (Bivens, 2007), which means that the strong increase in GDP, that is the economic growth, almost exclusively benefited the richest part of the population. Basically, our point is not that inequalities grew – this has happened at least since the early 1980s – but that this increase kept on going with a strong economic growth. Inequalities deepened: the richest one percent in the population hold one-third of the wealth (34.6%), whereas the poorest 40% only hold 0.2% (Wolff, 2010, p. 44). The Gini coefficient increased from 46.4% in 2003 to 47% in 2006 (De Navas-Walt, 2009, p. 40). Between 2001 and 2006, seven million more people lost health insurance. While the rate of poverty grew from 11.3% in 2000 to 12.3% in 2006 (De Navas-Walt, 2009, p. 56), the rate of profit of the firms reached its peak level since the last fifty years at 27% in 2006 (it increased dramatically between 2003 and 2006), in contrast to the strong growth levels of the post-war period when the rate of profit never exceeded 20% after 1957 (U.S. Department of Commerce, 2010; see also Kliman, 2010, p. 26). This indicates that the relationship between capital and labour considerably shifted in favour of capital, corresponding to an increase in the rate of surplus value (unpaid labour/total wages). The explanation we suggest is that during that short period the counter-tendencies to the fall in the rate of profit were stronger than its tendency to fall. This corresponds to the fact the class struggle has been more favorable to the capitalist class during that period, and broadly since the capitalist offensive started in the late 1970s, a period when the rate of exploitation started to grow and when the resistance of the working class was paralyzed by various factors, including a relatively strong level of unemployment, but also the lack of substantial organization that defends unconditionally the working class – this is beyond the scope of this paper.

The main characteristic of globalised capitalism since the beginning of the 1980s has been the fall of the wage share, in other words of the share of GDP (Gross Domestic Product) which goes to employees. Such a tendency is equivalent, in Marxist terms, to a rise in the rate of exploitation. (Husson, 2008, p. 1)

The rate of exploitation was actually increasing since the 1980 but not the rate of profit (see below, Kliman, 2010), except in the recent period.

Besides, if we turn the explanation to a world scale level, since the various economies of the world are closely interrelated, the development of capitalism in China, in India and in the countries of the former Soviet Union has meant that within a relatively short period, the

labour force at the disposal of global capital has doubled in size. This automatically led to a fall in the organic composition of international capital on the one hand:

Penn World tables on yearly investments by nearly every country in the world [indicate] that as of 2001, the doubling of the global workforce reduced the ratio of capital to labor in the world economy to 61 percent of what it would have been before China, India, and the former Soviet bloc joined the world economy. (Freeman, 2005, p. 2)

On the other hand it led to a pressure on the level of wages – “*a low wage pressure regime accumulation*” (Lordon, 2008) – which allowed an increase in the rate of exploitation on an international scale. All of this contributed, as already mentioned, to an increase in the rate of profit and to a period of strong growth.

I.1.2. An unstable and artificial growth

The economic growth in the United States also rested on military expenditure – this country concentrates 43% of the world military expenditure in 2010 (SIPRI, 2011, p. 183) and on budget deficit, which was funded by foreign investors to a large extent. In 2008, 57.3% of the American Treasury securities were owned by foreign investors (Federal Reserve, 2010, p. 44), mainly Chinese and Japanese (U.S. Department of treasury, 2011a). The share of the American debt in 2007, concentrated in the hands of foreign governments and investors, mainly Chinese and Japanese, doubled since 1988

We suggest that this growth was encouraged by three factors:

- The increased productivity of the Chinese economy (8.7% per year between 2000 and 2006 – Van Ark, 2006, p. 4) allowed the Chinese capitalists to better fund the American debt.
- The decrease in the interest rates (see below) favoured accumulation.
- The stagnation of the real wage and even of nominal wage (see Holden, Wulfsberg, 2008) amounted to intensified exploitation.

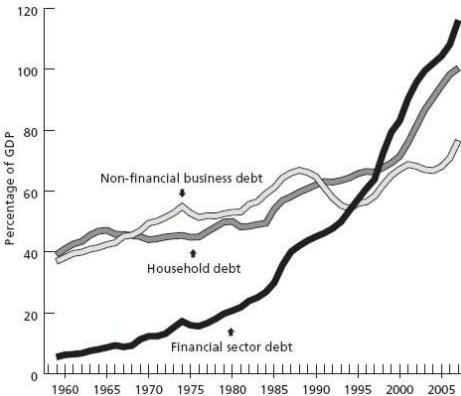
Correspondingly we suggest that this fitted in with three events:

- The development of inflation, including a rising price on essential commodities, partially due to their increasing demand in the world market.
- The bursting of the real estate bubble related to a fall in prices corresponding to a saturated demand which started to decrease.
- The limited character of the rate of exploitation: the surplus value grew stronger than the national income and, since it was not invested in production, finance capital became

overabundant⁶ and it demanded more and more accumulation of profit, but due to the social and physical foundations of the value of labour power, the increase of the rate of exploitation cannot be unlimited. It happened that the research for surplus capital has not corresponded to a stable development of the economy (on surplus capital, see Potts, 2011).

All this increased the vulnerability of the system, and the first signs of an economic crisis appeared in 2006-2007. It was generated by and occurred at the heart of capitalism: the United States of America. Whereas 2.65 million jobs were created in 2005 (U.S. Department of Labor, 2006, p. 7), only 263,000 jobs were created in 2007 (U.S. Department of Labor, 2008, p. 7). The household debt exceeded 95% of GDP in 2007 and 98% in the first quarter 2009, against less than 70% in 2000 (U.S. Department of Treasury, 2011b, p. 18); in particular the rate of residential investment, as a percentage of GDP, fell from 6% in 2005 to 2.4% in 2009 (OECD, 2010b, figure 1.1, p. 51); the deficit in 2009 reached 1,414 billion dollars, against 459 billion dollars a year before and 161 billion dollars two years before (Congressional Budget Office, 2010, Table E-1).

Private debt as percentage of GDP



Source: Economic Report of the President, 2008

Household debt service (required payments on mortgage and consumer debt) and personal saving as a percent of after-tax income (US)



Source: Bureau of Economic Analysis (NIPA data); Federal Reserve

Basically such a development is seen as a necessary development of the previous stage of the world capitalism crisis – namely the 2001-2002 Internet crisis.

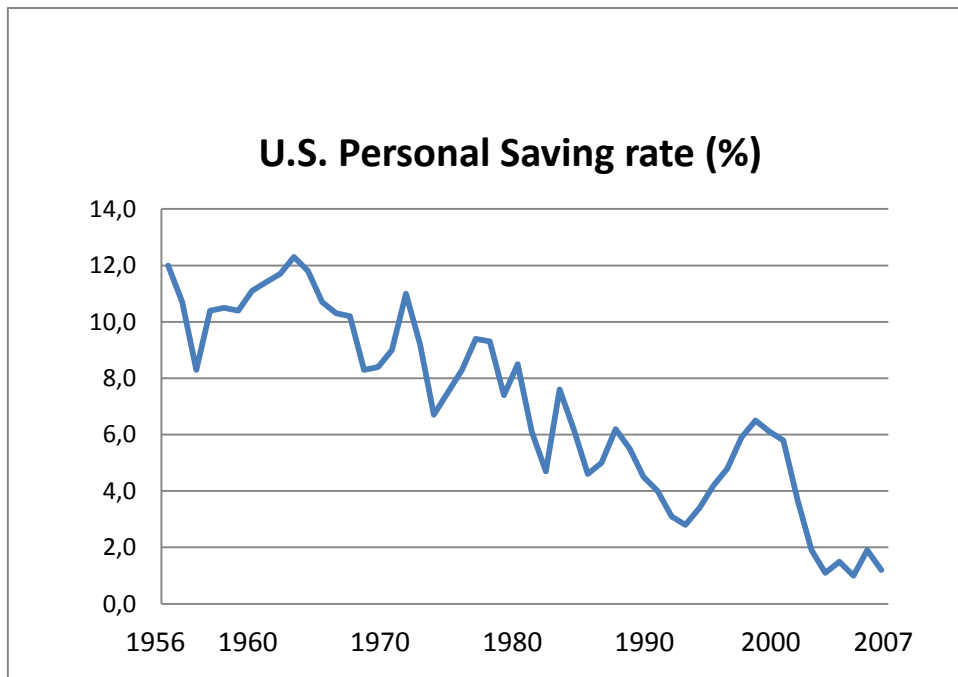
I.2. An extension of the Internet crisis

Friedrich Engels (1845) had already noticed in the nineteenth century that the tools applied to combat economic crises contained themselves the seeds of another crisis, a more violent one. At the moment, the current crisis is, to some extent, a follow-up of the 2001 Internet crisis (I.2.1), its outcome being the development (I.2.2) and the burst of the real estate bubble

(I.2.3), which quickly morphed into a financial crisis and then into a full-blown economic downturn (I.2.4).

I.2.1. After the 2001-2002 crisis

We endorse Isaac Johsua's view that "*the current crisis is clearly an extension of the crisis of the new economy, which itself was a crisis of overaccumulation*" (2009, p. 54). An increasing productivity of labour (2.5% a year between 2000 and 2007 in the non-farm business sector in the U.S. – U.S. Department of Labor, 2010) amounts on the one hand to an increasing rate of exploitation (if higher than the increase in wages, and it was the case in that period, since there was almost no increase – U.S. Department of Labor, 2011a) and then to an increasing rate of profit, all else being equal. It leads on the other hand to a higher organic composition of capital, which leads to an excess in capital – overaccumulation – and to a fall in the rate of profit, all else being equal. When the latter is stronger, it turns to a crisis which is resolved by a devaluation of capital (Marx, 1894). Concretely, the crisis of the 'New Economy' in 2001 was predated by an unusually important stock market bubble, comparable only to the bubble of the 1920s (see Kotz, 2009). The burst of the 2001 bubble foreshadowed significant economic slowdown, with rapid drop in firm investments and sharp increase in redundancies. The American economy entered into recession in March 2001, but this did not turn into a depression, partly due to the continuing increase of the level of consumption (3.2% per year between 2003 and 2006 – U.S. Department of Commerce, 2008, Table 1.1.1). Households reduced their savings, to a historic minimum, in order to avoid a fall in living standards:



Source: U.S. Department of Commerce, 2009

The public authorities implemented a mechanism of support at the budgetary and monetary levels. On the one hand, the U.S. Federal Government made massive budget expenditures, and the 236 billion dollars budget surplus in 2000 turned into a 1,414 billion dollars budget deficit in 2009 (Congressional Budget Office, 2010). On the other hand, the Federal Reserve System (Fed) made its monetary policy much more flexible, reducing its key interest rate (target federal fund rate) from 6.5% in late 2000 to 1% in June 2003 (Federal Reserve Board). Firms and households were then encouraged to immerse themselves in debt: this was particularly important in the real estate sector where the authorities prepared an easy-credit environment, including the Fed lowering its key rates, a further deregulation of the derivatives market and credit-default swap, together with the development of securitization. All of this facilitated the development of a real estate bubble. The intervention of the state was thus double-edged: it allowed the overcoming of the Internet crisis while activating the components for the next crisis. This process is characteristic of “*a state of parasitic, decaying capitalism*” (Lenin, 1916, p. 248), in the sense that without radical public intervention the accumulation of capital would not keep going. Such an intervention was also responsible, to a large extent, for the development of the real estate bubble.

1.2.2. The development of a real estate bubble

The bubble started developing through the grant of real estate credits (the *subprime*), with high and variable interest rates, to households that were – if not poor – not quite solvent⁷. Within securitization devices, the households sold their letters of credit to other agents who packaged and inserted them into sophisticated financial assets in the hope of profit. This was based on the assumption that the demand for credit would continue to increase, so that real-estate prices would keep on growing, without any necessity for the borrowing agent to worry about the risks, since he would always be able to resell his asset. From 1994 to 2006 – despite the 2001 crash –, this assumption seemingly worked, real estate prices rose between 10% and 20% a year from 2001 to 2006 (see Shiller, 2006). In 2006, the *subprime* credits, amounted to 600 billion dollars, which represented 20% of mortgage originations in the United States in 2006, against 8% in 2003 (U.S. Census Bureau, 2008). It meant that the real estate prices were overvalued and a speculative bubble developed. From mid-September 2001 to late July 2005, the U.S. Home Construction index got multiplied by 5.7 (Dow Jones); the British index (FTSE 350 Construction and Materials) was multiplied by 4 between December 2002 and May 2007 (Footsie). Between 1997 and 2006, housing credits in Spain were multiplied by 5.5, in Ireland by 7.2... (European Mortgage Federation). The proportion of mortgage loans in the income of American households doubled between 2000 and 2005. It is noteworthy that the real estate boom was not presented as a bubble at that time, despite the series of bubbles on record. This can be explained by the fact that since 1929, real estate prices in the United States had never dropped – average sales prices increased by 6.1% a year from 1963 to 2007 (U.S. Census bureau, 2009b), so that it could be widely (but falsely) claimed and believed that house prices would only climb upward. It would necessarily stop, which happened soon.

1.2.3. The real estate bubble bursts

The cracks in this picture started to appear in 2006, when real estate prices reached a new peak and then started to fall. By 2009, U.S. housing prices had fallen by about 13% from their 2007 peak (U.S. Census bureau, 2009b). A significant number of households were unable to repay their loans – it happened that the amounts that were to be paid back by the households came to a significant fraction of their incomes (U.S. Census Bureau) at a time when real wages increased only 1.25% a year (U.S. Department of Labor, 2011a; U.S. Department of Commerce, 2011) and the Fed increased its key interest rate up to 5.25% in mid-2006 (Federal Reserve Board). The bursting of the real estate bubble was the event that triggered

the crisis, but we suggest that it was not the primary reason. Beyond the issue of securitization, which leads to speculation, to parasitism and to financial risk, three points were converging. These are not the main reasons, but converging facts to an explanation of the crisis.

- Real wages were stagnating. We suggest that this was largely due to a serious drop in the struggles for wages since 2001, related, among others things, to a climate of increased repression on social movements following the September 11 attacks.

- Real estate prices (lands and buildings) started falling, as the burst of the bubble.

- The Fed's key interest rate increased.

The real estate prices dropped between July 2006 and May 2008, and the defaults in payment were higher than 10% in 2007 (Soroohan, 2010). The U.S. Construction dropped 64.4% between February 2007 and January 2008. A record 1.03% of all U.S. housing units – this corresponds to 1.3 million accommodations – received at least one foreclosure in 2007 (from 0.58% in 2006); the figure went up to 1.84% en 2008, 2.21% in 2009, 2.23% in 2010 (RealtyTrac, 2010). The most precarious households were unable to sell their assets and were obliged to hand them over to credit institutions. The most vulnerable among these institutions then turned into trouble. In 2006 and 2007 they had to borrow from the central banks, which lowered their key interest rates in order to avoid the looming difficulties. The *subprime* market collapsed, and trillion dollars assets lost half of their value. U.S. banks suffered losses from early 2008 (see FDIC's failed banks list⁸) ; dozens of banks and investment funds were involved in the real estate market and in finance; about a hundred small and medium firms went into liquidation (see Blackburn, 2008)... and it necessarily happened that the financial crisis provoked an economic recession.

1.2.4. From financial crisis to economic recession

The credit system, which has its focus in the so-called national banks and the big money-lenders and usurers surrounding them, constitutes enormous centralization, and gives to this class of parasites the fabulous power... to interfere in actual production in a most dangerous manner. (Marx, 1894, pp. 544-545)

It happened that Marx's analysis of credit wears some currency here. The tightening of credit facilities launched a wave of bankruptcies in hedge funds, in investment funds, in deposit banks and in investment banks. This wave of financial meltdown points that the *subprimes* were a symptom rather than the real cause; this was underestimated by mainstream

economists. It happens that the insufficient profit taken from industrial capital led the accumulation turn to financial capital, and the recent measures taken for easing the circulation of finance capital made it more unstable. The banks played a major role in the crisis; this could be compared with the pre-First World War period sketched by Lenin:

As banking develops and becomes concentrated in a small number of establishments, the banks grow from modest middlemen into powerful monopolies having at their command almost the whole of the money capital of all the capitalists and small businessmen and also the larger part of the means of production and sources of raw materials in any one country and in a number of countries. (Lenin, 1916, p. 190)

In the current period they were the main actor of the development of the crisis. Because of securitization, the real estate loans were related to other risky loans managed by the banks. They had to sell them at a low price, and then the profits of banks and of insurance companies collapsed, so that the real estate crisis turned into a bank crisis, on two levels:

- A crisis of liquidity: banks had more and more difficulties in borrowing from each other the interbank market, because of a dip in confidence.
- A crisis of profitability: the losses that were related to the real estate crisis damaged profit rates, first in banking.

The financial crisis is based on the U.S. housing sector bubble that formed after the Internet crash. Unlike the crashes in 1987 or in 2001, which were concentrated on a specific industry, and unlike the crisis that struck South-East Asia in 1997-1998 which occurred in a peripheral region, the current crisis swept over the financial markets as a whole, and it originated at the heart of capitalism, the United States of America. The financial crisis that initiated in the American real estate credit sector rapidly spread. Lehmann Brothers, the fourth largest American investment bank, made public a huge amount of losses; its stock value lost 77% on the week of the 8th September 2008 – 94.3% from January – (Dow Jones) and it went bankrupt on the 15th September; it was liquidated and handed over to government administration; its assets were frozen and its bankruptcy was officially announced. This phenomenon was seen as the “*greatest financial crisis, globally, ever*” (Alan Greenspan, former chairman of the Fed from 1987 to 2006, *Reuters*, 16th September 2008) and it rapidly affected other financial institutions. The net income of commercial banks and of saving institutions fell from 36.8 billion dollars in the second quarter 2007 to -1.8 billion dollars in the fourth quarter 2008 (FDIC, 2011, p. 1). Two days later, the share value of AIG, an important American insurance company, fell by 60%; it had lost 97% since early 2008 (Dow

Jones). It had insured more than 500 billion dollars worth of assets closely related to the real estate market (Bloomberg, June 27th, 2011). It was doomed to go bankrupt also but the Fed decided to lend the company 85 billion dollars on the condition it acquires 79.9% of the firm (*Wall Street Journal*, September 16th, 2008). This amounts to nationalization, and it is the most radical public intervention in the private sector by the central bank in its entire history. In doing so, the Fed stepped beyond its own regulations which disallow refinancing insurers. But the consequences of the bankruptcy of AIG would have been much more severe than the bankruptcy of Lehmann Brothers. On this day, the share of AIG lost 35% of its value (Dow Jones). Despite these massive interventions, production was struck by the drying up of credit, as expected; so in 2009 the world GDP dropped by 1.1% in 2009 (-4.3% for OECD countries; sources: IMF, OECD) and international trade fell by 11% (UN, 2011, p. 47). Also, the U.S. industrial production was particularly hit and fell by 11.2% in 2009 (Federal Reserve, 2011). To sum up: the financial bubble that triggered this crisis started from speculative attacks on the real estate market and spread into the banking sector (especially investment banks); this led to a huge destruction of capital on a world scale (see Kliman, 2011, Chapter 2), first in finance and then in industry. This crisis is the first phase in a world crisis of accumulation, and its sudden outbreak has been accelerated by the national policies implemented since the 1980s, which are, rather than neoliberalism, the normal way for capitalism to facilitate the flow of capital and to intensifying the pressure on wages. This means that the capitalist class always searches the way for maximizing its rate of profit, and the period that started in the late seventies could see both some losses by the working class and a deregulation of capital flow, that respectively increased the surplus value and eased the transformation of surplus value into profit.

A likely direction of the current crisis was then to turn into an economic depression that might be deeper and longer than the depression of the 1930s. In the last instance, the crisis is an expression of the contradictions embedded in the real economy. It is not an “*irreducibly financial one*” (Kliman, 2010, p. 9) and the real estate bubble has only illustrated that capital is attracted by immediate profit. If financial capital is more profitable than industrial capital, investment shifts from the one to the other, as it happened. But this does not necessarily correspond to an effective surplus value, and in that case it corresponds to overaccumulation, respective to expected profit. Such overaccumulation necessarily results into a crisis. As expected, it provoked a rapid reaction from the state and from the capitalist class.

II. THE REACTIONS OF THE CAPITALIST CLASS

As this crisis has put capitalism in a danger of death, and as crises are more or less direct expressions of the tendency of the rate of profit to fall – in terms of overaccumulation, as specified earlier – and, to be more precise, of the difficulty for capital to transform surplus value into profit –, actions have been implemented to restrict the scope of the crisis, to save the system in general and to counter tendencies to the fall of the rate of profit⁹ in particular. First, public authorities (governments and central banks) have favored a strong intervention in order to save the system (II.1). Second, we could see the crisis as a convergence between an increase in the rate of exploitation of workers and a decrease in the rate of capital accumulation (II.2). Third, another reaction to the crisis was, paradoxically, partial and temporary retrenchments on nation-wide scales, together with some transformation of power relations between the states of the world (II.3).

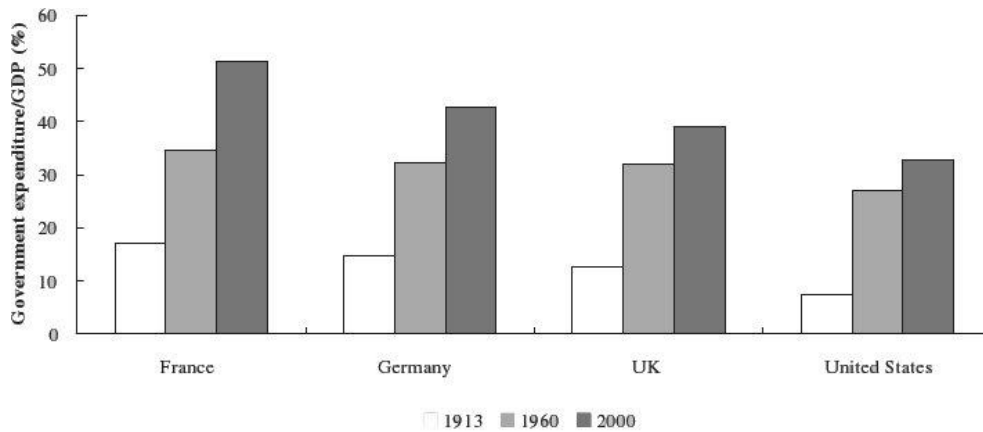
II.1. A huge public intervention

As capitalism and market regulations faced massive dysfunctions the intervention of both monetary and budgetary authorities proved to be necessary for avoiding a systemic collapse; so huge amounts were spent to help financial institutions (II.1.1), which has been a further illustration that the assumption of a self-regulating economy is an illusion (II.1.2).

II.1.1. The state as last resort

In 1997, Alan Greenspan claimed that the Asian crisis occurred because “free market methods” had not been properly implemented. He meant that the amount of public regulation on firms and on banks was too high. But data gathered over a long historical span rather confirms Wagner’s law of increased state activity (Wagner, 1879)¹⁰: All along the twentieth century, including in the last period, the richest countries unambiguously tended to experiment with growth in the expenditure of public administration related to the GDP (see Lamartina, 2008).

Public expenditure as a percentage of GDP



Source: Commission services based on IMF and OECD data.

We see the Wagner's law as an empirical guide, as an illustration of the growing instability of capital. Our interpretation includes the need for capital to counter its own tendencies to generate crises; public expenditures can be seen as having a stabilizing role and allowing a better flow of credit. In capitalism, the role of the state is to guarantee the stability of capitalism. This was the case with the budgetary and monetary measures taken in order to counter the Internet crisis and with the huge public expenditures in order to counter the current crisis. Actually, there has been a consensus based on the principle that a collapse of the financial market should be avoided. Northern Rock and Bear Sterns have been nationalized, not because the state wanted to bring the private sector under public control, but because the system could not have been saved otherwise. Still, it is extremely unusual for the Fed to intervene outside the meetings of its Open Market Committee – it happened in 2001, six days after the September 11 attacks, in order to decrease interest rates. The first objective was to restore serenity on the financial markets – mainly the international investment banks – by supplying them with all the liquid assets they needed to restore their ability to grant credit, in order to limit the slowing down of investment and to avoid an economic recession. Public interventions in advanced capitalist countries increased overnight. The states in the euro zone, together with the United Kingdom, requested their central banks to stand as guarantors of loans. Marx (1857, p. 215) had observed at his time: *“Nice, too, that the capitalists, who so vociferously opposed the ‘right to work’, are now everywhere demanding ‘public support’”*. To implement the old popular principle of socializing losses and privatizing profits, the state had introduced a very strong intervention to combat the crisis of 2001; this was repeated during the crisis of 2008 (see below III.1). More generally, it seems that the increasing activity of the state is related to the tendency of capitalism to historically generate more and more crises and to the need of capitalism to be supported by the state, which is opposed to false assertion that capitalism amounts to free market.

II.1.2. The end of an era

As a matter of fact, in such circumstances when an increased public regulation has been advocated, the ideology of “free market” has become less popular, even if it “*far from finished*” (Klein, 2008). This is strikingly illustrated by the case of Iceland, a comparatively rich country. The three private banks that existed in this country had borrowed a huge amount of money from Swedish and British banks, and in late September-early October 2008, they were unable to repay their loans. As a result, the Icelandic government decided to nationalize them all, and in November the International Monetary Fund granted a 2.1 billion dollars loan to Iceland. Still, the country’s GDP dropped by 10% in 2009 (Anderson, 2008). On a worldwide scale, thousands billion dollars were unfrozen (in the US, in the euro zone, in Britain...) in order to face the crisis: rescue of the financial system, aid to some productive sectors (mainly car industry in various countries, including the US, Germany, France, Japan, Sweden, with billion dollars), recovery programs through tax cuts (like the U.S. ‘bipartisan initiative’ amounting to 131 billion dollars in 2008), investment plans... It is unlikely, under these circumstances, that the public debt will stop increasing. Nevertheless, what costs public finance more is not the set of measures in support of public interventions, even if they are huge, but the fall in public revenue due to drop in the economic activity (1.1% worldwide, 4.3% in the countries in the OECD, including 2.4% in the United States, 4% in Japan, 5% in Germany, 2.9% in France, 4.9% in the UK... sources: IMF, OECD). In June 2009, the U.S. administration decided to implement a program for reforming financial services in order to alter the distribution of powers between various regulating groups, and to create new organs. The European Union also aims to introduce tighter financial supervision. The three European authorities which will be supposed to control the banks, the insurances companies and the markets – the European Banking Authority, the European Insurance and Occupational Pensions Authority, the European Securities and Markets Authority, all being related with the European Financial Stability Facility –, will have the power to impose constraints, and even to take steps that go beyond the existing national regulatory powers (see ESF Framework Agreement <http://www.efsf.europa.eu/about/index.htm>). Then capitalism is not free market, but exploitation of the working class, which has been widely used against the crisis.

II.2. Increasing exploitation

In order to maintain their activity in restoring their rate of profit, firms have intensified the degree of exploitation (II.2.1), the direct outcome of which has been increasing unemployment and poverty (II.2.2).

II.2.1. Restoring the rate of profit

Some of the capital owners have been severely hit by the current crisis. During the first quarter of 2009, a record number of firms cut the dividends due to their shareholders. The *Forbes* ranking, which records the number of billionaires in the world today, saw the disappearance of many from its list. In 2009 the number of billionaires dipped to 793 as compared to 1 125 in 2008, and the total worth of their assets amounted to 2.4 trillion dollars in 2009 in contrast to 4.4 trillion dollars in 2008. In order to recover as a class, the capitalists need to restore the conditions of profit extraction so that the rate of profit stops shrinking; they therefore need to increase the rate of exploitation and/or to decrease the amount of accumulated capital. The restoration of the rate of profit needs an increase in the numerator (surplus value) and/or a fall in the denominator (constant capital and variable capital). This means lower wages, either direct or indirect – cuts in social welfare –, redundancies and lockouts. The total destruction of fictive capital during the first stage of the financial crisis amounted to half of the world's wealth. In 2008, the global market capitalization fell from 62 to 32 trillion dollars (WFE, 2011).

The OECD proposed to decrease taxes on labour income, especially on lower wages, which would amount to a fall in indirect wages. For France in particular it proposes to limit any increase in the minimum wage since it would be too high comparatively to the median wage. In any case, the objective is to cut the value of the labour force. In the United States, the real median income of households lost 3.6% between 2007 and 2008 (De Navas-Walt, 2009, p. 6). On the first quarter of 2009, the average weekly wage in that country dropped by 2.5% (U.S. Department of Labor, 2009a), the weekly working time – for production and non supervisory workers – reached its lowest historical level in December 2008 with 33.3 hours (U.S. Census Bureau, 2009a) and 9 million people were forced to work part-time in early 2009, compared to 4.5 million a year before (U.S. Department of Labor, 2009c)¹¹. Actually it might be the case that such measures partly succeeded in improving the figures. It appears that such attempts to restore the rate of profit have rested upon an intensification of exploitation, the

related increase in surplus value and a destruction of capital (variable capital with redundancies, and constant capital with closures).

II.2.2. A picture of general impoverishment

The ultimate reason for all real crises always remains the poverty and restricted consumption of the masses as opposed to the drive of capitalist production to develop the productive forces as though only the absolute consuming power of society constituted their limit. (Marx, 1894, p. 484)

These attempts to restore the rate of profit generated an absolute impoverishment of the world population, beginning with the most vulnerable categories. The number of additional people in extreme poverty in 2009 is estimated at 50 million (ILO, 2011, p. 23). The International Labour Organization also noted that the number of unemployed people in the world increased by more than 10 million in 2008, the highest figure since the Asian financial crisis of 1998, and by almost 30 million during 2009. Furthermore, 80% of these people receive no unemployment benefit (ILO, 2009). In the United States, 14.5 million people were unemployed in May 2009, the highest figure since the end of World War Two; 18 months after the crisis began, 7 million workers had lost their jobs – this figure amounts to the number of jobs that were created during the last nine years (U.S. Department of Labor, 2009b, p. 1). The unemployment rate in the OECD countries turned from 6.1% in 2008 to 8.3% in 2009 (OECD, 2010a, p. 2). The number of unemployed people in the European Union increased by 5.4 million in 2009, from 16.1 million to 21.5 million (Eurostat, 2009, p. 2). Spain lost one million jobs in a year, to reach 18% rate of unemployment in 2009 – 11.4% in 2008; in Ireland the rate of unemployment shifted from 6.3% in 2008 to 11.9% in 2009 (OECD: 2010a, p. 2). In the United States, 3.5 million children under five suffer from malnutrition and 16.7 million children had not enough food in 2008 (*The Washington Post*, November 17th 2009).

II.3. A relative national retrenchment and a transformation of power relations

The international relations have also been casualties of this crisis. One of the outcomes of the crisis has been national temptations to the development of some forms of protectionism (II.3.1), in the context of an increasing fragility of the American economy (II.3.2).

II.3.1. The protectionist temptation

The G20 noticed a rapid slide into protectionist measures, including increase in customs duties – mainly non-tariff barriers (OECD, WTO, UNCTAD, 2010, p. 35 *et s.*). We saw that international trade dropped by 11%, the most important fall since the end of the Second World War. Foreign direct investment fell by 11.5% in 2008 and by 32.1% in 2009 (United Nations Conference on Trade and Development, 2011, p. 24), mainly in the most powerful countries. The European Union (EU) is displaying cracks¹²: in February- March 2009, the leaders of the EU states first refused to elaborate on a global schedule to help Central and Eastern European countries, which were hit hard by the crisis (“EU Rejects Multi-Billion Dollar Rescue Plan For Eastern Europe.” *Voice of America*. 1st March 2009). The French Minister of Economy Christine Lagarde questioned the Stability Pact and asked the European Union to be more flexible with its rules¹³: “*It is my opinion that deficits brought about as a result of the crisis should be treated separately*” (*Financial Times Deutschland*, June 2nd 2009). In April 2009, the European Commission implemented procedures against France, Spain, Ireland and Greece for excess deficit. According to Eurostat, the European board for statistics, exports from the sixteen countries of the euro zone to the non euro zone countries dropped by 24% within a year by February 2009, and imports dropped by 21%. Early 2009, the American imports had dropped by 30% within a year.

II.3.2. Fragility of the American supremacy

The current economic period must also be understood within a process of transformation of power relations between states. We have already mentioned that a peculiarity of the current crisis is that it started and is centered in the heart of capitalism, namely the United States of America. The American economy reached its peak level between 1945 and 1970 – in 1960, the U.S. were producing 37.9% of the world’s GDP (Fouquin, 2011, p.7). In 2009, as we saw

previously, this figure amounts to 24.9%. Therefore, the current situation is very different from the 1950s when the world economy was mainly driven by a single power. During the last fifty years, American capital has been weakened; this is demonstrated by, among other things, the instability of the exchange rate of the dollar. The dollar is still the reserve currency but the United States remains the most indebted nation in the world, and it accumulates deficits on a massive scale. The trade deficit gets balanced thanks to a massive purchase of American Treasury bills by central banks and private investors from other countries, primarily China and Japan. Since 1970, the United States has been less and less able to fund itself on its own, and its rule has been more and more based on credit from abroad, which means that it has spent more than it can produce. For this reason, the United States have had to count on a partner since then, which was also its main competitor, especially in basic industries. First this was Germany, followed by Japan in the 1980s – and both suffered painful consequences. Now this role is being played by China, but the terms of the relationship are markedly different. Chinese capitalism is a peculiar kind of capitalism: it is labour-intensive, with hundreds millions workers as a reserve labour force to rely on. Besides it does not have a structured and experienced stock market, financial system and banking system. Yet, China enjoys far greater autonomy in relation to the United States than Germany and Japan ever did. But it still remains true that the American economy is the biggest owner of capital and that China, to a large extent, depends on the economic competitiveness of the United States.

CONCLUSION

The current period can be seen as an important stage in the history of capitalism, since this crisis is the most violent since 1929, with a sharp drop in production, increasing corporate insolvency, rising unemployment. It is a warning as far as the survival of capitalism is concerned. Not only it is important in terms of depth and magnitude, but it has started in the heart of capitalism, and it has nothing to do with random factors, since it seems that its conditions have developed during the previous period of economic growth, which was comparatively long. The states have replied through rescue programs, international power relations are on the path of being substantially transformed, and the most vulnerable households have suffered painful consequences. Misery is both the reason and the outcome of

crises, and since capitalism exists, it is regularly hit by crises. Besides, most of the loans that were granted to the banks were not accompanied by any condition, except refunding; so it is quite likely that similar events will recur in the future, and it happened that those banks used the increasing debt of the states to speculate against the weakest ones. The starting point of recovery has proved to be unstable and mainly supported by the states. Since the late 1970s, it has appeared more and more clearly that capitalism was not able to be both profitable and stable¹⁴ – and it might even become neither profitable nor stable. In order to end the recurrent instability of the world economy, a critical analysis of the mode of regulation of the economy is necessary more than ever, and this means developing modes of organization which will stand for and maximize collective welfare. This also means that capitalism appears as a dead-end, and we suggest that putting an end to it is a necessity for the well-being of humanity, if not its survival.

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¹ Here we follow basically Lenin (1916), and more recently Harvey (2003), Callinicos (2009), Milios (2009).

² The GDP alone does not demonstrate that the U.S. rules the other countries, but it gives a good indication.

³ This is why the paper does not discuss extensively the specific situation of other countries.

⁴ For Lenin (1916), the First World War is the key event that expresses the full beginning of the imperialist phase.

⁵ The Chinese economic growth hardly dropped under 10% (11.4% in 2006).

⁶ On the shift from industrial capital to finance capital for higher expected profit, see Grossman, 1929, and more recently Sweezy, 1994. We do not endorse the view (Duménil, 2010) that limited demand is the basic explanation of such a shift, and that the crisis is essentially financial. Our point is that it is a crisis of capitalism as a mode of production, and not the crisis of a special kind of capitalism, namely of neoliberalism. See I.2.4 in that paper.

⁷ “*Rental foreclosures too are concentrated in the same low income and minority communities where subprime and predatory lending were also most prevalent and that are now experiencing the greatest proportion of foreclosures in general*” (Pelletiere, 2009, p. 4).

Subprime loans were more important in non-white areas (see Kingsley, 2009) and as soon as Fall 2007, 20% of subprimes holders were in big trouble (foreclosures or defaults over 90 days (Rifflart, 2007, p. 109).

⁸ <http://www.fdic.gov/bank/individual/failed/banklist.html>

⁹ They include a further exploitation of the workers, the development of an industrial reserve army, the depreciation/destruction of capital, the international trade. We may add the role of the state in easing the accumulation of capital.

¹⁰ *“Wagner’s law, formulated over a century ago, asserts that, as a nation grows, public expenditure will rise not only in absolute terms but also relative to national income. In its modern version it states that the share of national income devoted to public expenditure rises as per capita income rises”* (Leonard, 2008, p. 137).

¹¹ Similar events occurred in Japan during the late 1990s on the eve of a long economic stagnation.

We even do not mention the current austerity measures in Europe that go slightly beyond the scope of the paper.

¹² The euro zone debt crisis, having started in Greece, and then spreading to Ireland, Portugal, Italy..., is a further illustration of this point which I will not elaborate here.

¹³ It requests, among others, that the public deficit is not higher than 3% of the GDP and that the public debt is not higher than 60% of the GDP.

¹⁴ For a further analysis on Regulation theory and post-Fordism, see Jessop, 2006.