Cracking the crisis - Financial conspiracy or falling rate of profitability?

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Mapping the 'Great Recession'

The current economic crisis is now into its sixth year. Around the world tens of millions of jobs have been lost, pensions have been destroyed and essential services have been routed. This has been the most visible consequence of the economic devastation, but what is ultimately causing the crisis?

Mainstream commentators are completely at a loss to answer this question. In London, the *Financial Times* swings between wild optimism and dreadful pessimism depending on the latest figures from Europe or America. Right-wing economists have meanwhile fared hardly any better. Even the so-called Keynesians are unable to explain the crisis. Writing in the *New York Times*, Paul Krugman hopes that a large dose of government spending might somehow help to stimulate investment.[1]

What he doesn't tell us, however, is that the US government has been spending hundreds of billions of dollars on all manner of financial securities. The US Federal Reserve has been committed to issuing $85 billion of cheap money every month. The mere hint that it might scale back in the near future is creating new economic problems in emerging countries like India. China has also embarked on a massive stimulus programme but its economy has begun to slowdown. Since the crisis began, Chinese growth rates have barely slipped below 8 percent. This has helped to pull the global economy forward, but now there are signs that the world's second largest economy is running out of steam. The latest noises from Beijing suggest that the economic powerhouse is slowly slipping into recession.[2] Keynesian economics, with its emphasis on government spending, has actually been tried and the results are not hugely impressive.

With the Eurozone mired in stagnation, this leaves global capitalism in a precarious position as many of the traditional policy options have now been exhausted. Government spending is increasingly constrained by the need to keep public debts under control. Monetary policy has not been able to reinvigorate investment, whilst the harsh austerity suffered by millions of people has not convinced capital to reinvest in real production. Instead there has been a flurry of activity in the financial markets.

Financialisation

The supply of cheap money has, in fact, led to a recovery in certain financial assets. Cheap dollars have resulted in share prices on the Dow Jones reaching their highest ever levels.[3] This is despite the fact that the crisis began in the financial markets as banks collapsed and tax-payers were made to foot the bill. Such has been the recovery of 'the markets' that many critics of

[1]For a critique of Keynesian economics see O'Boyle 2012a. For a critique of Krugman in particular, see O'Boyle 2012b and O'Boyle 2013.

[2]A recession does not mean a crisis but rather a slowdown in economic activity. See http://www.bloomberg.com/news/2013-07-15/china-s-economy-grew-7-5-in-second-quarter-matching-estimates.html for more details.

[3]http://online.wsj.com/article/SB10001424127887324178904578341794219815204.html

capitalism now believe that the crisis was somehow orchestrated.[4] Despite being at the centre of the turmoil, the bankers and their shadowy financiers have barely lost a penny. Meanwhile ordinary people have seen their savings destroyed and their lives turned up-side down.

This is the context in which conspiracy theories have begun to flourish. The underlying assumption of these theories is that a secret cabal - the Bildeberg group for example, deliberately triggered the crash of 2008 in order to increase their leverage over society. In this article, therefore, I want to place the role of the financiers in their proper context. *Although it is absolutely true that the financial community have conspired with governments to force the costs of the crisis onto workers, there is little evidence to suggest that they actually wanted the crisis to occur.*

On average, capitalist firms are more profitable when the economy is booming. This is the raison d'être of capitalist investment and for over a decade the representatives of finance have tried everything in their power to keep the show on the road. When the wheels did eventually come off, financial powerhouses went to the wall and the financial markets went into free-fall. For a brief period there was even concern that the markets might not survive. US Treasury Secretary Hank Paulson sums up the panic,

> There is no playbook for responding to turmoil we have never faced we are working through a severe financial crisis [in which] the entire U.S. financial system is at risk. This should never happen again. The United States must lead global financial reform efforts, and we must start by getting our own house in order.[5]

Wall Street Journal spokesman Robert H. Christie was even more emphatic, telling the *New York Times* that "crash,' 'panic,' 'pandemonium,' 'apocalypse,' these are the words we're trying to stay away from' with the $700 billion recovery package for the financial markets.[6] That these markets were able to recover is largely down to their power over governments. What they don't control, however, is the workings of the global economy. Regardless of their collective actions, capitalists have never been able to ward off economic crises. These events have consistently plagued the system since its earliest days and the great classical economists attempted to explain why they occurred.

For Adam Smith the problem was a falling rate of profitability brought about by increasing levels of competition. David Ricardo agreed that profit rates must be falling, but he located these difficulties in increasing wages. The main cause of rising wages, he suggested, was the higher prices that workers had to pay for food and other agricultural necessities. For Karl Marx, however, neither of these explanations were consistent with the reality of capitalist production.

If creative human labour was the source of wealth, according to Smith, then there was little reason to think that competition between capitalists would, *on its own*, reduce profit rates. Ricardo was even wider of the mark, locating the underlying problems of capitalism in the declining productivity of the country's soil which in turn was pushing up food prices and therefore wages. Marx ridiculed Ricardo for ground-

[4] The discussion of financial conspiracy theories on the internet is legion. For just one example read 'Bildeberg - Secret World Government?' at `http://www.theinsider.org/news/article.asp?id=0369`

[5] `http://www.bloomberg.com/apps/news?pid=newsarchive&sid=awp6ZWqO_78Q`

[6] `http://www.nytimes.com/2008/09/22/business/media/22press.html?_r=0`

ing his theory in 'organic chemistry' and set about developing an account of falling profit rates consistent with the labour theory of value.

In the early days of capitalism most economists agreed that what had made the system so productive was the creative power of human labour. The newly emergent working classes were powering the system allowing capital to be created from their labour. Today, however, this reality has been buried under a massive overgrowth of mystification. Bankers seem to multiply their money simply by moving it around. Capitalists, meanwhile, are the only ones that capture profits, making it seem as if they, and not their workers, are ultimately responsible for their amazing riches.

To understand the reality of the capitalist system, we need to relocate the source of profits in unpaid labour. Only then can the role of finance be properly illuminated, by linking it to the fundamental processes of capitalist production (exploitation). In the end this means turning to Marx, whose political economy offers us the best opportunity for cracking the crisis.

The Labour Theory of Value

Throughout his economic writings, Marx was interested primarily in explaining the social relations that govern production.[7] Nature provides the basis for human life in every society, but humans have always had to work co-operatively in order to survive. Social labour is therefore the cornerstone of every economy, as work is done to provide the resources to live successfully.

In capitalism this social labour takes on a particular form. Instead of social labour being directly organized - either democratically or through orders from on high - each productive unit works privately in order to exchange. It is the exchange of these 'commodities' that brings producers into social relations with each other as their goods compete on the open market. Exchanging commodities is obviously dependent on finding buyers. This means offering products that meet a need of one kind or another and so every commodity must have what Marx refers to as a **use-value**. This is the qualitative attributes (often physical) that allow a product to fulfill a need. A chair must be a certain shape if it is to appeal to consumers. A pen must likewise be able to write.

But what is it that allows one chair to exchange for say 50 pens? What is the rationale which explains why commodities exchange in certain proportions? Mainstream economists argue that the only explanation is the subjective wishes of consumers. They must regard 1 chair as being equally useful as 50 pens. According to this theory, millions of consumers continually examine how much they are 'willing to pay' for different commodities and with these subjective valuations they set exchange ratios for commodities in the market. This 'utility theory of value' may seem intuitively appealing, but it actually suffers from major theoretical weaknesses.

The most obvious difficulty is the impossibility of measuring utility in any meaningful way. The science of economics is consequently robbed of an objective explanation of social relations in favour of a pseudo-theory of personal desires. Second, and more importantly, 'utility theory' actually presupposes the sets of social relationships that it sets out to explain. After all, if personal demand were

[7] Marx's three volumes of *Capital* are by far his most systematic writings on political economy. For any readers new to Marx, try Joesph Choonara's excellent introduction *Unravelling Capitalism - a guide to Marxist Political Economy.*

the only issue, then anyone who wanted 'capital' would simply demand it. In reality, one must have the money to translate desires into **effective demand** and this presupposes that one enters definite sets of production relationships as worker or employer. Workers may sincerely want to hire tools and machinery. But in a capitalist society it is always bosses that get control of these assets, whilst workers are forced to sell them their labour power. This cannot be explained on the basis of personal desires unless we assume that one class of people has the desire to make others work for them, whilst the other class desires to do all of the working! 'Utility theory' is little more than an ideological defence of capitalist production relations and if we want to explain these relations we need to look elsewhere.

For Marx this meant locating the **exchange value** of commodities in the amount of labour needed to produce them. If we abstract from all of their concrete characteristics every commodity remains the product of labour in general. Marx calls this **abstract labour**, and he argued that the value created can be measured in terms of **socially necessary labour time**.[8] In capitalism, private producers set out to maximize their profits by maximizing the scare resources at their disposal. This means producing commodities with the maximum value and if one chair is in some sense equal to 50 pens it can only be because the same amount of abstract labour is needed to produce them.

The fact that commodities must be have a use value to be sellable at all allows Marx to accommodate effective demand in his theory. Skilled labour and the existence of machinery can also be incorporated by assuming that both are the products of labour done previously. It takes (socially necessary labour) time to train oneself to be more productive. Similarly it takes an amount of socially necessary labour time to build tools and the latest technology.

Overall, Marx's **labour theory of value** succeeds in grounding the exchange value of commodities in the social relations of a commodity producing society. Value is an amount of abstract labour added in (private) production and realised in (social) exchange. Value produced and value realised (ex-value) may not always be identical. However, by and large, value acts as a centre of gravity, regulating the prices of commodities on the basis of the socially necessary labour embodied within them.

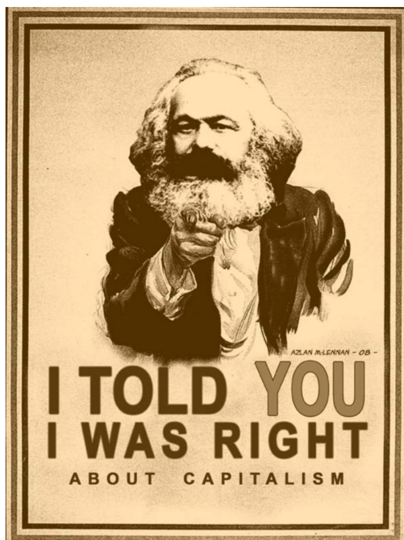
To this point, Marx's discussion of value may seem overly obscure and academic. In fact, it has the most radical implications for our understanding of the system. *If labour is the source of all value then exploitation of labour is the source of all surplus value.* Tools and machinery are essential to gain control over human labour, but in the end, profits, interest and rent must all be sourced in the unpaid work of the working classes. Despite all talk of human freedom, capitalism is built overwhelmingly on exploitation.

Throughout *Capital (Vol One)* Marx sets out to prove this, carefully distinguishing between labour done and the capacity of the wage labourer to engage in production. In capitalism workers do not own the products of their labour and so arguing that they get paid for the value their labour produces is false. Instead, workers own their ability to work (their labour power) which they sell to a capitalist at the beginning of the contract. The price they receive will oscillate around what is needed to reproduce the wage labourer and her labour power. In general, however, this value, the wage paid hire the worker's

[8] Marx's discussion of value is the cornerstone of his analysis of capitalist social relations. See *Capital Volume One* pg 35-74 for more details.

labour power will be less than the value of the goods or services that labour produces. Unpaid labour is the source of all surplus value and anything that displaces this labour will soon cause trouble for the capitalist system.

The tendency for the rate of profit to fall[9]



The relationship between capital and labour is foundational in capitalist society. All other relations are subordinated to the production of surplus value, but it is important to remember that bosses don't exploit their workers as one big collective. Exploiting labour is a tricky business with every capitalist constantly scrambling to stay competitive. By and large, this means investing proportionately more in the latest tools and technological advances than in fresh sources of labour power. As a class, the bosses may have an objective interest in maximizing the amount of labour power being exploited, but there are two problems that they are powerless to overcome.

The first is their inability to get beyond fetishism.[10] By this we mean a way of seeing the world as if material things have a life of their own. These 'things' are sometimes a disguised from of social relationships, as is evident in discourses about 'Markets'. Capitalists genuinely locate their profits in machinery and so individually they will have no qualms with replacing wage labourers with the latest technologies.

The second is competitive pressure. Even if they understood the imperative to maximise wage labour, the fact that capitalists must compete with each other forces each of them to increase their technology. Individually this may allow them to keep abreast of their competition, but in the aggregate it forces the rate of profit to decline.

As products of human labour, machines and tools certainly have a value, but once they are produced this value is crystallised. Marx calls them **dead labour** to remind his readers of their ultimate genesis and **constant capital** to remind his readers of their inability to produce profit. Capital goods are bought and paid for within the class of exploiters. The owners of these goods expect the full value of their commodities, leaving no opportunity to squeeze out more value than the original labour that went into making them. If a capitalist invests €1 million in tools and technology then this is the maximum value that can be transferred into his/her final goods. This is an iron law of capitalist production and it is in the interaction of class exploitation and intra-capitalist competition that the most intractable problems for the system arise.

[9] Marx's discussion of this tendency takes place in *Capital Vol 3* pages 317-378.

[10] Marx uses this term to describe any process in which human beings create objects which then assume some independent power over them. The classic example is Gods and idols, but under capitalism it is things like pieces of paper, machines and houses that are fetishised.

Imagine a capitalist invests €1 million on technology and €1 million on wage labour. In Marx's terminology our capitalist has spent €1 million on constant capital (or **C**) and €1 million on variable capital (or **V**). Her total layout is therefore €2 million. Of this, the million on constant capital merely transfers into the price of the final goods whilst, let us assume, the million on variable capital produces a surplus value (**S**) of €1 million.

In this case the **Organic Composition of Capital** is Constant Capital divided by Variable Capital or **C/V** and is equal to €1 million/€1 million or 100 percent.

The **Rate of Exploitation** is Surplus Value divided by Variable Capital or **S/V** and is equal €1 million/€1 million or 100 percent.

The **Rate of Profit** is surplus value divided by the total layout. This is **S/C+V** and is equal to €1 million/€2 million or 50 percent.

Now imagine that competitive pressure forces the capitalists to increase their outlays on technology. They still spend €1 million on variable capital but now they must spend €2 million on constant capital.

In this case the **Rate of Exploitation** hasn't changed. It is still equal to €1 million/€1 million or 100 percent. However, owing to increasing mechanization the **Organic Composition of Capital** has jumped to €2 million/€1 million or 200 percent.

This in turn ensures that the **Rate of Profit** will have fallen. Profits are calculated on the total outlay and now the €1 million in surplus value must be matched against the €3 million that the capitalist was forced to invest. Instead of making 50 percent the capitalist now only makes 33.3 percent.

Many prominent left wing academics have disputed this aspect of Marx's theory on the basis that no capitalist would ever employ new technology if it meant a declining rate of profitability. Only those technologies that increased the rate of profit should rationally be adopted and the corollary seems to be that one capitalist increasing their profits is incompatible with an overall decline.

The key weakness in this perspective is a failure to fully understand the Marxist method. Throughout *Capital*, Marx regularly warns his readers against generalising from the individual perspective. Mainstream economics is notorious for its insistence on developing a theory from the point of view of the individual entrepreneur. Pre-scientific cosmology made the same mistake, generalising from our perspective in the solar system to argue that the earth was static and the centre of everything. Once we get to grips with the totality, it is perfectly possible to see how one capitalist can increase their share of the total surplus value provided it comes from somewhere else in the system. *Purchasing the latest technologies cannot in themselves produce any extra surplus value but they can help to redistribute some of the already existing surplus value through the price mechanism.* Let us see how.

With a given level of technology, a tube of toothpaste may contain a potential value of €1 at the start of the week. However if a number of new toothpaste producers emerge on the scene, the owner of this *potential value* may see it halved due to competition from his more productive rivals. If the rivals have found a way to speed up the process then the amount of socially necessary labour time will have fallen - and the value of the toothpaste will reflect this. In general, the value of commodities will be set by the average amount of socially necessary labour time needed in a given

industry. If one company can get ahead of the game they can transfer value from their less competitive rivals. The principle way to achieve this advantage is to increase the productivity of your workers. This means investing in the most up-to date machines and technology. So whilst it is impossible to increase the amount of surplus value overall with technology, it is perfectly possible to increase the individual profit rate of an individual corporation. The example below will help to confirm this.

Investment	Year 1	Year 2	Year 3
Constant Capital	€100	€200	€200
Variable Capital	€100	€100	€100
Surplus Value	€100	€300	€100
Units of Output	300	600	600
Unit Price	€1	€1	€0.66
Total Sales	€300	€600	€400
Profit Rate	50%	100%	33.3%

In the first year, the capitalist, facing normal competitive conditions, transfers €100 from his constant capital to the end product, and €200 from his investment in variable capital. The rate of exploitation is 100 percent and the rate of profit is 50 percent.

In the second year the capitalist increases his investment in constant capital by €100. This makes him 33 percent more productive than his rivals as he finds he can now produce the toothpaste in 2/3 of the time. The rate of exploitation is still 100 percent meaning that he can still transfer €200 from his €100 investment in variable capital and €100 from his constant capital. But now he finds that he can actually capture a further €200 by being more competitive than his rivals. His productivity has shot up considerably and because he is producing ahead of the socially necessary level, he finds that his new technology now allows him to make super normal profits. The rate of profit he makes has jumped to 100 percent. This not only gives him an incredible return, it further reinforces the fetishism of the individual capitalist who now fully believes in the power of his machinery to generate profits.

In the third year our capitalist's rivals have three options. They can continue to produce with the old technology and lose their market share. They can adopt his technology and compete on an even playing field, or they can try to innovate and get ahead of the curve. In the case above we are assuming that the dominant decision is to adopt the technology and merely catch up. In this case the rivals can produce the toothpaste in 2/3 of the previous time and the amount of value embodied falls by 33.3 percent. This affects the selling price of the toothpaste which now falls to €0. 66. Our capitalist finds that even though the production mix still produces 600 units this no longer translates into supernormal profits. With the rivals catching up the surplus value slips back to that produced solely by the capitalist's workers. With only the average level of technology the transfer of value from his rivals has dried up. The capitalist can still count on the €100 gained from exploitation but this has now to be matched against a €300 outlay.

Profit rates fall across the industry as the rationality of the individual capitalist comes into contradiction with what is rational overall. This is perhaps the most powerful critique of fetishism available. Our capitalist, has, after all, still produced the same amount of 'things', and, yet, inexplicably, finds he is far less able

to make a profit. In reality, the greater technology gave the capitalist a temporary ability to control a larger slice of society's total labour. It is as if he can briefly claim a slightly larger slice of a slightly smaller cake. As all of the capitalists try to replicate this procedure they find that all they can claim is an equal slice of a slightly smaller cake. The total mass of profits has declined along with a general decline in the rate of profit.

Capitalist crises

When Marx wrote he was always careful to qualify his arguments appropriately. In the example above, all of the countervailing influences and any complicating factors have been removed. In reality, improvements in technology would make not only toothpaste, but the machines that produce it cheaper. This may ensure that the amount of extra value needed to engage in competition isn't as high as we have assumed. The constant capital may not cost as much and the rate of profit may not fall as dramatically. Making labour more productive can also allow capitalists to increase their levels of surplus value. This should also work to increase the rate of profit. Increasing the rate of exploitation can also reverse the tendency for the rate of profit to fall. This has been the major countervailing tendency over the last thirty years, as neoliberal policies have driven wages and welfare rates consistently downwards. Together these constitute the three most important countervailing tendencies to falling rates of profitability.

Yet even if they hold, there is still reason to assume that the primary influence will flow from an overaccumulation of constant capital. After all, the pressure to succeed will generally ensure that any extra surplus value gained in these ways will soon be reinvested. If we assume that there is a bias towards capital goods then sooner or later the process laid out above will assert itself - especially as there is a limit to the amount of exploitation a firm can engage in.[11]

Marx called the 'law of the tendential fall in the rate of profit' the most important in political economy. The rate of return on investment is the life blood of a capitalist economy. Without an adequate return, capitalists will refuse to invest and pretty soon a number of crisis points will begin to emerge. Contradiction is thus writ large in the DNA of capitalist society. The raison d'être of investment is to accumulate capital and yet it is this very process that eventually undermines the rate of profit.

If capitalism is booming the process of accumulation accelerates. Investment in productive activities increases drags many other indicators along with it. Confidence is strong throughout the economy, with employment high and growth rates moving upwards. This increases the mass of surplus value, together with increasing levels of effective demand. At this stage of the cycle, financial capital is more than happy to lend out credit. All manner of credit facilities are sought and secured, as banks extend the boom by facilitating investment. The system seems to promise endless profitable opportunities. Yet at some point the build up of constant capital slowly puts pressure on the rate of return. When this occurs, productive investment begins to decline as financial capital comes into its own. The monetary authorities of-

[11] Quantitatively, the length of the working day cannot be extended indefinitely. At most, a human can do maybe 16 hours work a day and even then they will soon become burnt out. Qualitatively, making 10 workers as productive as say 100 will also reach its limits. After all if the process is repeated, eventually there will be no workers and no surplus value!

ten try to revive the economy with a deluge of credit.

Meanwhile, capital flows from productive to non-productive sectors in search of returns no longer available in the industrial economy. Buying low and selling high becomes the means of enrichment as the demand for financial assets begins to increase. Speculation replaces the exploitation of human labour as debt outstrips the production of value. This can certainly secure inflated returns for a time. However, at some point a bubble will reveal itself as crisis explodes on the surface of society. Debt and speculation are frequently tied to what Marx refers to as **fictitious capital**.[12]

Earlier we argued that capital refers to the social relationship between a class of exploiters and a class of exploited. If tools and machinery allow capital to hire human labour power, then the value created is real and the process is (relatively) sustainable. If, on the other hand, 'capital' is nothing more than a piece of paper (say a bond), there is no value directly created and the capital is fictitious. At best, a debt claim entitles its bearer to a share of *future* value, but moving around claims to future income is not the same as exploiting real human labour. Financial assets can move along way from any underlying labour values with the resulting prices reflecting nothing more than current sentiment.

'Irrational exuberance' is the term used by mainstream economists, and for once they are not far wide of the mark. Any exuberance is badly misplaced as the production of value is never sufficient to back up all of the paper claims. At some point the smartest market participants will realise this, selling sharply and moving out of their speculative adventures.

When this occurs a crisis erupts in the financial markets spreading slowly to the rest of the economy. The deluge of credit suddenly vanishes as banks retreat from the positions they have taken. Without cheap money effective demand soon follows suit particularly in the markets for goods which are devoid of investment. An **overproduction** of commodities is the most visible sign that all is not well as the potential value contained in these commodities cannot be realised.[13] The build-up of capital goods convinces employers to scale back on production and soon there are mass redundancies across the sector. Once this occurs, capitalists producing wage goods will find that they too have overproduced, setting in train a vicious cycle. Sacked workers and frightened capitalists rarely make effective consumers.

The entire system gets trapped in overproduction, with the weakest capitalists going to the wall. Throughout the system the value of commodities begins to be destroyed. Prices fall, whilst everyone scrambles for liquid assets (money). A system that was booming has gone into reverse. Capital accumulation has become a block on further accumulation and only the destruction of capital value can restore the system to profitability. With such devastating consequences for working people one could be forgiven for assuming that the bosses actually welcome the crisis. Some layers undoubtedly do, but in the main the destruction of value is a process that capital would much rather do without.

As a rule, firms make more profits in boom conditions than in crises. There is also more legitimacy for the system, but in the end the crisis is as necessary as the period of boom that went before it. As far as Marx was concerned, periods of crisis are purgative in the sense that they reverse

[12]See *Capital Volume 3* pages 525-543.

[13]Ibid pages 359-367.

the processes that lead to stagnation. If an overaccumulation of capital is the main cause of the crisis then only the destruction of capital can help it recover. This, unfortunately, is exactly what occurs.

As the circuit of accumulation becomes disrupted, wages fall and the weakest firms are forced out of business. Capital gets systematically destroyed in this process, as commodities (wage labour, capital goods) are sold at prices well below their original values. For those capitalists lucky enough to survive, this presents a significant opportunity. Cheaper input prices allow the rate of profit to recover, whilst an expanding market share further increases profitability. Added to this, is the activity of the state, which generally wades in on the side of capital. Austerity for workers is coupled with state support for further investment and in the main this leads to an expanded cycle of production, usually on a new technological basis. The system has found a way to recover as a renewed spurt of accumulation develops. Confidence and employment begin to return until the next time that the system collapses.[14]

Crises since the Great Depression

The central argument put forward in this article is that economic crises must be linked to the contradictory process of value creation and capital accumulation. If there is a relatively high level of surplus value, most other indicators will generally be positive. If, on the other hand, surplus value begins to be squeezed, the profit rate will fall and the system will slip into relative decline. Value creation is essential to capital accumulation and yet the latter is the principal block on the sustainability of the former. As surplus value is created, competition forces firms to prioritise the accumulation of constant capital (tools and technology). This in turn reduces the creation of surplus value and so the entire basis of capitalist production is riven with contradictions. The more value is proportionately accumulated as constant capital, the greater the decline in the rate of profit and the more likely a crisis will emerge. The more current values are destroyed (capital destruction), the higher the recovery in the rate of profit and the more likely a boom will develop.

Mapping the system since the Great Depression is a useful way to test this hypothesis and when one looks at the empirical data there is a remarkable level of confirmation. In the main, the system has had one long period of slump from 1929 to the Second World War (which started the process of recovery, especially in the US) and one long period of boom from the 1940s to 1973 and then a series of intermittent slumps and mini-revivals. This is exactly the pattern that one would expect. In the years between 1929 and 1945 capitalism suffered a level of value destruction that has never been matched before or since. According to Andrew Kliman, prices in the US fell by 25 percent between 1929 and 1933, with the prices of fixed assets owned by US corporations falling by 23 percent in the same period. The wealth of the US declined by somewhere in the region of 60 percent and the effect on value creation was monumental,

> During the 14 years between the start of 1931 and the start of 1945, U.S corporations advanced capital increased by 3%. To understand the magnitude of destruction that this implies, the 3% increase can

[14]See Guglielmo Carchedis article 'Behind and Beyond the Crisis' (in *ISJ* 132) for a useful supplementary account of the cycle presented above.

be contrasted to the 164% increase in GDP in the same period and the 192% increase in corporations' advanced capital during the following 14 years. If advanced capital had not fallen in relationship to GDP its level at the start of 1947 would have been more than twice as great as it actually was, which means the rate of profit would have been less than half of what it actually was[15].

The Depression era was undoubtedly the most barbaric in human history. More than 50 million people were slaughtered, as humanity paid dearly for the crisis of the system. With such amazing levels of (value) destruction, one would expect the succeeding period to explode with activity. This is exactly what came to pass. In the 25 years after the war, American GDP increased three-fold, French output increased four-fold and German output increased five-fold.[16] US profit rates were also between 50 and 100 percent higher than in the 30's and they stayed that way until late into the 60's.[17] The initial rise was obviously expected. But why did the profit rate remain so robust? To understand this, we need to introduce the phenomenon of arms expenditure.[18]

Prior to the war, arms expenditure had been relatively limited. US spending amounted to no more than 1 percent of GDP, whilst the rest of the world spent even less. All of this changed with the onset of the Cold War. US arms spending increased to as much as 14 percent of GDP never falling back to less than four times the pre-war era.[19] Arms manufacturing is like every process that employs labour power in its ability to generate surplus value.[20] Ordinarily, competitive pressure would see this surplus value reinvested, but arms expenditures are peculiar in the way that they function in the system. Instead of the surplus being reinvested it is simply stockpiled. Bombs and tanks are either deployed in battle or left to depreciate. Either way, they are never used in the next round of production. Like luxury goods, arms expenditures slowdown increases in the organic composition of capital (C/V). This breaks the flow of surplus value into constant capital and helps slow down the process of accumulation. The usual pattern of boom and bust was consequently interrupted.

However, the behaviour of the state in forestalling the dynamics of accumulation was not equivalent to changing its laws. Over a longer period the organic composition gradually increased dragging down the rate of profit. Marxist's generally agree that the return on investment began to fall in the late 1960's, falling around 50 percent by 1980.[21] The arms economy had run out of stream, and the memory of the 1930's suddenly came back into focus. Back then, the consensus had initially been to allow the crisis to play itself out. Mainstream economists never frame their behaviour in terms of 'value', but they often accept the

[15]Kliman, 2012: 77.

[16]Harman, 1982: 75.

[17]Harman, 2009: 165.

[18]Harman 1982 explains this phenomenon clearly as does Choonara 2009.

[19] Harman, 1982: 79.

[20] This statement should be qualified slightly to include only those capitalist processes that employ labour power that transforms use-values. See Carchedi 1991 (chapter 2) for more details

[21]See Moseley (1997, 2000) Duménil and Levy (2001, 2002), Brenner (2006), Harman (2007), and Sheikh (2010) for more details.

cathartic effects brought on by the crisis. To this day, Austrian economics is framed around the idea of 'creative destruction', but few serious policy makers would contemplate the levels of destruction associated with the Great Depression.

The crisis of the 1930's went far beyond anything that could have been welcomed. Capitalism was itself in jeopardy until the preparations for war revived the fortunes of profitable exploitation. This could not be allowed to happen again and so the dominant response to the crisis of the 1970's was to interrupt the process of value destruction. Compared with the 1930's and 40's far less value was destroyed.[22] The organic composition was not reduced in any meaningful way and the crisis never had the same levels of cathartic effect. Chris Harman describes the crises of the 1970's, 80's and 90's as processes of restructuring which never

> got rid of unprofitable capital on a sufficient scale to raise profit rates to the levels of the 1950's and 60's.Fear of what the collapse of really big corporations and banks would do to the rest of the system [meant that] hardly any big firms had been allowed to go bust during the first two crises of the mid-1970's and early 1980's[23].

What did occur was a systematic attempt to increase the levels of surplus value. Earlier we indicated that profit rates can be restored through cutting C and/or raising S. If constant capital couldn't be sufficiently destroyed then exploitation would have to do the heavy lifting. Since the 1980s, the names of Thatcher and Regan have been synonymous with this class based assault often known as neoliberalism. In that time, capital has worked relentlessly with the states of the world to repress wages, cut welfare and open up labour markets. There have also been attempts to use the threat and the actuality of restructuring to drive down wages. Paul Mattick estimates that by as early as 1986, US workers had lost 14.3 percent of their weekly earnings, with household income down around 6 percent.[24] In five of the major economies (US, UK, Germany, Japan, France) wage shares in output have fallen from around 75 percent to 63 percent in what Anwar Shaikh has described as 'an unprecedented rise in the exploitation of labour'[25]. Workers lost virtually everywhere and the impact on the profit rate was all too predictable. According to Guglielmo Carchedi, the rate of profit recovered from a low point of around 5 percent in 1983 to reach 14 percent by 2006. More importantly, his calculations indicate that without 'the magnitude of defeat of the working class' it would only have been 8 percent.[26] Attacking labour most certainly did its job. Fred Moseley has estimated that the rate of surplus value has increased by as much as 45 percent, and yet, without the required levels of capital destruction, the rate of profit could only recover around half of its original decline.[27] With profit rates languishing far below their post-war levels, accumulation remained relatively sluggish throughout the neoliberal period. What did explode, however, was financialisation.

[22] Kliman, 2012: 3
[23] Harman, 2009: 233
[24] Mattick2011: 58.
[25] Shaikh, 2010: 45
[26] Carchedi 2011: 126
[27] Moseley 2002: 1

A conspiracy of finance?

The crisis of the early 1970's sounded the death knell of what is commonly known as the Bretton Woods System. This system tied national currencies to the gold standard via the workings of the dollar. One ounce of gold was convertible into $35 with every other currency similarly convertible through a system of fixed exchange rates. If trade and capital flows remained in balance the system would work efficiently. However by the early 1970's the twin effects of the Vietnam War and the slowdown in accumulation meant that America was running ever greater deficits. Overtime it became clear that there simply wasn't enough gold to meet all of their obligations and when this occurred the US monetary authorities decided to break up the system. This had two important effects. First off, capital became far more footloose as the key financial hubs (London and New York) became deregulated.[28] Secondly, as the global reserve currency, the US was no longer obliged to pay for imports using commodity money (treasury bills backed by gold). The dollar took a decisive step away from labour values and by the end of the 1970's, US deficits had exploded. The corollary of US deficits was the swelling of dollars in foreign banks. This money had to be utilised and pretty soon there was an explosion of credit for households and governments.[29] Attacks on living standards coupled with a retreat of the welfare state meant that workers increasingly had to turn to credit in order to survive.[30] According to Harman, US personal debt rose around twenty-fold in the three decades from 1980, whilst the ratio of debt to household income basically doubled.[31] Exploitation was increasing the demand for credit with the same process that allowed financialisation to successfully meet it. This was the secret of neoliberal economics and it helps to explain why profits were maintained for so long without a healthy level of accumulation.

With the opening of global capital markets the relationship between industry and finance became ever more integrated. Stock market values gradually took precedence, as corporations turned to all manner of financial engineering in the hope of generating easy returns. Asset values skyrocketed, fuelled by historically low interest rates, historically high dividend payments and the redistribution of wealth from the poor upwards. Speculation increasingly drove economic activity causing a 'wealth effect' for those lucky enough to own stocks and shares. More importantly, a whole series of housing bubbles began to develop, allowing millions of workers to use their properties as a way of supplementing welfare payments and falling real wages. This meant that even those corporations that refrained from finance ultimately relied on the cheap credit that it delivered. Main Street' became increasingly reliant on 'Wall Street', as fictitious capital increased exponentially.[32]

Added to these 'domestic' benefits, financialisation also had important effects for global investment. Those who control investment have always been extremely powerful, but deregulation has increased the ability of financiers to scour the earth in search of profits. This enhanced their role at the centre of global accumulation, with bankers at the likes of Goldman Sachs influencing investment decisions for thou-

[28] Wade 2006: 16

[29] ibid.

[30] Lapavitas, 2009: 18

[31] Harman 2008: 22

[32] See O'Boyle (2012c) for more details on this.

sands of industrial powerhouses. Through these decisions millions of wage labourers are set to work daily with the resulting surplus value being shared out amongst the different branches of capital.

Deregulation has greatly facilitated exploitation, but it has not been without its problems. Instability has been a constant companion as flows of capital have greatly increased the threat of crises. According to one IMF report there have been as many as 126 financial crises since the early 1970's.[33] Never before has the system been so volatile and the playbook of the neoliberals has had to reflect this. The Latin American Debt crisis (1982) marked a watershed moment for the world's population. When Mexico threatened to burn the Wall St Banks, Reagan tasked the IMF with finding a 'solution'. Since then the costs of every crisis has been dumped onto tax payers and the poor.[34] It is simply inconceivable, from their point of view, that the institutions controlling global investment could ever be threatened and so time and again the bankers have been allowed to profit in the good times and allowed to exit the scene unscathed in the bad. What is good for banking has become all important, as the integrity of the financial system is the overriding concern for neoliberal governments everywhere. Debt fuelled bubbles have been a necessary fixture since the 1980's precisely because the system has been in relative stagnation. Speculation thrives in this environment as the ruling class looks to duck and swindle its way to higher profits. Fictitious capital is continually amassed and destroyed as the law of value repeatedly (re)asserts itself. This is the material basis for conspiracy accounts and whilst there isn't any doubt that the bankers conspire, what they cannot do is resolve the contradictions within the capitalist system.

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[33]Laevern, L. and F Valencia (2008 'Systemic Banking crises: A new database' www.imf.org/external/pubs/cat/longres.aspx?sk=22345.0

[34]See Harvey 2005 for a useful account of this process

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