Monopoly finance capital and the crisis

An interview for the Norwegian daily Klassekampen

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Klassekampen: Is the credit crisis a symptom of overaccumulation of capital? It seems to me that investments worldwide, but especially in the United States, were funneled into the traditionally "safe" housing market following the bursting of the dotcom bubble. This overinvestment in turn generated a new bubble, thus causing today's havoc. Is this correct?

JBF: Yes, I agree that this is due to what might be called an overaccumulation of capital in a number of senses: an overbuilding of productive capacity (physical capital) in relation to a demand constrained by monopoly within what economists call the "real" (as opposed to financial) economy, an overamassing of profits and wealth at the top of society, and a hypertrophy of financial claims to wealth. In terms of the financial crisis itself, there has been a massive, highly leveraged expansion of money claims to wealth, creating a huge debt overhang, and forcing, at this moment, a massive devaluation of capital. All of this is related, however, to the breakdown of the capital formation process, accumulation proper, in an increasingly stagnant real economy. These are contradictions of what I have called the phase of "Monopoly-Finance Capital" (Monthly Review, December 2006).

The bursting of the dot.com or New Economy bubble in 2000 resulted in what has been dubbed "the great bubble transfer" whereby the bursting of the New Economy bubble compelled the US Federal Reserve to lower the main interest rate it controls (the Federal Funds rate), leading to a new and more massive bubble based in home mortgages, the dangers of which were apparent early on [1]. This involved an enormous expansion of consumer debt despite the fact that real wages had been stagnant in the United States since the 1970s creating an unstable situation. It also involved the need on the part of capital to book ever increasing profits from finance, achieved through securitisation of every form of what had previously been individual debts — especially home mortgages. This in turn led to the extension of mortgage financing to riskier and riskier customers under the theory that new "risk management" techniques had devised the means (hailed — bizarrely — by some as the equivalent of the great technological advances in the real economy) with which to separate the weaker from the stronger debts within the new securities. These new debt securities were then "insured" against default by such means as credit-debt swaps, supposedly reducing risk still further. This was the ideology behind the housing bubble. [2]

To what can capital turn now? Will it generate another bubble in even "safer" areas, such as natural resources? Food? I must admit that western financial capital does not seem to be very geographically expansive at the moment, but could this change?

I don't think capital has anywhere to turn in the immediate situation, that is, there is no hope for restarting accumulation right now. One hears all the time about the creation of new bubbles, and certainly since financialisation is how capital in the monopoly-finance phase has sought to combat stagnation, this is a natural enough question to ask. But it is often treated as though bubbles, i.e. major speculative episodes within the more ongoing financialisation process, can be based on anything whatsoever. Historically, however, such speculative bubbles in the advanced capitalist economies are based in the stock market and real estate. Neither is likely to be expansive at present.

We are in a period in which a massive wiping out of value is taking place, which will eventually, as in all such occasions in the history of capitalism, create the basis for renewed accumulation. But the process has to work its way out first. Right now we can say that there is a crisis of financialisation on top of stagnation, pulling the economy doubly down. A speculative bubble in natural resources or food is hard to imagine since these are known to be the most volatile areas in which to invest; right now commodity prices are dropping rapidly in response to world recession, increasing fears of deflation, and placing third world economies especially in danger.

The system has geographically expanded throughout its history and in recent decades, but is coming up against limits in this regard today. Just think of the massive depeasantisation of the world that we have seen in the past few decades, perhaps the greatest movement of peoples in all of human history, in effect a whole new set of enclosures on a global scale. China's enhanced role in the world economy, indeed the only significant sustained source of growth in the global economy for more than a decade, on balance seems not to have increased the stability of the system — if anything the reverse. Geographically, and in terms of imperialism, we are up against the kind of absolute limits of capitalist expansion pointed to by Rosa Luxemburg. This also has an ecological aspect to it. The best analysis I know of this problem is an article by Jason Moore entitled "Ecology and the Agrarian Question in World-Historical perspective," which we are publishing in the November 2008 issue of *Monthly Review*, though the work of Harvey and Wallerstein in this area is also crucial.

Our very own Svein Gjedrem, chief of the Norwegian central bank, has confirmed that this crisis is the worst since the thirties. Just a year before he and other experts reassured us that the subprime crisis was "an American phenomenon" and would "quickly pass." Why does modern economics fail to predict such cataclysmic events?

The fact that we are confronted with the worst financial and economic crisis in the advanced capitalist world since the 1930s is an empirical fact that no informed individual at this point doubts. The failure to predict in the era of monopoly-finance capital and financialisation has to do with a number of factors, including the psychology of all speculative booms throughout the history of the system. As Marx observed in *Capital*, "Business is always thoroughly sound, and the campaign in full swing, until the sudden intervention of the collapse" (*Capital*, vol. 3, chapter 30).

With respect to economic theory, one can point to the deficiencies of orthodox or neoclassical capitalist economics, which has no way of understanding these things within its fundamental model. Basically, it assumes a kind of non-relation between what it calls the "real economy" and the money or financial economy. The belief is that what goes on in the realm of credit/finance is meant to service the real economy, providing it with needed financing (and financial services generally). But beyond that what happens in this realm (the amassing of money claims to wealth) has no actual connection to the underlying economy, and operates by its own principles. Nor, for that matter, do orthodox economists normally deal with the real economy in any meaningful historical sense. The fact that finance was lifting the whole economy was of course known at some level, but the underlying stagnation tendencies in the latter, apparent since the 1970s, were conveniently ignored as long as profits kept on going up. Part of the problem is that mainstream economics has long left behind its relatively rational stage (abandoning even Keynes) and adopted a whole series of inane doctrines such as monetarism, supply-side economics, rational expectations theory, new classical economics, etc. When this crisis hit, the dominant perspective of central bankers in the United States, led by Federal Reserve Board Chairman Ben Bernanke (an academic economist who had specialised in monetarist interpretations of the Great Depression), was that it was simply a problem of liquidity and that you could drop money from helicopters, if need be (a notion of Milton Friedman's, promoted by Bernanke, earning the latter the nickname "Helicopter Ben").

Needless to say, the sheer stupidity exhibited by a theory premised on assuming equilibrium within the context of an irrational system of competitive, unregulated, and indeed institutionalised greed is at all times hard to fathom. Neoclassical economics has long ceased (at least in its theoretical assumptions) to be political economy, and its practitioners have therefore long dispatched any notion of class, power, etc. from their analysis, replacing these with largely meaningless abstractions. Indeed, this is so much the case that in business circles neoclassical economics is often viewed as useless in any real-world terms, including the making of money. Nor do they grasp dialectical connections, having adopted timeless mechanical models. In contrast, the weaknesses of orthodox economics in all of these respects represent the strengths of Marxian political economy.

Marx's analysis is that under capitalism, the productive forces are shackled by the productive system. Today, viable businesses are going bankrupt because of lack of credit from the financial sector. Is this a sign of increasing conflict between productive and unproductive forces? When the workers have to pay for the bailout of aggressive banks, is this a form of "primitive accumulation"? Has the financial system outplayed its role in furthering production?

The crisis is a clear illustration of the point that productive forces are shackled by the existing relations of production (i.e., class, property relations). In the present case, the combination of stagnation in the real economy and the imperative of ever increased accumulation of capital, demanded by the capitalist relations of production, led to accelerating concentration of profit in the financial sector. In recent years in the United States, over 40% of all profit in the entire economy was concentrated in monopolised finance. But these booked profits were ultimately based on the assurance of future payments by workers ever more squeezed in the stagnating real economy. Then the payments on subprime debt faltered, and as a result of the completely opaque securitisation process, no one knew which debts were bad and which were good. At the same time, the illusion that derivatives constituted "insurance" against default completely evaporated — indeed it turned out to be the equivalent of adjoining house owners insuring each other against fire when the whole neighborhood burns down. Credit markets froze because the banks and other financial institutions were ceasing to lend since the borrowers could not be counted on to pay them back. The banks themselves were insolvent, their capital had disappeared, and they could not pay their current debts, were they forced to do so.

Under these circumstances, no matter how many hundreds of billions of dollars in liquidity were poured into the financial sector, nothing happened. All those with money, including the banks, were hoarding. The US was printing dollars like mad and flooding the financial sector with liquidity, but rather than loaning out money capital the banks were stuffing it in their vaults, or more precisely using it to purchase Treasury bills, creating a kind of revolving door that negated the attempts of the government. Faced with an insolvency crisis, and the prospect not of making money but of being presented with claims they owed but could not pay, the banks did exactly what Keynes had said they would do under such circumstances: they simply hoarded cash. At present, the authorities have prevented a complete meltdown (in the US version of a plan adopted with some variation by all the advanced capitalist countries) by injecting capital directly into banks in return for preferred stock (a partial nationalisation of banks), guaranteeing new debt of banks, and increasing deposit insurance. In the United States alone this is estimated potentially to cost $2.25 trillion — far beyond the $700 billion bailout of a couple of weeks ago (*New York Times*, October 15, 2008). This is a desperate attempt to stop the financial avalanche.

This is all part of the present financial crisis. But, as you point out, the problem goes much deeper, and there has not yet been any serious attempt anywhere to deal with the real economy, and the relation between it and speculative finance. In broad terms, it makes sense to speak not so much of a conflict between productive and unproductive capital as between production and finance, in a context of what we now understand as a dialectic of stagnation and financialisation. The classic statement of the problem can be found in Harry Magdoff and Paul Sweezy's essay "Production and Finance" in their book Stagnation and the Financial Explosion, published in 1986. More recently, you can look at my essay, "The Financialization of Capitalism" (*Monthly Review*, April 2007).

I don't think it is much help to call the bailing out of banks by workers through taxpayer funds "primitive accumulation." The latter concept has a very specific meaning in classical economics and Marxian theory, related to the laying of the foundations for a capitalist system of self-perpetuating accumulation. Rather, the forcing of wage earners to carry the responsibility for more debt, which is used to justify further cutbacks in government programs that benefit the vast majority of people at the bottom, should be seen more straightforwardly as a means of increasing the rate of exploitation through the medium of the state, and of redistributing income and wealth from the poor to the rich. Capital has innumerable ways, including of course unemployment, for transferring the costs of a crisis onto the backs of workers and all of these techniques will be used. Marx once ironically said (in *Capital*) that the only part of the national wealth that belonged to everyone in the society, including the working class, was the national debt. The national debt, serviced mainly by those at the bottom of society, then becomes the means of supporting the national wealth in private hands. As for bailing out capital, this is the first rule of capitalism in every crisis. There is nothing new about this, only the scale of the problem.

In asking whether financial system has "outplayed its role in furthering the system," you are getting to the crux of the matter. The essential problem, focusing particularly on the US situation, is this. There has been a creeping economic stagnation since the 1970s. Growth rates have been gradually slowing over the decades (with of course cyclical ups and downs within the larger trend). Looking decade by decade, utilisation of plant and equipment (productive capacity) has been dropping, the number of jobs (particularly good jobs) has been disappearing, real wages have been stuck, household debt has been rising, net investment has faltered, income and wealth inequality has been increasing. In the United States today the top 1 percent of wealth holders own twice as much as the bottom 80 percent (if we were talking about financial wealth, i.e. excluding equity in owner-occupied housing, it would be four times). Under these circumstances, characterised by rising rates of exploitation, what has mainly kept the system going is the financial explosion, which through the "wealth effect" (a term used for the fact that people tend to consume part of any increase in equity, whether in homes or stocks, especially if they think the market goes only one way — up) has been the main force spurring the economy. There are other factors, of course. Thus *actual* US spending on the military in 2007 was $1 trillion, helping to put a floor under the economy [3]). But the financial explosion was the main means of lifting the system. That appears to be all over for the time being, with what will likely be an extended crisis of financialisation; and that means that stagnation tendencies, never far below the surface, are resurfacing in a big way. US consumption (which accounts around 70 percent of US GDP and is critical to world demand) is plummeting, and with it nearly everything else.

We should not spend time worrying about the capitalist class. The real pain is going to fall on the working class in the advanced capitalist countries, and even more so those in the poorer and "emerging" countries. We (meaning the left) should be devoting our efforts to helping those whose needs are greatest at the bottom of the economic pyramid, rather than seeking to fix a broken system (even if it could be fixed). Ultimately, it is a political and a class question. It is a new historical moment, when the working class everywhere, especially in the advanced capitalist states, may at last be compelled by circumstances to begin to fight back — and in ways that go against the logic of a predatory system that is tearing down the whole world and the world's people with it.

P.S.

* This interview was conducted on October 15, 2008, for a story being written for the Norwegian daily Klassekampen (Class Struggle) dealing with Marxist views of the crisis. The interview is provided here in full. It appeared first at MRzine and posted at Links International Journal of Socialist Renewal with permission.

* John Bellamy Foster is editor of Monthly Review.

Footnotes

[1] See “The Household Debt Bubble,” *Monthly Review*, May 2006: http://www.monthlyreview.org/0506jbf.htm

[2] See “The Financialization of Capital and the Crisis,” *Monthly Review*, April 2008: http://www.monthlyreview.org/080401...

[3] “The US Imperial Triangle and Military Spending,” *Monthly Review*, October 2008: http://www.monthlyreview.org/081001...