Marxism and the Global Financial Crisis

Edited by
Hillel Ticktin

ROUTLEDGE

Marxism and the Global Financial Crisis

Edited by
Hillel Ticktin

Routledge
Taylor & Francis Group
LONDON AND NEW YORK

First published 2011
by Routledge
2 Park Square, Milton Park, Abingdon, Oxon, OX14 4RN

Simultaneously published in the USA and Canada
by Routledge
711 Third Avenue, New York, NY 10017

Routledge is an imprint of the Taylor & Francis Group, an informa business

This book is a reproduction of *Critique*, vol. 38, issue 3. The Publisher requests to those authors who may be citing this book to state, also, the bibliographical details of the special issue on which the book was based.

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN13: 978-0-415-60397-3

Disclaimer
The publisher would like to make readers aware that the chapters in this book are referred to as articles as they had been in the special issue. The publisher accepts responsibility for any inconsistencies that may have arisen in the course of preparing this volume for print.

Typeset in Times New Roman
by Taylor & Francis Books

Marxism and the Global Financial Crisis

The book discusses the nature of Marxist theory of crisis and applies it to the global financial crisis which began in 2007. Is the contemporary crisis simply the usual periodic upturn and downturn or is there something more fundamental? Is there a structural crisis of capitalism, from which there is no immediate solution? Is capitalism managed and does it have a strategy? Is the financial crisis representative of a failure in capitalism itself to subject banks and other financial institutions to the overall economy?

The book discusses Marx's view on crises, as well as ideas on money and finance. It considers the different modern Marxist ideas on the causes of crises – falling rate of profit, disproportionality and underconsumption. It goes into detail as to the nature of the present crisis, its course and causes in a spirited and independent manner.

Apart from the United States, it considers the situation in the two countries, in which protests erupted: Iran and Greece. They are taken as examples of the effect of the crisis on the country, the society and the economy as well as its politics.

This book was originally published as a special issue of *Critique*.

Hillel Ticktin is Emeritus Professor of Marxist Studies at the Centre for Socialist Theory and Movements, at the University of Glasgow.

Notes on Contributors

Alexis Anastasiadis is a PhD student at the University of Patras, Department of Business Administration. His research interests focus on the theories of economic crises and economic growth.

George Economakis is Assistant Professor of Political Economy at the University of Patras.

Michael Hudson is Distinguished Research Professor of Economics at University of Missouri, Kansas City (UMKC).

Maria Markaki is a PhD Candidate in the School of Applied Mathematics and Physics of National Technical University of Athens. Her PhD research examines, broadly, the link between employment, wages, labour productivity and production technology.

Yassamine Mather is a member of the Centre for Socialist Theory and Movement, University of Glasgow.

Savas Michael-Matsas is an oncologist and part-time lecturer in philosophy at the University of Athens.

Marc Mulholland lectures History at St Catherine's College, University of Oxford.

Jack Rasmus lectures in the Politics Department at St Mary's College, Moraga, California. His latest book is *Epic Recession and Global Financial Crisis* (Pluto Press, 2010).

Hillel Ticktin is Emeritus Professor of Marxist Studies at the Centre for Socialist Theory and Movements at the University of Glasgow.

Contents

The Crisis and the Capitalist System Today

Hillel Ticktin

Capitalist crises are specific to the epoch in which we live. Today there is a huge surplus of capital unable to find investment outlets leading to asset inflation and the various bubbles. The downturn itself reduces that surplus, both in monetary and physical terms providing the basis for an upturn. However, the underlying basis for the surplus of capital remains. That reflects the contemporary ruling class strategy of turning to finance capital. However, that too is in crisis and is in process of being controlled and curtailed. A new strategy is needed because capitalism-as-a-system is in crisis, but none is available. Governments and big business/the capitalist class can control the level of investment to a considerable degree, in part through nationalisations and through monopoly control, over firms, and they are not prepared to reflate to the point of full employment. Their initial reaction has been pragmatic assuming that muddling through will work. However, that has been succeeded by demands for massive reductions in the public sector and a squeeze on the standard of living. If successful, which is highly unlikely, it will amount to a period of extreme reaction, and popular defeat, lasting a generation. If it is unsuccessful, it will train a generation in the art of militant and political opposition, threatening the system itself. Crises today do not operate automatically but are closely integrated with politics.

Three Fold Nature of the Present Crisis

What is a crisis? Given the word's constant use in all media today it would appear obvious. On the other hand, it is equally obvious that the economy cannot be in perpetual crisis, unless the word is to mean very little. It is also true, on reflection, that the subject of the crisis is not just the economy. Although modern politicians are generally vapid, they often use phrases that reflect popular feeling, such as the British Conservative Party slogan 'a broken society'. There is no depth to this remark but it is symptomatic of the general unease of society towards changes taking place, often for the worse.

The present crisis partakes of three elements: first, a regular cyclical crisis like those of the post-war period. Second, there is a cyclical systemic crisis: and finally there is a long-term fundamental crisis of the system. All crises have a trigger, which in this case was the derivatives crash, but that is a superficial albeit crucial phenomenon.

Examples of the regular cyclical crises were those of the early to mid-seventies, that of the early Reagan presidency, and the 1989–1993 crisis. These cyclical downturns and upturns were usually at least partly engineered by governments, and they were not always global. Under conditions of full employment, inflation was controlled by fiscal and monetary policy. Inflation, in turn, was largely a euphemism for rising wages. These crises were predicated on the relative stability of the welfare state and the global Cold War. The periodical nature of the crisis lies in the unplanned nature of the economy and the tendency of accumulation therefore to exceed its limits, within the overall control exercised by large firms and by governments. In the last 30 years, the shift to finance capital has loosened the controls, allowing such upturns/downturns to be more spontaneous. However, the periodic element of over-production followed by monetary and physical destruction has continued within a more important form of strategic operation of the systems itself. At the present time, the downturn of 2007–2009 has been succeeded by a limited upturn, even though none of the fundamental issues have been solved, and there remains a threat of another downturn for individual countries and even a global double dip recession.

Second: many people of different viewpoints have argued that the present crisis is systemic, but they do not always mean that it is the capitalist system as such which is in trouble, so much as some aspect of it. That can mean the banking system, finance capital, globalisation, or whatever. What is really being talked about, however inchoately, is a failure of the strategy adopted as a reaction to the revolts, strikes and mass movements of the 1960s and the 1970s. That is often referred to as neo-liberalism, but such politics were, in fact, the counterpart of the subordination of capital as a whole to the leadership of finance capital.

I have discussed finance capitalism in two articles in earlier issues of *Critique* as well as in subsequent articles and will not repeat them here[1]. There are two special features of finance capital which are relevant in this context: its abstract nature and its short-termism. Finance capital is abstract capital in the sense that it abstracts from its context, its surroundings, and hence the particularity of means of production and labour force. It is money seeking to make money out of money. It is capital that seeks to make surplus value without extracting value from abstract labour. It is the financial part of circulating capital that establishes dominance over the whole of the process of movement of capital, subordinating productive capital to itself. It looks only to make

[1] H. Ticktin, 'The Transitional Epoch, Finance Capital and Britain', *Critique*, 16 (1983), pp. 23–42; H. Ticktin, 'Towards a Theory of Finance Capital', *Critique*, 17(1986), pp. 1–16. It is also discussed in recent issues on the crisis: H. Ticktin, 'A Marxist Theory of Capitalist Instability and the Current Crisis', *Critique*, 47 (2009), pp. 13–30; and in the *Critique* Notes over the last two years.

money within circulation. It is therefore highly mobile and necessarily global. Its short-termism means that it seeks to get the maximum return on capital invested as soon as possible. That leads to a change in the nature of industrial management, seeking to get the highest return from labour in the quickest time, irrespective of the consequences. Its logic is that of a large reserve army of labour combined with regular culls of the labour force. It demands an increasing share of government contracts and control over governmental operations. Since money cannot make money in itself, this period of a finance capitalist strategy had to end.

Third: there is a crisis comparable to previous crashes, or major downturns, like the 1930s, enmeshed in the present crisis. The fundamental basis of the present crisis is a basic disequilibrium in the capitalist system, for which there is no solution today. In Marxist terms, a crisis exists when the poles of the contradictions stand opposed one another instead of interpenetrating. Such is the case when we speak of sale standing opposed to purchase, or use-value from exchange value.[2] The same applies to consumption separating from production of consumer goods, or consumer goods from producer goods or more generally capital from labour. In principle, therefore, a crisis occurs at the point where the relationships within the capitalist economy and society can no longer be mediated in the old way.[3] In principle, the crisis can be resolved through a general collapse, through a long-term disintegration of the political economy of the society, or the implementation of new mediating forms. A partial and pragmatic solution amounts to a partial collapse, in which sufficient capital is destroyed and there is enough of a decrease in wages for the economy to resume its previous operations. We will consider these possibilities further in this article.

There is no commonly accepted Marxist theory of crisis. It is hard even to speak of a series of competing schools. Instead, different writers have produced a series of viewpoints, sometimes without a firm theoretical basis. At present, the dominant view is that crises are caused, either largely or solely, by a decline in the rate of profit brought on by a rising organic composition of capital. This paper rejects this simplistic approach, amplifying the reasons in the later part of this article, in terms of both methodology and argument. Instead, the paper tries to understand the different forces at work within crises, including movement of the rate of profit.

Crises Considered

A cyclical crisis is not strictly speaking a crisis at all, in that the cause lies in the anarchic nature of the market, which can be solved, albeit temporarily, until the next downturn by the market itself, albeit at the expense of the ordinary population plus a section of the capitalist class. It is not, therefore, a threat to the capitalist system,

[2] 'The possibility of a crisis lies solely in the separation of sale from purchase.' Karl Marx, *Theories of Surplus Value*, Vol 2, (Lawrence & Wishart, London, 1969), p. 508.

[3] Ibid p. 510: The world trade crises must be regarded as the real concentration and forcible adjustment of all the contradictions of a bourgeois economy.

unless it reinforces an existing crisis or for some reason brings on the crisis itself. At the time Marx was writing, he spoke of regular periodic crises but he did see them as crises of the system itself. Marx had put great store on the 1857 crisis as a threat to the capitalist system. Engels later spoke of the crises getting deeper. There is clearly an ambiguity in the writings of Marx and Engels on the subject, which may express the nature of reality, rather than a deficiency in their writings. In other words, temporary solutions reached their limits in the 19th century, as the periodic downturns became more threatening to the system itself, and Marx and Engels were optimistic over the possibility of change brought on by the crises.

Looked at from this point of view, the evolution of crises is part of the movement and change of the capitalist system itself, from maturity to a decline, in which it finds it progressively more difficult to produce mediations for its contradictions. In less dialectical language, capitalism finds it increasingly difficult to resolve its problems. These problems can never be regarded as entirely objective, but, in decline, the subjective becomes increasingly important. The working class plays an increasingly conscious role. As a result, its opposition comes to be incorporated into the operation of the capitalist system itself.

Evolution of Crises and Crisis Theory

At this point, one can note that different theoretical schools diverge. In the two extremes, some remain fixated on objective reality, as the falling rate of profit, while at the other extreme some stress the importance of the subjective battle between workers and capitalists, and the different strategies employed. It does not, of course, follow that the middle is correct. It does seem, however, odd for any theorist not to incorporate the real change to modern political economy induced by capitalist reaction to the state of the class struggle, and equally odd to deny the importance of the objective movement of the categories. Whether intentionally or not, many modern Marxists incorporate the objective and subjective changes into their understanding of contemporary reality.

The autonomist and regulation theory schools which stress so-called Fordism and post-Fordism, the introduction of mass production of consumer goods and the consequent changes in society, either leave out the titanic class battles in Russia and Eastern Europe which determined the nature of the epoch itself, and the nature of Stalinism itself in determining the epoch. In effect, they introduce a kind of semi-automatic individual capitalist response to limited class struggles and reject the existence of a real capitalist class, with its own consciousness and strategy. The reshaping of actually existing capitalism since the 1860s has created a global terrain somewhat different from that of classical capitalism. The form of every crisis is specific, with local and international aspects, but it is the global shape which is critical, and which, therefore, determines the particular strategy, concessions and forms of repression that are under challenge and stress in the crisis itself. The leadership in determining the overall strategy, though not necessarily in initiating or designing it, is necessarily possessed by the dominant political economic power, the United States.

We do not have to posit a conspiracy of big capitalists meeting at some unknown place, in order to reckon that there is a conscious conclusion as to strategies and forms of action. The move to war and imperialism in the late-19th and early-20th centuries were driven by a combination of historical circumstances, economic imperatives and pragmatic needs. However, all these aspects existed within the context of a capitalism needing to invest surplus capital, while the internal discontent was becoming increasingly organised with the rise of social democratic parties. Imperialism and war appeared necessary solutions.

The point can be put in another way. Under conditions of a rising and developing global capitalism, there are inherent reasons why capitalism can find forms of mediating its contradictions. When the system is in decline such mediations become more difficult, to the point where capitalism resorts to anti-human, or barbaric social forms, such as the savagery of imperialism and world war, both hot and cold. Decline must not be understood as a system in terminal crisis, but rather one in which it finds it increasingly difficult, but not impossible, to get the poles of the contradictions to interpenetrate, in order to return to the classical capitalist forms.

We know that contrary to Engels' statement on crisis, downturns in western Europe became less profound in the late 1990s down to the immediate period before the World War I. The relationship to imperialism is well-known and the relative mildness of the downturns was ascribed to imperialism by socialists. The period from 1939 through to the end of the Cold War, similarly, saw relatively short and less profound downturns, triggered by government action, of which that of the then US Federal Reserve Bank governor, Paul Volcker, in the early 1980s was particularly significant. It would seem that under conditions of capitalist stability, downturns are not of a systemic quality. The periods cited – imperialism, world war, the Cold War and its inherent basis, Stalinism – played crucial roles in ensuring capitalist equilibrium.

Crises are therefore a compound of the inherent contradictions of the system and the strategy or strategies adopted to maintain that system. In the article that I wrote on the present crisis,[4] I referred to these strategies, which were in historical order: finance capital, imperialism, war, welfare state and Stalinism/the Cold War. The shift to finance capital and the welfare state involved the introduction of a centralized administration to manage the economy and society. From this point of view, the role of mass production and consumerism, and the building of a 'middle class' and small enterprises, is an intended derivative of the larger strategies.

This article is therefore concerned with the way in which these 'strategies' interact and have interacted with the classical forms of crisis. In this respect, the interaction is two-fold – firstly the way in which it has changed the operation of the classical forces and secondly the way in which they operate within those forces themselves.

[4] Hillel Ticktin, 'A Marxist Theory of Capitalist Instability and the Current Crisis', *Critique*, 47 (2009), pp. 13–30.

The Contemporary Crisis

However, before proceeding to the next step in the argument, it is as well to summarize my understanding as outlined in previous articles.[5] The essential feature of the ongoing crisis, which broke out in 2007, is the increasing level of surplus capital. In 2007 it had reached some US$18 trillion in terms of money held in banks, such as UBS and Barclays, the first of which held the highest sum in that year.[6] Institutions like pension funds, hedge funds, insurance companies, and so on were responsible for some US$110 trillion.[7] Global GDP is put at more than 54 trillion dollars in this period. The figures make it clear that it is not easy for money-capital to find profitable outlets. It was, therefore, not surprising that banks would compete for the money itself by promising higher returns, but find it difficult to justify those rates of interest they were paying. The fault, in other words, did not rest with the bankers, but with a system that had given rise to huge levels of surplus capital. The bankers then invented arcane monetary instruments, which yielded relatively high returns that could not be justified once the merry-go-round had stopped. The fact that they sold mortgages which could never be repaid was only their last resort, which quickly ended the charade.

Why then are there such enormous levels of surplus capital? In my view, it reflects the termination of the last strategy of the ruling class, turning to finance capital, away from industrial growth. They had consciously done so in the 1970s, given the industrial unrest and the overall challenge to the capitalist system. In theoretical terms, without a reserve army of labour and with diminished control provided by commodity fetishism, both as an ideology and in the form of the controlling instruments of the market, capital was threatened. Through the restoration of finance capital, they were able to substantially raise the level of unemployment and subject more of the economy and society to pseudo-market controls. This strategy worked politically in destroying what remained of social democracy and much of the trade union framework that had existed previously. It, however, relied on low home industrial growth and the export of capital to third world countries. The third world could, however, only take limited levels of capital import, given the stress on short-term returns. The inevitable result was a large and increasing level of surplus capital. At this point it makes no difference whether one argues that the surplus capital was due to the low rate of return, owing to a decline in the rate of profit, or because industrial investment was limited by demand, whether governmental, the producer goods sector or the consumer goods sector or all together. It should be noted, however, that the short-termist nature of finance capital would militate against long-term investment programmes and hence would tend to starve the producer goods

[5] See Footnote 1.

[6] The Scorpio Partnership, 'The Scorpio Partnership Global Private Banking Benchmark', London: The Scorpio Partnership Press Release, 2009, http://www.scorpiopartnership.com/pdf/scorpio-pr_benchmark2009_july2009.pdf (accessed on 28 August 2009), p. 3. For a discussion of this point in more detail see 'Critique Notes', *Critique*, 50, p. 504.

[7] Wikipedia, 'Investment Management', 2005, http://en.wikipedia.org/wiki/Investment_management.

sector, except insofar as the latter was sustained by the Cold War and various hot wars. However, the Cold War came to an end, and there was a deliberate demilitarising programme undertaken in the US as a result.

Finance capital wanted the highest possible return in as short a time as possible. It was, therefore, necessarily parasitic, as Lenin argued, and as a parasite tended to destroy its host. In the extreme, private equity bought up productive firms, sold off their property portfolios and other readily salable assets, and then returned the rest of the company to the stock market, insofar as there was one. In Russia, finance capital took it the absolute extreme in that they sold off all property and all physical assets, so destroying the company, even if it was otherwise viable. In more benign cases, they demanded high returns from industrial firms in which investment funds, whether insurance, pension or other funds, might have substantial holdings. Such industrial companies were forced to reduce research departments and increase surveillance and targeting of staff. While formal efficiency would improve, in fact employees would only perform, under stress, as far as they could be measured, so reducing long-term returns, as employees showed the consequences of their dissatisfaction in passive-aggressive action or, more often, non-action.

In short, such a strategy has a limited life on all fronts. Industrially, for individual firms, returns are bound to go down, after an initial rise. Overall, industrial investment would be limited insofar as profits were transferred to finance capital. At the same time, parts of the government sector were privatised and gave an immediate boost to private sector profits. Many of the firms tended to perform less efficiently in service provision, however, though not in profits, than when nationalised, so creating an extra burden for the economy, and ultimately the private sector itself. Returns from the third world have been important, but they too create a problem, as the profits sunk in the third world are repatriated; only a proportion are returned, particularly as the countries of the third world are generally regarded as unstable.

There were two consequences. First, since value is only provided by the productive sector, transfer of profits to finance capital could only mean a more limited source of value, even as finance capital assets tended to rise. Asset inflation would then become inevitable and persistent. A vicious circle developed in which rising levels of funds created a hothouse in which the increasingly risky investments spawned even more risky investments in the funds themselves, leading to various forms of derivatives formally serving the function of insurance, directly or indirectly. As the source of the problem remains, and has indeed worsened, further bubbles will tend to burst, unless the public sector provides the necessary industrial expansion.

Second, with limited re-investment in the economy, outside of finance capital, unemployment must rise, and wage levels remain relatively static, reducing the level of internal demand within economies. At the same time, the unproductive sector itself grows, with advertising, marketing, retailing and exchange generally increasing in extent. Huge resources go into the housing sector itself. Pay levels in these sectors and in finance capital, in general, rise. A segmented luxury goods sector, with its own pricing levels has been re-established. What, however, of the investment goods sector?

The public sector, which provided much of its demand through arms production or through infra-structure developments, has been reduced. As a result, its tendency to over-production tended to increase, and its companies had little choice but to turn to finance themselves. General Electric of the United States is an example of a producer goods industrial company, which turned to finance. In their 2009 company report they declared: 'For the last decade, we have run the Company with, at times, more than half our earnings coming from financial services. As we grew, financial services became too big and added too much volatility. GE must be an industrial company first.'[8] In this report they show themselves as an infrastructure technology company with a large financial sector.[9] This highlights the nature of infrastructure development, crucial to production in general, but also closely related to governments, whether through ownership, control, regulation, financing or purchase.

Two other points are illustrated in that quote. First, it demonstrates the fact that the company can switch from industry to finance and back again, with relative ease, even if at some cost, given its huge size. Second, it provides an idea of one aspect of the alternative strategy to be adopted in the next period, as opposed to the emphasis on finance capital, at least at a formal level. Below, I argue that at a national level it is unlikely that a policy of re-industrialisation is introduced.

As an aside, one can also note that numerous people have challenged the concept of finance capital on the grounds that many companies have financial departments who use derivatives, among other financial instruments. Clearly, under the conditions prevailing in the last 30 years all companies of any size, particularly those who are international, have had to employ derivatives, at the very least those dealing with currencies, in order to protect themselves. The question is not whether they have financial departments but whether those departments are either dominant in the company or alternatively taking part in the overall dominance of finance capital over the economy. A firm, for instance, specialising in selling machine tools, buying raw materials for the purpose, would have to insure against change in currencies in the international market. That would not alter the nature of the firm or the economy. However, it is clear that General Electric had shifted the balance of its efforts towards finance so that it was both a finance capital and industrial firm, with an increasing bias towards the former, which it is now talking of remedying.

An Elementary Outline of the Contradictions of Capitalist Accumulation and its Consequences

How then do we fit this analysis into classical Marxist theory? Historically, Marxists have looked at crisis in terms of underconsumption, disproportionality and the falling rate of profit or the operation of all three combined. In principle, however, they have to be set within the context of the laws of operation of capital, as well as the

[8] General Electric, Annual Report, 2009, http://www.ge.com/ar2009/pdf/ge_ar_2009.pdf.
[9] Ibid.

particularities of the particular stage of capitalism in history, in order to provide an analysis of a crisis or crises. Without the historical dimension, abstract theorising becomes only a training or elucidating exercise. What follows is a simple illustrative outline, which by commission and omission provides a particular way of looking at the theory. There are today a whole series of different Marxist interpretations both of crisis theory and of the present crisis.[10]

In the embryonic forms of commodity production, where accumulation or re-investment was a sporadic excess of supply over demand, was always possible where workers' wages were below value produced, to allow for profit, where the profit was not consumed. However, in a developed capitalist economy profit is normally re-invested, so re-creating demand for the total product. The problem here is that investment in producer goods will tend to rise as the organic composition of capital (the capital to wages ratio) increases, which will itself raise productivity and so exacerbate that rise. The ideal capitalist economy, looked at from the point of view of the accumulation of industrial capital, would be the absurd one in which producer goods would be the only component produced. In other words, there is an in-built tendency for the capitalist economy to break down or stagnate, with the maturity of capitalism itself.

With the potential of a society where machines make machines and goods and services become effectively free to use, capitalism has served its historical purpose and reached its limits. The question of maturity and stagnation has, of course, been explored and can be part of a Keynesian analysis.[11] However, what is being argued here is not that capitalism will necessarily go this way, but that it is an inbuilt tendency. However, to the extent that capitalism has found pragmatic means of overcoming the problem, it has not stagnated in the way that might have been predicted, which illustrates the limitations of a technical economic analysis.

As the growth of production of producer goods, in value terms, will necessarily be faster than the demand from the consumer goods sector, periodic crises are inevitable, precisely because the society is anarchic and not planned. However, these periodic crises are relatively easily solved through the destruction of capital in the downturns, while the rate of profit can be raised through a decrease in wages paid. As long as there is an excess of labour in the society, of both the 'surplus population' (that is those without work for long periods) and the reserve army of labour (those who go in and out of work), wages are controlled and an increase in investment can be made without raising the productivity of the investment activlty itself. In other words, more workers are employed at constant rates over a period of time. When,

[10] One of the most concise and useful outlines of the different views is given by Anwar Shaik, 'Economic Crisis', in Tom Bottomore (ed.) *Dictionary of Marxist Thought* (Oxford: Basil Blackwell, 1983), pp. 138–143. I differ from him in giving the concept of disproportionality its own importance (independent of consumption), in retaining the argument on monopoly as a separate feature of the declining stage of capitalism, and third in taking the view that capitalism is being managed and can only be managed without stabilising capitalism.

[11] See Andrew Killman, 'Marx and the Financial Crisis of 2008', blogspot.com, 2008, http://marxandthefinancialcrisisof2008.blogspot.com/2008/10/as-author-of-article-that-andrew-chitty.html.

however, full employment or nearly full employment is reached, this condition is breached. In that case, the organic composition of capital or the capital labour ratio will rise, and fewer workers will be employed, possibly at lower rates of pay. Under these conditions, profits will be restored and require re-investment, but at a higher organic composition of capital. There are three results of this elementary outline of the process. One is an inherent tendency to periodic breakdown and the second is a tendency for the value produced to decline, given the declining number of workers involved in production.

There is third result which is a derivative one. If the capitalist class reduces its investment below its profits, then producer goods will be limited and there will be less tendency for a mismatch between the sectors. At the same time, demand for goods and services will be limited. Some see this tendency to be one of underconsumption, although it arises from blocked investment rather than excess production of consumer goods.

Finally, if value produced is limited or declining in relation to capital invested, then profits will be squeezed, assuming that wages paid are constant, and capital invested is constant or rising. However, this is not an automatic result for all capitalists in any particular period, as it is dependent on the class struggle, and the pricing power of big capital, as well as the effects of innovation in raising productivity. In the long run, however, the expulsion of value from production is part of the process of capital accumulation itself. This is discussed below.

The Importance of Class

Keynesian arguments, and Keynesian type arguments among Marxists, leave out the class dimensions. In particular, they assume that the capitalist class is not a class but a series of individuals automatically driven by the compulsion to accumulate, without any understanding of history or time. This might have been true 200 years ago, but it is evidently not true today. Managers of the giant firms, for instance, which dominate the economy commonly move from firm to firm, ignoring differences in industry or product. They acquire a common approach for the particular period. In any case, there are clubs, conferences and regular meeting places where the wealthy meet and discuss. Where they consider it inappropriate to invest, they withdraw funds. This is normally talked of 'the markets' being worried, as if it they are an impersonal but somehow natural feature of the planet. Immediately after the indecisive UK elections of 2010, the population was told that the markets were concerned and would fall unless a government was formed quickly. There are, in fact, only a limited number of firms and individuals involved and it is obvious that they could have political worries, during a political economic crisis, which could cause them to disinvest in the UK. In Greece, the rich had withdrawn their money months earlier. In general, it is normal for the wealthy and the middle class to send money out of the country, given the instability of their countries.

In short, the capitalist class may or may not invest, depending on the state of the class struggle in a particular country. This clearly applies to government bonds in this instance but it is no different for direct investment in particular firms. To analyse the movement of capital as if it is an impersonal machine, without any conscious capitalist class, is to produce a fetishised analysis. Keynesian analysis is precisely of this kind, occasionally mentioning that the rich save more and the poor save less. The reality is that the wealthy control capital and therefore also the so-called savings required for investment.

The official arguments for the downturn, largely produced by economic journalists, runs along the lines of balance of payments disquilibria. It is argued that the Chinese save and the Americans dissave, leading to the Americans buying the goods made in China as a product of the savings invested. In turn, the Chinese then buy US bonds with the money so earned, rather than spending it, so propping up the US treasury. In fact, the total amount of Chinese held western bonds, securities and suchlike is estimated to be over two trillion dollars, which is a small fraction of the already mentioned 'savings' held in banks. The reason for the 2007 crash lies precisely in the huge global level of surplus capital, and it has nothing to do with the Chinese, who are themselves victims of the system.

Application of the Theory of Accumulation

It was no accident that Lenin, Trotsky and Luxemburg ignored the falling rate of profit in favour of more directly class orientated theory. At the time, crucial changes were taking place in capitalist society that needed to be analysed and understood. While some, perhaps most, Marxist analysts[12] reject the 'orthodox' Marxist theory of decline, and the rise of monopoly and dominance of finance capital, I would take the view that it is substantially, if not entirely, correct.

A capitalism where total value equals total price but price itself is arbitrarily set by the firm in order to produce either maximum or optimum return is able to raise profits through price rather than reducing wages. Although this form of inflation may be little more than a deceptive way of reducing wages, it distorts the operation of the law of value, allowing costs to play a secondary role to marketing, so raising surplus value though not always the immediate profits of the particular enterprise. In principle, one can imagine a capitalist economy where machines make machines and there is little value produced but control over firms allows arbitrary pricing. This would not be a stable economy, and would not last forever, but the point is that elements of this form already exist.

In particular, there is the role of finance capital in shifting profits away from industrial capital towards itself, and its effects, so graphically illustrated by the present crisis. In regard to value, there are two aspects of interest. From this point of view, we can regard sales efforts or marketing as an aspect of a stage of finance capital. From a

[12] Anwar Shaik, op. cit.