

The Enigma of Capital and the Crisis This Time

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There are many explanations for the crisis of capital that began in 2007. But the one thing missing is an understanding of "systemic risks." I was alerted to this when Her Majesty the Queen visited the London School of Economics and asked the prestigious economists there how come they had not seen the crisis coming. Being a feudal monarch rather than an ordinary mortal, the economists felt impelled to answer. After six months of reflection the economic gurus of the British Academy submitted their conclusions. The gist was that many intelligent and dedicated economists had worked assiduously and hard on understanding the micro-processes. But everyone had somehow missed "systemic risk." A year later, a former chief economist of the International Monetary Fund said "we sort of know vaguely what systemic risk is and what factors might relate to it. But to argue that it is a well-developed science at this point is overstating the fact." In a formal paper, the IMF described the study of systemic risk as "in its infancy."¹ In Marxian theory (as opposed to myopic neoclassical or financial theory), "systemic risk" translates into the fundamental contradictions of capital accumulation. The IMF might save itself a lot of trouble by studying them. So how, then, can we put Marx's theorization of the internal contradictions of capitalism to work to understand the roots of our contemporary dilemmas?

This is the task I set myself in writing *The Enigma of Capital: And the Crises of Capitalism*.² In writing it I found, however, that conventional versions of the Marxian theory of crisis formation were inadequate and that it was necessary to take a fresh look at the arguments on crisis formation laid out in *Capital* and, even more importantly, in *The Grundrisse*. In the latter work Marx argues that the circulation and accumulation of capital cannot abide limits. When it encounters limits it works assiduously to convert them into barriers that can be transcended or by-passed. This focuses our attention upon those points in the circulation of capital where potential limits, blockages and barriers might arise, since these can produce crises of one sort or another.

Capital, Marx insists, is a process of circulation and not a thing. It is fundamentally about putting money into circulation to make more money. There are various ways to do this. Financiers lend money in return for interest, merchants buy cheap in order to sell dear and rentiers buy up land, resources, patents, and the like, which they release to others in return for rent. Even the capitalist state can invest in infrastructures in search of an improved tax base that yields greater revenues. But the primary form of capital circulation in Marx's view was that of production capital. This capital begins with money which is used to buy labor power and means of production which are then brought together in a labor process, under a given technological and organizational form, that results in a new commodity to be sold on the market for the initial money plus a profit.

A part of the profit, for reasons we will take up later, has to be capitalized and launched into circulation to seek even more profit. Capital is thereby committed to a compounding rate of growth. The quantity of global goods and services traded through the market (which now stands at around \$55 trillion) has grown at an average rate of around 2.25 per cent since 1750 or so.³ In some places and times it has been much higher and elsewhere much lower. This fits with the conventional wisdom that a growth rate of three per cent is the minimum acceptable level at which a "healthy" capitalism can operate. The average global growth rate from 2000 to 2008 was exactly three percent (with plenty of local variation). Anything less than three percent is problematic, while zero or negative growth defines a crisis which, if prolonged, as in the 1930s, defines a depression. So the problem for capital is to find a path to a minimum compound three percent growth forever.

There are abundant signs, however, that capital accumulation is at an historical inflexion point where sustaining a compound rate of growth is becoming increasingly problematic. In 1970 this meant finding new profitable global investment opportunities for \$0.4 trillion. Resumption of three percent growth right now would mean finding profitable investment opportunities for \$1.5 trillion. If that rate of growth were to be sustained by 2030 or so we would be looking at \$3 trillion. Put in physical terms, when capitalism in 1750 was about everything going on around Manchester and Birmingham and a few other hot spots in the global economy then three percent compound growth posed no problem. But we are now looking at compounding growth on everything going on in North America, Europe, much of East Asia, Latin America and increasingly South Asia, the Middle East and Africa. . . . The implications socially, politically and environmentally are nothing short of gargantuan.

Note that the operative term here is *profitable* investment opportunities as opposed to socially necessary and socially valuable investment opportunities. So where, then, are the potential limits to this profitability? Since capital is a process not a thing, then the continuity of the process (along with its speed and geographical adaptability and mobility) becomes a crucial feature to sustaining growth. Any slow-down or blockage in capital flow will produce a crisis. If our blood flow stops then we die. If capital flow stops then the body politic of capitalist society dies. This simple rule was most dramatically demonstrated in the wake of the events of 9/11. Normal processes of circulation were stopped dead in and around New York City with huge ramifications for the global economy. Within five days, then Mayor Giuliani was pleading with everyone to get out their credit cards and go shopping, go to the restaurants and the Broadway shows (seats are now available!) and shortly thereafter the President of the United States did an unprecedented thing: he appeared in a collective commercial for the airlines pleading with people to start flying again. When the banks stopped lending and credit froze in the wake of the Lehman collapse on September 15th, 2008, the survival of capitalism was threatened and political power went to extraordinary lengths to loosen the constrictions. It was a matter of life or death for capital as everyone in power recognized.

Inspection of the circulation of capital reveals, however a series of potential blockage points any one of which could induce a crisis by constricting capital flow. Let us consider each of these.

1) Assemblage of the Initial Capital

Capital accumulation presumes that adequate amounts of money can be brought together in the right place at the right time and in the right quantities in order to launch that money into circulation as capital. Marx for the most part treated this problem of the initial capital in terms of primitive accumulation (the robbery of moneys from the rest of the world). This is inadequate because, as Saint-Simon had earlier pointed out, the association of many capitals (eventually achieved via the corporate form, stock markets, etc) is required to undertake large-scale projects such as railways, canals and even large-scale industrial undertakings. It is the job of the financial system -- almost invariably incorporating state powers -- to assemble small-scale savings and surpluses and to redistribute the moneys so assembled across a range of potentially profitable projects. The Pereire brothers, for example, schooled in the ways of thought of Saint Simon, created new credit institutions to facilitate the rebuilding of Paris in order to mop-up surpluses of both capital and labor left dangling in the aftermath of the economic crisis of 1848. They soon found that they themselves need not engage with production, that leveraging (borrowing at 3 percent and lending out at 5 percent) could yield them hefty profits.⁴ The creation of a modern mortgage finance system in the United States dates back to the 1930s (when a third of the unemployment was attributable to depression in the construction trades) and this laid the basis for the post-war suburban boom that played such a crucial role in preventing the US sliding back into depression.

Continuous financial innovation has been crucial to the survival of capitalism. But finance and money capitalists also demand their cut of the surplus value produced. Excessive power within the financial system can itself then become a problem, generating a conflict between finance and production capital. Financial

institutions, furthermore, have always integrated with the state apparatus to form what I call a "state-finance nexus."⁵ This usually stays in the background except in a crisis, as happened in the United States in the wake of the Lehman collapse: the Secretary of the Treasury (Henry Paulson) and the Chair of the Federal Reserve (Ben Bernanke) were making all the key decisions (President Bush was rarely seen). To the degree that state power favored City of London finance over production capital in Britain after the First World War, so it contributed to the malaise of industrial production in the same way that Wall Street finance connived at the deindustrialization of the United States after the mid-1970s. Crises have frequently centered on the financial sector and associated state powers either because finance is over-regulated or not innovative enough (producing what is called "financial repression"⁶ -- a term often used in the 1970s) or because it is too powerful and too uncontrollable for the good of the system (as is often argued now).

At various points Marx contemplates, as we must too, the possibility of autonomous financial or monetary crises forming from within the financial system and spreading to the rest of the economy. Financial innovation is absolutely fundamental to achieving compound growth and capital cannot do without it. But this innovation can all too easily get out of hand, go insanely speculative or simply empower excessively the financiers who often look to their own self-interest rather than to the stability of capitalism. The deregulation of the financial system, seen as a necessary step in the 1970s in order to overcome the barrier of financial repression, has played a critical role in the crisis this time. But why the necessity of that financial innovation and deregulation from the 1970s onwards?

2) The Labor Market

When labor is scarce or too well organized, then this can check the free circulation of capital. Wages rise at the expense of profits. The long history of class struggle over wage rates, conditions of contract (length of the working day, the working week and the working life) along with struggles over levels of social provision (the social wage) is testimony to the importance of this potential limit to capital accumulation. This constriction was very marked in the core regions of capitalism in the late 1960s and early 1970s. This was the primary blockage that had to be overcome.

Labor markets (always geographically fragmented) were largely organized on a national basis in the period 1945-80 and were insulated from international competition by constraints on international capital flow. Nation states could design their own fiscal policies and these could be influenced politically by organized labor and left political parties. The social wage tended to increase at the expense of capital. The answer to this problem partly lay in the successful political assault (led by Reagan, Thatcher and military leaders in Latin America) upon organized labor and its political institutions. But the other prong of attack was to mobilize global labor surpluses through off-shoring. After the collapse of the Bretton Woods financial system in the early 1970s and the subsequent deregulation of finance, constraints to international capital flow were loosened and capital began to exercise greater discipline over nation-state fiscal policies. Welfare states were undermined, real wages stagnated or declined and the share of wages in total GDP in the OECD countries fell. Capital gained access to a vast disposable labor reserve living under marginal conditions. By the mid-1980s, the labor problem (in the market, on the shop floor and politically in social democracies) had disappeared. Wage repression was experienced almost everywhere. Note well, however, that the labor problem could not have been overcome without the financial deregulation and innovations that dismantled barriers to cross-border capital flows. The labor problem was solved at the expense of opening up the possibility of crises within the financial system (of which there were many after 1975 or so). But what converted that possibility into a certainty?

3) The Availability of the Means of Production and Scarcities in Nature

Several technical issues arise around access to adequate means of production. Supply bottlenecks can easily occur, sometimes for systemic reasons that cannot be elaborated upon here. But beneath this lies the

possibility of so-called "natural" limits to raw material supplies and to the capacity of the environment to absorb wastes. The history of capitalism is replete with many phases when "nature" is held to be an ultimate limit to growth. But the Malthusian scenario has never as yet really grabbed hold. This history is a very good example of how capital, when it encounters limits, exhibits considerable ingenuity in turning them into barriers that can be transcended or circumvented (by technological changes, opening up new resource regions and the like). Because capital has successfully done this in the past does not necessarily mean, of course, that it is destined to do so in perpetuity. Nor does it imply that past episodes of supposed natural limits were negotiated smoothly and without crises. Whether or not this is a moment when what O'Connor calls "the second contradiction of capitalism" (the relation to nature as opposed to the capital-labor relation that Marxists typically privilege) comes to the fore as the main barrier to sustained accumulation is a matter for debate.⁷

But, in exactly the same way that financiers have sometimes gained too much power and produced a general crisis by pursuing their narrow interests, so landlords and rentiers can do the same thing, as happened when the oil cartel, OPEC, added fuel (actually subtracted it!) to the crisis of the 1970s or when speculators drove up the price of oil and other raw materials such as food grains in the summer of 2008. Excessive political and price manipulation in raw materials markets, in rents on intellectual property rights or in the built environment, can threaten the continuous accumulation of capital. When the rentier is the state (as it often is in the case of oil), then geopolitical struggles can also produce barriers and limits to the release of so-called "natural" resources into the circulation of capital. I write "so-called" because resources are always technological, cultural and economic appraisals and in the form of the built environment -- sometimes referred to as "second nature" -- are actively produced as a new landscape for accumulation. Scarcities that threaten compound growth are largely socially produced.

The importance and power of the rentier classes has always been underestimated. There is evidence that the British upper classes (the landed aristocracy in particular) accumulated far more wealth from rising rents from the mid seventeenth century onwards than they did from the exploitation of factory labor in Manchester. The power of rentiers has been growing in recent times, as we have seen in land markets, in pursuit of intellectual property rights and patents, and in speculation in commodity futures. It is significant also that during this crisis the well-heeled as well as state powers (the Chinese in particular) are buying up land and resources galore in Latin America and Africa. Land and property values in combination with finance capital were at the epicenter of the current crisis and continue to constitute a dangerous potential barrier to the recovery of compound growth in the long run.

4) Technological and Organization Forms

How labor power and means of production are brought together depends upon the technological and organizational forms available to capitalists in a given time and place. The history of capitalism has been deeply affected by the ways in which productivity gains are achieved. New organizational forms such as just-in-time systems, subcontracting, the use of optimal scheduling, and the like have been just as important as new machines, robotization and automation in achieving increases in productivity and in disciplining labor on the shop floor. Two general points are important to note. Excessive innovation can generate crises by displacing labor too rapidly or rendering production systems obsolete well before investments have been amortized. Innovation can, on the other hand, lag when "the coercive laws of competition" slacken because of monopolization.⁸ The balance between monopoly and competition here is crucial. Excessive monopolization and centralization of capital can produce stagnation (as happened in the period of "stagflation" in the 1970s) whereas competition can be "ruinous" for many capitalists when it becomes too fierce and cut-throat (as became apparent in the deindustrialization of the 1980s).⁹

A low profit-margin regime arose in almost all lines of conventional production in the 1980s even as real wages stagnated. With the dismantling of capital controls over international movement, uneven geographical

development and inter-territorial competition became key features in capitalist development, further undermining the fiscal autonomy of nation states. This also marked the beginnings of a shift of power towards East Asia. But it also led capital to invest more and more in control over assets -- capturing rents and capital gains -- rather than in production. The speculative asset bubbles that formed from the 1980s onwards were the price that was paid for unleashing the coercive laws of competition worldwide as a disciplinary force over the powers of labor and over the previously autonomous powers of the nation state with respect to fiscal and social policies.

Deregulating and empowering the most fluid and highly mobile form of capital -- money capital -- to reallocate capital resources globally (eventually through electronic markets and a "shadow" unregulated banking system) facilitated the deindustrialization in traditional core regions. Capital then accelerated its reliance on a series of "spatial fixes" to absorb overaccumulating capital. Cascading patterns of foreign direct investments coursed around the world fundamentally changing the geography of capitalist production, facilitating new forms of (ultra-oppressive) industrialization and natural resource and agricultural raw material extractions in emerging markets. The hegemonic shift of economic power towards East Asia, a shift that that Giovanni Arrighi had long been presciently anticipating, began to be more and more evident.^{[10](#)}

Two corollaries then followed. One was to enhance the profitability of financial corporations relative to industrial capital and to find new ways to globalize and supposedly absorb risks through the creation of fictitious capital markets (the leveraging ratio of banks in the US rose from around three to thirty). Non-financial corporations (such as auto companies) often made more money from financial manipulations than from making things. The other impact was heightened reliance on "accumulation by dispossession" as a means to augment capitalist class power. The new rounds of primitive accumulation against indigenous and peasant populations (particularly in Asia and Latin America) were augmented by asset losses of the lower classes in the core economies, as witnessed by losses of pension and welfare rights as well as, eventually, huge asset losses in the sub-prime housing market in the US. Intensifying global competition translated into lower non-financial corporate profits.

5) The Labor Process

The labor process is where profit originates and capital is produced. What happens on the shop floor, in the fields or on the construction sites is therefore crucial. The discipline and cooperation of the worker is here essential to accumulation. Indiscipline and lack of cooperation on the part of labor is a perpetual threat that needs to be overcome either by cooptation and persuasion (the creation of quality circles, the mobilization of company loyalties and pride in work) or by coercion (threats of job loss or in some instances physical violence). The shop stewards movements, the factory councils and all manner of other forms of shop-floor organization empower labor while the capitalists have to negotiate or fight their way to achieve a modicum of labor discipline. Capital here uses differences of gender, ethnicity, race and even religion to great effect to divide and rule in the workplace if it possibly can. While such differences have obviously played a crucial role in the labor market as well, it is here at the point of production where they become all-important. Towards the end of the 1960s and well into the 1970s the problem of labor discipline loomed large in the core regions of capitalism. Off-shoring to more docile labor pastures proved helpful to capital as did the availability of immigrants and undocumented workers. As in labor markets, the power balance within the labor process shifted markedly towards capital and much of the shop-floor resistance crumbled from 1980 onwards. But, as the autonomista Marxists insist, labor discipline can never be fully assured. It is always a potential point of revolutionary resistance.^{[11](#)}

6) Demand and Effective Demand

The new commodity produced has to be sold for the original money plus a profit. Someone, somewhere, must need, want or desire the product and have enough money to pay for it. Capitalism exhibits an astonishing

history of the production of new needs, wants and desires, in part through the production of new lifestyles (consider what is needed to maintain a suburban household) but also an incessant barrage of advertisements and other subliminal means to manipulate the human psyche for commercial reasons. Not all such attempts are successful (history is littered with new products that never found a market) but in a world where the consumer accounts for more than two-thirds of the driving force for capital accumulation, at least in the core regions of capital accumulation, then the human limits to wants, needs and desires constitutes a potential barrier to which capital must perpetually attend in the search for compound growth.

But the other issue here is finding consumers with sufficient money to pay. Compounding growth supposes that there is more money available at the end of the day than there was at the beginning and the big question is: where does the extra money come from? There are three basic answers. Firstly, the moneys held by non-capitalist factions can be drawn into the system. The "gold reserves" of the feudal classes played a very important role in the early years of capitalism. Sucked out by usury and other forms of indebtedness as well as through normal marketing practices, this source of effective demand has much diminished (though the Catholic Church may yet have to melt down a lot of its gold plate to pay for the sins of its priests). The second option, which Rosa Luxemburg emphasized, was the gold and silver reserves of countries largely outside of the orbit of capitalist development. Imperialism and colonialism here played a usually violent role in opening up new markets (e.g. the nineteenth century opium wars in China) thus draining wealth from the once rich regions of China, India, Africa and Latin America.¹² But with the integration of many of these regions into the full circulation of capital, these forms of effective demand are now insufficient to sustain the compound growth of capital accumulation. The third option is to produce effective demand from within the capitalist dynamic. The total wage bill is insufficient and has in any case been falling in relation to GDP over the last thirty years. Capitalist consumption, no matter how conspicuous, cannot do it either. The answer is that the money spent on the expansion of investment tomorrow forms the effective demand to mop up the expanded product created yesterday. Tomorrow's growth creates the effective demand for yesterday's expanded product. The effective demand problem today is thereby converted into a problem of finding profitable new investment opportunities tomorrow. This explains why compound growth is so essential to the perpetuation of capitalism.

Three issues then arise. Firstly, the time gap between yesterday's product and tomorrow's reinvestment has to be bridged and this entails the use of money as money of account. The finance capitalists come back in as crucial players who operate not only at the beginning of the circulation of capital sequence but also at the end. For example, financiers lend to property developers who hire labor to build houses which are then purchased by the workers with a mortgage loan often from the very same financiers. Such a system is inherently speculative and prone to produce housing bubbles of the sort already noted.

But it is not only the financiers who do this. Commercial and merchant capitalists buy from the producers and specialize in marketing to consumers. Merchant capitalists, like financiers and rentiers, extract a rate of return from their own efforts and can come to exert an independent class factional power, which has often played a significant role in crisis formation. The pressures put on producers by merchant capitalist organizations like Walmart, Carrefour and a whole host of supermarket chains along with merchant organizations like Benetton, the Gap, Nike and the like steps into the forefront of what capital circulation is about, both smoothing out potential barriers while also creating potentially dangerous concentrations of economic power. As with the landlords and rentiers, the merchant capitalist class self-interest is not necessarily concordant with that of the whole capitalist class. When we track what happens to the price of sugar, for example, as it moves from the cane fields of the Dominican Republic to the supermarkets of the USA, we see that the actual producers receive less than 5 percent of the final retail price. Most of the profit is taken by merchant intermediaries.

The third issue is less easy to identify even as it seems to be assuming more and more importance in the way capital circulation works. When capital primarily produced long-lasting things, it was always in danger of

satiating markets. I am still using the silver plated forks made in Sheffield that graced my grandmother's table. The lifetime of consumer products has therefore to be shortened if capital is to survive. This happens to some degree by resort of fashion, by planned obsolescence and making things that break down easily, by continuous innovation (from iPods to iPads) and so on. This pressure has, in recent years, produced a shift from the production of things to the production of spectacle -- a shift that Guy Debord presciently understood when he wrote *The Society of the Spectacle* back in 1967.¹³ Just consider what goes into the production of the Olympic Games, not only the new physical infrastructures but the vast employment and resources entailed in opening ceremonies (remember the spectacle of Barcelona and then later the astonishing spectacle of Beijing). More and more capital therefore circulates in the production of spectacular and ephemeral events with all sorts of consequences for consumerism as well as for urban life. But productions of this sort are invariably debt financed and, as the history of the Olympics clearly demonstrates, finding the money to pay off the debts afterwards is often problematic. It is perhaps no accident that Greece, which staged the Olympics in 2004, is now in a leading crisis role because of its sovereign debt.

With real wages stagnant or falling after 1980, the deficit in effective demand was largely bridged by resort to the credit system. In the United States in particular, household debt tripled from 1980 to 2005 and much of that debt was accumulated around the housing market, particularly from 2001 onwards. All sorts of innovations in finance along with state policies that often had the effect of subsidizing or even paying people and corporations to go into debt, kept the compounding rate of growth going. This was the fictional bubble that eventually burst in 2008. But, again, notice the sequence. Wage repression produces a deficit of effective demand that is covered by increasing indebtedness that ultimately leads into a financial crisis which is resolved by state interventions which translates into a fiscal crisis of the state that can best be resolved, according to conventional economic wisdom, by further reductions in the social wage.

7) Capital Circulation as a Whole

When viewed as a whole, we see a series of potential blockage points to the circulation of capital, any one of which has the potentiality to be the source of a crisis. There is, therefore, no single causal theory of crisis formation as many Marxist economists like to assert. There is, for example, no point in trying to cram all of this fluidity and complexity into some unitary theory of, say, a falling rate of profit. In fact profit rates can fall because of the inability to overcome any one of the blockages identified here. It is the task of historical materialist analysis to wrestle with the question as to where the primary blockages are this time around. But solutions at one point have implications for what happens elsewhere. The labor problem (both in the market and on the shop floor) that was central in the late 1960s in the core regions, could not be overcome except by opening up the coercive laws of competition across a global space. This required a revolution in the architecture of the world's financial system which increased the likelihood of "irrational exuberance" within the financial system. The consequent wage repression depressed effective demand, which could be overcome only by resort to the credit system. And so on.

The fundamental theoretical conclusion is: *capital never solves its crisis tendencies, it merely moves them around*. This is what Marx's analysis tells us and this is what the history of the last forty years has been about. No one now claims that the excessive power of labor is the source of the current problem as it was back in the 1970s. If anything, the problem is that capital in general and finance capital in particular are far too powerful and that the state cannot step in to re-balance affairs because it is captive -- politically and economically -- to capitalist class financial, rentier, producer and commercial interests. The dynamic shift from a crisis within the financial system centered on the banks to a fiscal crisis of states is now producing a renewed assault upon labor, particularly in the public sector, as well as upon the social wage. But if purchasing power and consumer confidence then sags, then where is the market? The big intangible here is, however, whether mass resistance will arise to contest the austerity required to reduce state deficits.

THE UNEVEN GEOGRAPHICAL DEVELOPMENT OF THE CRISIS

We know that the crisis for capital (as opposed for many homeowners and workers who had long been distressed) began in the housing markets of Southern California, Arizona, Nevada and Florida in 2007. This was the primary epicenter of the crisis.¹⁴ But why there and why then? The crisis then quickly spread through the mortgage finance companies (like Countrywide in the US) to the major financial institutions (like Bear Stearns) that still held a goodly amount of what became "toxic" securitized mortgage debt. It then spread to other institutions that either held the debt (like Fannie Mae and Freddie Mac), invested in the debt (everyone that invested in collateralized debt obligations) or insured the debt or other financial transactions (like AIG). The parallel crash of Northern Rock in Britain indicated that there were problems lurking in property markets elsewhere (as ultimately became apparent in Spain and Ireland in particular). The financial institutions located in New York and London then became the epicenter of the crisis. It largely fell to the US and British Governments along with the US Federal Reserve and the Bank of England to stabilize the situation.

The crash of Lehman Brothers in September 2008 sent the contagion global (was this a deliberate move to transform the crisis from the local to global scale, a cave-in to populist pressure to punish the sinners on Wall Street, or just a huge mistake?). The crisis was probably bound to go global anyway, given the interdependency within global financial networks. Banks elsewhere (e.g. in Germany and France) had bought into the toxic debt as had municipal and state governments and pension funds from Norway to Florida. All of them felt the distress. No matter where located, the holders of the toxic debt were in difficulty. Canadian and East Asian financial institutions, on the other hand, remained unaffected because they had little exposure.

But after Lehman the whole global credit system (in which inter-bank lending is crucial) froze and this formed the immediate primary blockage to the continuity of capital flows. Perfectly good enterprises suddenly found themselves in difficulty because they could not roll over their debt. Many firms rescued themselves by laying off workers by the droves and intensifying wage repression. Debt-fuelled consumerism and effective demand was halted, consumer confidence fell off a cliff, and unemployment surged though at radically different rates both within and between countries: compare, e.g. Minnesota and Ohio in the US or Spain (20 percent) and the Netherlands (6 percent) in Europe in 2009. The major export economies then took a hit as world trade contracted by some twenty percent in early 2009, sparking huge difficulties for businesses and emphatic surges in unemployment in East Asia as well as in Germany, Brazil, and elsewhere. An earlier boom in raw material prices (oil in particular) that turned out to be largely speculative likewise collapsed in the face of declining growth. Raw material producers were in trouble. The global economy was clearly headed towards a huge depression, unless government acted.

What then followed depended crucially upon the imperatives, ability and the willingness of different governments to use their powers (either individually or collectively) to confront the crisis. Given the threat of a depression on the scale of the 1930s, there was a growing initial clamor to resurrect Keynesian style solutions. The immediate response after the Lehman debacle was to rescue, stabilize and eventually reform the financial architecture (both locally and globally) and to construct a debt-financed stimulus to deal with the collapse of effective demand. The US could not, however, act alone and so the G8 was replaced by the G20, a coalition of leading states that accounted for most of the world's market-based economic activity. The search for a systemic exit from the crisis was hindered, however, by a number of overwhelming difficulties, not least of which were the very different political ideologies, needs and the configurations of class forces and special interests within the G20 states.

The United States, for example, was already deeply in debt to the rest of the world.¹⁵ One question was whether the "safe-haven" of dollar denominated assets would sustain dollar inflows to support the debt and keep long-term interest rates down into the foreseeable future. The fact that long-term interest rates have declined since 2008 suggests there is no problem. But in the first half of 2010, foreign governments were net sellers of US securities. It took rising savings rates in the US, loss of confidence in the stock market and the flight of internal savings into US treasuries to keep interest rates down. It was always dangerous for the US to

attempt a stimulus on a large-enough scale (say \$2 trillion rather than the \$800 billion) to work internally, let alone entrain the rest of the world back onto a compound growth path (as it had done after 1945). In the US, there were also strong political objections from a Republican Party that pandered to the hysterical populist right wing fears of excessive government intervention and saw opposing further deficit financing as a means to prevent any recovery that might redound to Obama's and the Democratic Party's electoral advantage. Whatever stimulus could be had was also pushed, for ideological reasons, towards tax cuts to a class that might not spend as opposed to needy population groups that would. Finally, the best forms of stimulus lie in provision of social and physical infrastructures that would raise productivity and improve efficiency within the national space. But the US had no clear projects of either sort in mind. The initial refusal of the Republicans to support aid for State and local finances indicated a determination to cut social services rather than to expand them (a determination partly offset by short-term stimulus funds to education and later by a tardy but weak infusion of support for State and local governments). And the physical infrastructures had to be "shovel ready" which meant they were for the most part a continuation of investments in urban and suburban development that had led into the crisis rather than an innovative move towards a national urban development policy that would help exit the crisis in the long-term (e.g. by saving on energy rather than expanding demand for it). The only innovation was weak support for alternative energy sources. Finally, many key aspects of a full Keynesian program were kept off the table. Chief of these was the greater empowerment of labor as a way to reverse chronic income inequalities. Mitigating the huge social inequalities that had arisen in the 1920s was viewed in the 1930s as a way to stimulate effective demand. The neoliberal politics of the 1980s and 1990s had produced inequalities in wealth and income not seen since the 1920s and needed similar reversal. But the imbalance of power between capital and labor could not be addressed for fear of being dubbed and damned as "socialist" or "communist" by a powerful right wing propaganda machine. Dominant class forces (the "Party of Wall Street") with strong influence within both political parties refused point-blank to accept a state-led re-calibration of the relative powers of capital and labor. The power imbalance that lay at the root of the crisis was to remain untouched.

After an early phase of recovery in which "green shoots" were spied all over the economic landscape, the US economy lapsed back into slow growth and high unemployment in the Spring of 2010, with little prospect of any dramatic revival. Corporate profits and the stock market began to revive, but under conditions of lower turnover and savage cost cutting, particularly with respect to wages. The revival of profits came at the expense of increasing unemployment rather than alleviating wage repression with negative effects upon consumer confidence and internal effective demand (the wage concessions taken from the auto workers in the GM bailout is a prime example). This was not a path towards sustainable growth. If it pointed anywhere, it was towards deflation. Revival of a more robust sort would have to come from elsewhere.

Possessed of huge surpluses and an untroubled banking system easily manipulated by the central government, China had the means to act in a more full-blooded Keynesian way. The crash of export-oriented industries and the threat of mass unemployment and unrest in early 2009 forced the government's hand. The stimulus package devised had two forks. Close to \$600 billion were put largely into infrastructural projects -- highway building on a scale that dwarfs that of the US interstate highway system of the 1960s, new airports, vast water projects, high-speed rail lines and even whole new cities. Secondly, the central government forced the banks to loosen credit for local state and private projects.

The big question is whether these investments will increase national productivity. Given that the spatial integration of the Chinese economy is far from complete, there are reasons to believe it will do so. But whether the debts can be paid off when due or whether China will later be the epicenter of yet another global capitalist crisis is an open question. One negative effect has been a renewal of speculation in housing markets with a doubling of property prices in Shanghai in 2009. There are other troubling signs of overcapacity in manufacturing and infrastructures and many banks are rumored to be overextended. There is evidence of the emergence of an uncontrolled "shadow banking" system that is repeating some of the mistakes that occurred in the US from the 1990s on. But the Chinese have dealt with non-performing loans before, as high as 40

percent of assets in the late 1990s. They then used their foreign exchange reserves to erase non-performing loans. Unlike the TARP program in the US, which was passed by a reluctant Congress and which promoted much public resentment, the Chinese can take immediate action to re-capitalize their banking system. Whether or not they can crack down on and control shadow banking behaviors appears to be a more open question.

The Chinese eventually embraced other aspects of a Keynesian program: the stimulation of the internal market by increasing the empowerment of labor and addressing social inequality. The Central Government suddenly appeared willing to tolerate or unable to resist spontaneous strikes (not organized by the official unions controlled by the Communist Party) at major producers such as Toyota, Honda and FoxConn in the summer of 2010. These strikes resulted in significant wage increases (in the range of 20 or 30 percent or so). The politics of wage repression was being reversed. The government increased investments in health care and social services and it pushed hard on the development of environmental technologies to the point where China is now a global leader. The fear of being called a socialist or a communist that bedevils political action in the United States obviously sounds comical to the Chinese. But there are dangerous signs of inflation and serious pressures (both internal and external) to revalue the renminbi. The banking system may not be as sound as it appears. As wages rise so capital is moving offshore to lower-wage locations in Bangladesh, Cambodia and other parts of Southeast Asia.

China has emerged from the crisis faster and more successfully than anywhere else with growth rates quickly reviving towards 8 or even 10 percent. The increase in internal effective demand has not only worked within China, but entrained other economies, particularly raw material producers. Australia has flourished, for example. General Motors makes more cars and profits in China than anywhere else. China had stimulated a partial revival in international trade and of demand for its own export goods (trade with Latin America has increased tenfold since 2000, for example). The export-oriented economies in general, particularly throughout much of East and Southeast Asia along with Latin America have revived faster than others. China's investments in US debt have helped sustain effective demand for its low-cost products there, but there are signs that it is gradually diversifying its holdings. The effect has been to alter the balance of economic power, to produce a hegemonic shift within the global economy.

The revival of the export-oriented economies has extended to Germany. But this brings us to the problem of the fractious responses to the crisis across the European Union. After an initial burst of stimulus politics, Germany took the lead, dragging a more reluctant France along with it, in turning the Eurozone to a monetary policy of deficit reduction through draconian reductions in public expenditures. This policy is now echoed by the new Conservative-led coalition in Britain. This politics coincided with the sudden deterioration in public finances elsewhere. The so-called PIGS (Portugal, Ireland, Greece and Spain) found themselves in dire financial straights, in part through their own mismanagement but even more significantly because their economies were particularly vulnerable to the credit collapse and the sudden decline in property markets and tourism. Lacking the industrial base of countries like Germany, they could not respond adequately to the fiscal crisis that threatened them.

The big question then was: has the financial crisis been stabilized at the expense of creating a fiscal crisis of the capitalist states (with California looking more and more like one of the biggest failed states in the world)? Rumors flew as to the state of Britain's finances and the fact that many other weaker states, such as Latvia and Hungary were already on the ropes, suggested serious underlying problems in state finances that could even, at some point, focus on the sustainability of the US deficit. It was in this climate that much of the capitalist world shifted its focus to deficit reduction rather than deficit stimulus financing of the Keynesian sort. Once the crisis shifted from being a financial crisis in the banking sector to being a fiscal crisis of the state, then the political opportunity immediately arose to take another savage cut at what remained of the welfare state. The banks had been saved and it was, in classic neoliberal fashion, evidently time to sock it to the people by draconian austerity rather than stimulus measures.

As a result, the political fault-lines shifted in many places back towards the more classic forms of class struggle, as unions (particularly in the public sector) and affected populations (students, retirees, etc) fought back against the austerity from California to Greece. Why should the people pay for the errors and corruptions of a capitalist class that continued to consolidate its wealth and power?

But there were and are abundant variations both in impacts and responses. Lebanon was so busy reconstructing from the Israeli bombardment of 2006 that it scarcely noticed the onset of the global financial crisis (though it had political crises of its own galore). Brazil quickly recovered in part on the back of the China trade but also because of the surge of internal demand based on Lula's redistributive policies towards the poor (the *bolsa familia*). India was relatively insulated from the crisis since its main export of services was less affected and its financial system relatively sound. Certain states, like Kerala, suffered from the loss of remittances from the Gulf States but elsewhere a gathering but questionable boom, particularly in construction, underpinned high rates of growth. The number of Indian billionaires doubled in 2009 alone. Haiti, on the other hand, suffered a serious loss of remittances from the US and then collapsed entirely as a result of the earthquake and its appalling aftermath.

The shifting of the crisis around the world in both its form and in its intensity created a dynamic of cascading geographical effects to the point where nothing could easily be predicted. From an epicenter in the US Southwest and Florida to the collapse of Dubai World to the Greek Sovereign debt crisis, no one could easily predict or anticipate where the next aftershock would hit and how severe the shock or what the political response would be. By the same token, the rapid recovery of China, India and Brazil has been surprising. The geography of it all can, with a lot of effort, be tracked but not easily predicted. Yet the vulnerabilities within the global system are clear. A collapse of the property market and surging inflation in China, a fall in oil prices that hits Russia very hard along with Venezuela and the Gulf States, a surge of political protests from Greece to Spain, France, Britain and California, or simply a sudden further collapse of consumer confidence in the United States or of foreign investors in the viability of US debt, will likely send the whole system into either a downward tailspin or a lurch into a different configuration of global power that sees one half of the world (almost certainly Asia) grow rapidly at the expense of the other half.

THE LEFT ALTERNATIVE

Many have long dreamed that an alternative to capitalist (ir)rationality can be rationally arrived at through the mobilization of human passions in the collective search for a better life for all. These alternatives -- historically called socialism or communism -- have, in various times and places been tried. In former times, such as the 1930s, the vision of one or other of them provided a beacon of hope. The practices that flowed from this source arguably improved the lives of many and saved capitalism from auto-destruction after 1945. But in recent times such alternatives have lost their luster, in part because of the failure of historical experiments with communism to make good on their promises. Political protest at the crisis conditions has been spotty but in some instances vociferous (from both the left and the right) in response to the crash of 2008.

It could be that 2009 marks the beginning of a prolonged shake out in which the question of grand and far-reaching alternatives to capitalism will step-by-step bubble up to the surface in one part of the world or another. The longer the uncertainty and the misery is prolonged, the more the legitimacy of the existing way of doing business will be questioned and the more the demand to build something different will escalate.

The central problem to be addressed is clear enough: *compound growth forever is not possible: capital accumulation can no longer be the central force impelling social evolution.* The troubles that have beset the world these last thirty years signal that a limit is looming that cannot be transcended. Add to this the fact that so many people in the world live in conditions of abject poverty, that environmental degradations are spiraling out of control, that human dignities are everywhere being offended even as the rich are piling up more and more wealth at the expense of everyone. Meanwhile, in most places the levers of ideological, political,

institutional, judicial, military and media power are under tight political control. This serves to perpetuate the political status quo and frustrate opposition even as the economy and living standards deteriorate. "Freedom" then becomes just another word to justify repression.

A revolutionary politics that can grasp the nettle of endless compound capital accumulation and eventually shut down the class power that propels it forwards requires an appropriate theory of social change. Marx's account of how capitalism arose out of feudalism in fact embodies such a "co-revolutionary theory."¹⁶ Social change arises, he argues, through the dialectical unfolding of relations between seven moments within the social body politic:

- a. technological and organizational forms of production, exchange and consumption
- b. relations to nature
- c. social relations between people
- d. mental conceptions of the world, embracing knowledges and cultural understandings and beliefs
- e. labor processes and production of specific goods, geographies, services or affects
- f. institutional, legal and governmental arrangements
- g. the conduct of daily life and the activities of social reproduction.

Each one of these moments is internally dynamic, marked by tensions and contradictions (just think of our diverse and contested mental conceptions of the world), but all of them are co-dependent and co-evolve in relation to each other within a totality, understood as a Gramscian or Lefebvrian "ensemble" or Deleuzian "assemblage" of moments. The transition to capitalism entailed a mutually supporting movement across all seven moments within the totality. New technologies could not be identified and applied without new mental conceptions of the world (including that of the relation to nature and of new labor processes and social relations).

Social theorists often take just one of these moments and view it as the "silver bullet" that causes all change. We have technological determinists (Tom Friedman), environmental determinists (Jared Diamond), daily life determinists (Paul Hawken), labor process determinists (the autonomistas), class struggle determinists (most Marxist political parties), institutionalists, and so on and so forth.¹⁷ From Marx's perspective they are all wrong. It is the dialectical motion across the moments that really counts, even as there is uneven development in that motion.

When capitalism itself undergoes one of its phases of renewal, it does so precisely by co-evolving all moments, obviously not without tensions, struggles, fights and contradictions. Consider how these seven moments were configured around 1970 before the neoliberal surge and consider how they look now; all have changed in relation to each other and thereby changed the workings of capitalism as a whole.

This theory tells us that an anti-capitalist political movement can start anywhere (in labor processes, around mental conceptions, in the relation to nature, in class or other social relations, in the design of revolutionary technologies and organizational forms, out of daily life or through attempts to reform institutional and administrative structures including the reconfiguration of state powers). The trick is to keep the political movement moving from one moment to another in mutually reinforcing ways.¹⁸ This was how capitalism arose out of feudalism and this is how a radically different alternative can arise out of capitalism. Previous attempts to create a communist or socialist alternative fatally failed to keep the dialectic between the different moments in motion and failed to embrace the unpredictable and uncertain paths in the dialectical movement between them.

The problem for the anti-capitalist left is to build organizational forms and to unleash a co-revolutionary dynamic that can replace the present system of compounding accumulation of capital with some other forms of social coordination, exchange and control that can deliver an adequate style and standard of living for the

6.8 billion people living on planet earth. This is no easy task and I do not pretend to have any immediate answers (though I do have some ideas) as to how this might be done. But I do think it imperative that the organizational forms and political strategies match the diagnoses and descriptions of how contemporary capitalism is actually working. Unfortunately, the fierce attachment of many movements to what can best be termed a "fetishism of organizational form" gets in the way of any broad revolutionary movement that can address this problem. Anarchists, autonomists, environmentalists, solidarity economy groups, traditional left revolutionary parties, reformist NGO's and social democrats, trade unions, institutionalists, social movements of many different stripes, all have their favored and exclusionary rules of organization often derived from abstract principles and sometime exclusionary views as to who might be the principal agent sparking social revolution. There is some serious barrier to the creation of some overarching umbrella organization on the left that can internalize difference but take on the global problems that confront use. Some groups, for example, abjure any form of organization that smacks of hierarchy. But Elinor Ostrom's study of common property practices shows that the only form of democratic management that works when populations of more than a few hundred people are involved, is a nested hierarchy of decision making. Groups that rule out all forms of hierarchy thereby give up on any prospect whatsoever for democratic response not only to the problem of the global commons but also to the problem of continuous capital accumulation.¹⁹ The strong connection between diagnosis and political action cannot be ignored.²⁰ This is a good moment, therefore, for all movements to take a step back and examine how their preferred methods and organizational forms relate to the revolutionary tasks posed in the present conjuncture of capitalist development.

Notes

¹ Schneider, H., 2010, ["'Systemic risk' is the new buzz word as officials try to prevent another bubble,"](#) *Washington Post*, July 26, 2010.

² Harvey, D., 2010, [The Enigma of Capital: And the Crises of Capitalism](#), London, Profile Books.

³ Maddison, A., 2007, [Contours of the World Economy, 1-2030 AD: Essays in Macro-Economic History](#), Oxford: Oxford University Press.

⁴ Harvey, D., 2003, [Paris: Capital of Modernity](#), New York: Routledge.

⁵ McKinnon, R., 1973, [Money and Capital in Economic Development](#), Washington D.D.: Brookings Institution Press.

⁶ Bonney, R. (ed), [The Rise of the Fiscal State in Europe, c.1200-1815](#), Oxford: Oxford University Press, 1999.

⁷ O'Connor, J., 1997, [Natural Causes: Essays in Ecological Marxism](#), New York: Guilford Press.

⁸ Arrighi, G., 1978, ["Towards a theory of capitalist crisis,"](#) *New Left Review*, 1/111, September-October, 1978, 3-24.

⁹ Bellamy Foster, J. and Magdoff, F., 2009, [The Great Financial Crisis: Causes and Consequences](#), New York, Monthly Review Press.

¹⁰ Arrighi, G., 1994, [The Long Twentieth Century: Money, Power and the Origins of Our Times](#), London: Verso.

¹¹ Cleaver, H., 1979, [Reading Capital Politically](#), Austin: University of Texas Press.

[12](#) Luxemburg, R., 2003, *The Accumulation of Capital*, New York, Routledge Second Edition.

[13](#) Debord, G., 2000, *The Society of the Spectacle*, Detroit: Black and Red Books edition.

[14](#) Bardhan, A. and Walker, R., 2010, "[California, Pivot of the Great Recession](#)," *Working Paper Series*, Institute for Research on Labor and Employment, UC Berkeley.

[15](#) The following argument, now updated, was first laid out in early 2009 in Harvey, D., "[Why the Stimulus Package Is Bound to Fail](#)" available on <http://DavidHarvey.org>.

[16](#) What follows is based on Harvey, D., *The Enigma of Capital*, op. cit., chapter 8.

[17](#) Friedman, T., 2006 edition, *The World Is Flat: A Brief History of the Twenty-First Century*, New York, Farrar, Strauss and Giroux; Diamond, J., op. cit.; Hawken, P., 2007, *Blessed Unrest: How the Largest Movement in the World Came into Being and Why No One Saw It Coming*, New York: Viking; Holloway, J., 2005, *Change the World without Taking Power*, London: Pluto Press; Held, D., 1995, *Democracy and the Global Order: From the Modern State to Cosmopolitan Governance*, London: Polity Press.

[18](#) Harvey, D., 2010, "[Organizing for the Anti-Capitalist Transition](#)," on <http://DavidHarvey.org>

[19](#) Ostrom, E., 1990, *Governing the Commons: The Evolution of Institutions for Collective Action*, Cambridge: Cambridge University Press.

[20](#) In a recent critical assessment of some of my theses, several commentators readily accepted my diagnoses but fiercely criticized my comments on organizational forms. See "Debating David Harvey," *Interface*, Volume 2, No.1 (May, 2010); Crises, Social Movements and Revolutionary Transformations; <www.interfacejournal.net/>.

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