Marxist accounts of the current crisis

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Just as medical science progresses through pathology, Marxist political economy develops through the analysis of the actual crises of capitalism. It is therefore no surprise that the current paroxysm has sparked both a revival of interest in Marxism[1] and a flurry of responses by prominent Marxists. My focus here should not be taken to indicate that non-Marxist accounts are unworthy of engagement. A number of mainstream economists have been forced, whether enthusiastically or reluctantly, to grapple with the realities of the system.[2] But the crisis has also revealed the paucity of what passes for academic economic theory, captured in an astonishing admission by Willem Buiter, a London School of Economics professor and a former member of the Bank of England monetary policy committee:

The typical graduate macroeconomics and monetary economics training received at Anglo-American universities during the past 30 years or so may have set back by decades serious investigations of aggregate economic behaviour and economic policy-relevant understanding. It was a privately and socially costly waste of time and other resources. Most mainstream macroeconomic theoretical innovations since the 1970s...have turned out to be self-referential, inward-looking distractions at best. Research tended to be motivated by the internal logic, intellectual sunk capital and aesthetic puzzles of established research programmes, rather than by a powerful desire to understand how the economy works—let alone how the economy works during times of stress and financial instability. So the economics profession was caught unprepared when the crisis struck.[3]

The record of Marxists has been better. Nonetheless, their approaches to the crisis are far from homogenous, have often been developed in isolation from each other and diverge on several points. Here I consider widely accessible accounts that have appeared in English over the past few months, appraising their strengths and weaknesses relative to each other and to the tradition associated with this journal.[4]

The "real" and the financial

All Marxist accounts of the current crisis have been forced to recognise its financial dimension. The crisis has been marked by the near collapse of the banking system in several countries and began with the bursting of the subprime mortgage bubble in the US. One of the first Marxist accounts to draw attention to subprime was produced by Robin Blackburn, who wrote on this subject as early as spring 2007, a few months before the real panic began:

In recent months "subprime" defaults have jumped. A Lehman Brothers analyst warns that some $225 billion worth of subprime loans will be in default by the end of 2007 but others say the figure will be nearer $300 billion. The "equity tranch" [the riskiest slice of the repackaged debt] is now dubbed "toxic waste" by the insiders and analysts are waiting to see which bodies float to the surface... The default crunch will not only cause great unhappiness to the victims who stand to lose their homes—it hurts the housing market and increases the chances of a downturn.[5]

Back then the term subprime barely warranted a mention in most newspapers. The *Financial Times* was more attentive than most, carrying an article entitled "Subprime Sickness", which argued:

There are plenty of reasons to believe that the [subprime] fallout can largely be confined to the sector... Even the fact that so many Wall Street banks were heavily involved in the subprime sector...need not be a cause for alarm. The exposure for any bank should be small. Typically they did not hold on to such mortgages, but packaged them up and sold them on in securitisation...securitisation is doing what it is intended to do—spreading the risk.[6]

Unlike the *Financial Times*, Blackburn was "ahead of the curve" because he had focused in the preceding years on developing a detailed analysis of the fragilities of the global financial system.[7] However, it was possible to see the outlines of a potential crisis from a different starting point. *International Socialism* published a remarkably prophetic article in summer 2007, which, by coincidence, came out just in time for the onset of the credit crunch. This saw the growth of finance originating in the decline of profit rates during the post-war boom and the failure to sufficiently restore them from the low levels they had reached by the 1980s. This led to a scramble for alternative outlets for profits:

Low levels of past profitability do not stop capitalists imagining that there are miraculous profits to be made in the future and in sucking surplus value from all over the world to be ploughed into projects aimed at obtaining them. Many of these are purely speculative gambles in unproductive spheres, as with bubbles in real estate, commodities markets, share prices and so on... Against such a background, corporate profits will be being puffed up until they lose touch with reality, and things will seem to be going very well until overnight it is discovered they are going very badly.[8]

These two different accounts illustrate a dividing line in Marxist analyses of the current crisis. Some emphasise the internal logic of "financialisation" and tend to see the financial crisis as impinging upon the

"real" economy from the outside; others, while recognising the importance of the financial dimension, emphasise the underlying problems in the "real" economy that drove the expansion of finance and paved the way for the crisis.

The distinction between the "real" and the financial has to be qualified in two ways. First, the growth of finance has, in part, been driven by traditional corporations based in the "real" economy. For instance, by 2003, 42 percent of General Electric's profits were generated by its financial wing, GE Capital.[9]

Second, and more fundamentally, for Marxists the financial system is not simply something grafted onto a pure, non-financial capitalism. Whenever money ceases to function simply as money, when it also functions as capital, it opens up the possibility of credit and financial speculation.[10] As David Harvey has recently argued, "There is a more dialectical relationship between what you might call the 'real' and 'financial' sides of the economy".[11]

The real questions at stake are whether financial growth is driven by processes autonomous from the non-financial areas of the economy; whether the current crisis is a new type of crisis or is rooted in tendencies Marx identified, even if the crisis is deferred and given unique characteristics by the growth of finance;[12] and whether the dynamic of the system has been fundamentally changed by a process of "financialisation". I will begin by considering those accounts that emphasise the transformation of capitalism through finance over the recent period.

Robin Blackburn and Peter Gowan

For Robin Blackburn, "Financialisation now runs the gamut from corporate strategy to personal finance. It permeates everyday life, with more products that arise from the increasing commodification of the life course, such as student debt or personal pensions, as well as with the marketing of credit cards or the arrangement of mortgages".[13]

Few writers have been as effective as Blackburn in explaining the complexities of finance to a lay readership. But his essays show relatively little engagement with the concepts traditionally associated with Marxist political economy and tend to consider the wider economic system only insomuch as it has been drawn into the financial world. As Geoff Mann points out, "The analysis of value, money and capital...are not part of Blackburn's discussion, but they remain an essential part of the political-economic stakes".[14] Blackburn has replied that he implicitly operates within a Marxist framework. But his positive statement of what this framework consists of seems to emphasise the limited capacity of workers to consume, arguing that "the root cause of the crisis was, quite simply, poverty" and increased consumption by Chinese workers could "help to lift the global economy".[15]

Often his writing gives the impression that the rise of finance comes out of finance itself: "Two processes that took hold in the 1950s and 1960s nourished financialisation—new principles of consumer credit, and the rise of institutional finance and fund management".[16] Peter Gowan,[17] another Marxist associated with the journal *New Left Review*, put an even harder case for the autonomy of finance: "An understanding of the credit crunch requires us to transcend the commonsense idea that change in the so-called real economy drives outcomes in a supposed financial superstructure".[18] For Gowan, financialisation was an answer to problems faced by US capitalism as a whole.[19] But he saw the growth of finance mainly as a product of changes within finance itself which were supported as a deliberate strategy by the American (and in a subordinate role the British) elite.[20] He put a powerful argument that this elite was not ignorant of the problems of financial bubbles, but that they believed that, "between blow-outs, the best way for the financial sector to make large amounts of money is to sweep away restrictions on what private actors get up to...[and] when bubbles burst and blow-outs occur, the banks, strongly aided by the actions of the state authorities, can cope with the consequences".[21]

Just how swollen has the financial system become? "As a percentage of total US corporate profits, financial sector profits rose from 14 percent in 1981 to 39 percent in 2001," writes Blackburn.[22] "In 2006, no less than 40 percent of American corporate profits accrued to the financial sector," according to Gowan.[23] This is a huge chunk of the US economy (although the US economy represents only about one quarter of the world system). But in a period characterised by a series of bubbles, profits estimated by looking at balance sheets composed of assets rising in price can be based on what Blackburn calls "fantasy valuations".[24]

What has to be explored is not just the scale of the financial sector measured in its own terms, but the effects of its growth on real accumulation. The financial sector can swell far beyond the scale justified by the value created in the productive economy.[25] But this process cannot continue indefinitely. Finance in itself does not create new value, and eventually its profits must be obtained from the productive sector of the economy. In this context, crisis can be seen as "a call to order by the law of value" when the productive sphere must try to cash the cheques written by finance.[26]

Some of the accounts of financialisation risk making exaggerated claims about the changes wrought by "neoliberal" or "financialised" capitalism.[27] For Blackburn, "From the standpoint of the 'pure' investor, the

corporation itself is an accidental bundle of liabilities and assets that is there to be rearranged to maximise shareholder value, which in turn reflects back the fickle enthusiasms of the investors. The corporation and its workforce are, in principle, disposable".[28] The idea that shareholder value is the central preoccupation of the ruling class as a whole is questionable, especially given the reaction to the banking crisis in which governments and central bankers have, where necessary, inflicted substantial losses on shareholders. More generally, David Harvey, in a book quite favourable to financialisation theories, argues that in recent decades "the power of the actual owners of capital, the stockholders, has been somewhat diminished" relative to those actually running companies.[29] For instance, institutional shareholders are rarely involved in the day to day running of corporations. Of course, there are tensions within the ruling class, and these are exacerbated in crises, but the short-term interests of shareholders do not always win out.

Finally, there are political implications to the financialisation arguments. According to Gowan the crisis poses a choice between two models: "A public-utility credit and banking system, geared to capital accumulation in the productive sector, versus a capitalist credit and banking system, subordinating all other economic activities to its own profit drives".[30]

Similarly, Blackburn writes, "When properly embedded in structures of social control, finance can help to allocate capital, facilitate investment and smooth demand".[31] "The solution...is not to abandon money or finance but to embed them in a properly regulated system".[32] Geoff Mann has challenged such views: "Turning over our upside-down world requires not just the taming or grounding or redistribution of value, but its destruction. The overthrow of capitalism is the only way out. In short, it is the acceptance of the necessity, not the inevitability, of revolution that makes a Marxist adequate to Marx's analysis".[33]

Blackburn has replied that the sorts of demands he raises are "transitional measures that address the deep crisis in effective ways...which would benefit new collective and democratic institutions, in the shape of a network of social funds".[34] Demands short of revolution are certainly important. Through winning such demands workers become aware of their power to collectively transform society and confident of their strength to do so. But the relationship between these demands and the movement from below is left a little vague—with Blackburn seeing his prescriptions as measures to be brought in once a "seriously anti-capitalist government has been established" creating a system of "financial dual power".[35]

Costas Lapavitsas

Another Marxist associated with financialisation theory, Costas Lapavitsas, gives more consideration to the wider problems in accumulation, writing that "productivity growth has been problematic from the middle of the 1970s to the middle of the 1990s, most significantly in the USA".[36] But he is reluctant to root this in a long-term crisis of profitability:

It is not so much that real accumulation does not generate enough profitable avenues for banks to lend. Rather, productive capitals can increasingly meet their financing requirements either by retaining profits or by borrowing directly in open markets... Banks have been edged out of this business, and have to seek other avenues of profitability.[37]

Lapavitsas produces figures for the percentage of corporate liabilities represented by bank loans in the US, Germany and Japan. However, shifts in these figures do not seem dramatic enough to explain a systemic transformation of capitalism—from about 12 or 13 percent in the US in the 1980s to about 10 percent through the 1990s and then falling to about 5 to 6 percent in the current decade; and remaining at above 30 percent and around 40 percent, after slight declines, in Germany and Japan respectively.[38]

The growth of consumer finance across many economies in recent decades is, however, undeniable.[39] Banks have moved into "areas that are not directly connected with the generation of value and surplus value...finance has become relatively autonomous from productive enterprises as well as growing rapidly".[40] Lapavitsas's account makes a rather abstract appeal to shifts in the "forces and relations of production" to explain the rise of finance. But this runs the risk of lapsing into a determinism that seeks to explain the trajectory of the system through recent innovations in information and communication technologies:

The impact of new technologies on the sphere of finance has been dramatic. Finance might have become neither more efficient nor more productive in terms of intermediation per worker, but it has become capable of operations that were previously completely impossible. The changes are apparent in terms of the internal organisation of financial institutions, the speed of transactions, the feasibility of financial engineering, the links between financial markets, the techniques of pricing and risk management, and so on. Not least, finance has become technically capable of dealing with huge numbers of individual borrowers.[41]

Technological innovation can, of course, open up new areas of potential profit making. But this innovation should not be seen as an autonomous process that develops in isolation from the economy. In particular, it is necessary to account for the flows of surplus value into different areas of the economy that spur waves of restructuring and innovation.[42] An account of the long-term decline in profitability in the productive economy has the advantage of explaining why the incentive to invest in these areas declined and why finance exploded.

But whatever the causes, Lapavitsas has raised important questions about the consequences of financialisation. Traditionally Marxists have argued that the profits made by industrial capitalists and the interest earned by those who lend them money are each claims on a portion of the surplus value generated through the exploitation of workers in the productive economy.[43]

Lapavitsas has put forward the clearest alternative analysis. He has argued that banks are now involved in the "direct exploitation" of consumers to make profits. This is "direct" because it is a mechanism lying outside capitalist production, instead occurring in the sphere of circulation. It is exploitation, he argues, because finance is now seen as necessary for many workers to cover basic living costs.[44]

But exploitation in a Marxist sense has a quite specific meaning.[45] It relates to the extraction of surplus value from workers even though the commodity they supply, their labour power, is obtained by the capitalist at its value. The surplus value generated is not a "swindle" as pre-Marxist socialists had argued but a result of the gap between the new value created by labour over a given period of time and the value required to reproduce that labour power (the wage).[46] The mechanisms associated with financialisation do not generate surplus value,[47] and Lapavitsas has more recently used the less loaded phrase "financial expropriation", which he defines as a process by which financial institutions "extract profits directly and systematically out of wages and salaries".[48] As anyone with an overdraft can testify, it is undeniable that banks make profit out of personal finance. What is at stake is not whether this takes place but whether it represents a "systemic transformation of the capitalist economy".[49]

Such processes are certainly not historically novel. In the context of a discussion of the "lending" of houses to workers at usurious rates in 19th century capitalism, Marx writes:

That the working class is also swindled in this form, and to an enormous extent, is self-evident; but this is also done by the retail dealer, who sells means of subsistence to the worker. This is secondary exploitation, which runs parallel to the primary exploitation taking place in the production process itself. The distinction between selling and loaning is quite immaterial in this case and merely formal, and...cannot appear as essential to anyone, unless he be wholly unfamiliar with the actual nature of the problem.[50]

The analogy with price rises by retailers who sell wage goods to workers is apt. If almost 20 percent of disposable income went towards debt-servicing in the US by 2007,[51] this means that it has become more expensive for the system to reproduce labour power. To the extent that wages rise to account for this, it is a mechanism that shifts surplus value from capitalists concerned with production to those concerned with lending money, just as an arbitrary rise in the price of bread would (if wages rose correspondingly) shift surplus value to bread-producing capitalists. To the extent that wages are held down, it represents an increase in overall exploitation of workers, just as an arbitrary rise in food prices would under conditions of wage repression. And to the extent that workers default on their debts, whether credit cards or subprime mortgages, it represents a decline in a market in fictitious capital, with banks (and others) holding claims over future wage income, some of which turn out to be worthless. Whatever happens, the generation of surplus value within capitalist enterprises remains central to the system as a whole.

David McNally

Of those Marxists who offer accounts stressing wider economic processes, rather than financialisation, I intend to concentrate on those who see the period since the 1970s as one in which capitalism has been unable to resolve underlying problems in accumulation. There are, however, exceptions. A recent paper by David McNally argues that the crisis cannot be understood simply through a focus on financialisation, which is "unable to explain why this crisis has not been restricted to financial markets, or to probe its interconnection with the problems of global over-accumulation". [52] But he also rejects the notion that crisis "is just the latest manifestation of a crisis of profitability that began in the early 1970s".[53]

He substantiates this by referring to Fred Moseley's figures showing a restoration of profit rates.[54] However, there are different estimates of profitability. According to the method used by Robert Brenner, in the US the return on fixed capital has oscillated around 10.5 percent since 1974, down from an average of around 14 or 15 percent in the preceding period.[55] Other major economies such as Japan and Germany also seem to have witnessed similar falls.[56] Andrew Kilman gives average rates of profit in the US of 28.2 percent for 1941-1956, 20.4 percent for 1957-1980 and 14.2 percent for 1980-2004.[57]

The evidence suggests only a partial restoration of profitability, driven, in particular, by increased exploitation. McNally argues that this underpinned a new period of accumulation that "enabled capitalism to avoid a world crisis for 25 years"—specifically from the recession of the early 1980s through to the current crisis.[58] This accumulation was, for him, centred on East Asia up until the East Asian crisis of 1997-8. After that continued growth was premised on a bubble of credit, particularly credit supplied by the same East Asian economies, rather than rapid accumulation. In other words, McNally changes the start date for the period of financialisation and credit-driven growth from the early 1980s to 1997.

There are, however, several problems with his periodisation. First, it is not clear that the rapid accumulation in East Asia was concentrated in the period from 1981 to 1997. Chinese growth rates remained high even after 1997, a "paradox" that McNally himself recognises.[59] By contrast, Japan, the biggest East Asian economy, grew steadily in the 1980s but then stagnated after 1991, something strangely elided in his account. Second, the world system may have avoided a crisis on the scale of the current one for 25 years, but there was a serious crisis in the US in 1990-1 and another in 2000-1.

Third, McNally does not sufficiently explore the relationship between accumulation in East Asia and the larger Western economies. Is there evidence that somewhat increased profitability in the West led to a wave of investment in East Asia concentrated in the period before 1997? This certainly does not seem to hold for the 1980s when, for instance, foreign direct investment into the East Asian economies remained fairly constant and low relative to investment in the major OECD economies.[60]

Fourth, McNally's claim that "financialisation" took off after 1997 is dubious. While the East Asian economies certainly helped fuel credit growth in the US after 1997, for instance by building up large reserves of US Treasury bonds, many of the elements that would be carried to grotesque proportions in the run-up to the current meltdown were already in place. The first sharp rise in the US debt to GDP ratio was between 1981 and 1987, followed by a second sharp rise from 1997, which accelerated after 2001. The rise in the financial share of corporate profits took place in two bursts, the first in 1985-1994, the second from 2001.[61]

The Monthly Review school

Writers associated with *Monthly Review*, an influential journal of the US left, stress the stagnation of late capitalism, rather than its dynamism. The journal has regularly reported on the crisis, and a collection of recent articles by John Bellamy Foster and Fred Magdoff has been published as a short book.[62]

The authors pay serious attention to the growth of finance, providing a detailed analysis of consumer debt in the US and of mechanisms associated with financial speculation. But unlike many such accounts, this growth is seen as a result of problems faced by the wider economy and is not seen as representing a new stage: "Although the system has changed as a result of financialisation, this falls short of a whole new stage, since the basic problem of accumulation within production remains the same".[63]

This "problem of accumulation" is, for Foster and Magdoff, the one first identified by Paul Sweezy and Paul Baran in the 1960s: that post-war capitalism contains an inherent tendency towards stagnation. This was, for them, driven by the formation of monopolies that could manipulate prices, creating surplus profits that the system struggled to absorb. The result was productive overcapacity, and hence slowing investment, along with the growth of areas of "waste" spending such as arms production to absorb this surplus.[64] The massively overblown financial system represents another such waste area.[65]

In many ways the pioneering analysis of *Monthly Review* (MR) paralleled that of *International Socialism* (IS), as developed by Tony Cliff, Mike Kidron, Chris Harman and others, and a greater interaction between these two traditions would strengthen both.[66] But the MR tradition seems to suffer from three drawbacks relative to this IS tradition. First, for MR, crisis is seen as a result of limited consumption. The roots of this go back to Paul Sweezy's writings:

The process of production is and must remain, regardless of its historical form, a process of producing goods for human consumption...means of production are never produced except with a view to their ultimate utilisation, direct or indirect, in turning out consumption goods... The real task of an underconsumption theory is to demonstrate that capitalism has an inherent *tendency* to expand the capacity to produce consumption goods more rapidly than the demand for consumption goods.[67]

But in a Marxist framework the demand for output comes from *both* consumption *and* investment in means of production, and some of the latter will be used to produce yet more means of production, and so on—this source of demand being limited by the rate of profit. Underconsumption (or overproduction) is best viewed as a symptom of crisis rather than the cause.[68]

However, Foster and Magdoff, working in a framework that assumes monopolies manipulate prices to boost their "surplus", have little place for Marx's "law of the tendency of the rate of profit to fall".[69] Their stress on limited consumption allows the authors to rely heavily on John Maynard Keynes, Michal Kalecki and subsequent left Keynesians for their general account of crisis.[70] This means, for instance, that while the IS stressed the development of waste areas such as arms spending as a means of draining surplus value away from accumulation, and so reducing the downward pressure on profit rates, Foster and Magdoff stress the role of arms spending as a boost to demand that could offset underconsumption.[71]

Second, the MR tradition can overemphasise the tendency to stagnation. Their analysis relies upon the idea that the formation of giant firms prevents the entry of potential rivals into a sector of the economy because they cannot raise the funds necessary to break into the market. But this overlooks the capacity of financial systems to draw such funds together if sufficient profits seem to be on offer—often doing so with the backing of the state, as with the rise of Japan, the "Asian Tiger" economies and then China.[72]

Faced with these challenges, even the US economy restructured to an extent after the crisis of the 1980s and again in the mid to late 1990s.[73] The MR tradition seems little interested in these forms of competitive struggle, in part because it holds a particular vision of inter-imperialist rivalry. Imperialism is seen primarily as the plunder of the Third World, rather than a system of conflict between rival national capitalisms within a system that develops unevenly.[74] Foster and Magdoff explain that they have limited the analysis in their collection of essays to US capitalism[75]—but it is impossible to explain the trajectory of the world system without taking imperialist rivalry into account.

Finally, while the MR tradition has the great strength of drawing attention to the changes in capitalism, these need to be integrated together with Marxist value theory. However, the MR tradition, in assuming late capitalism to be characterised by monopoly rather than competition, which was for Marx what enforced the law of value,[76] have relegated the role of value theory to a secondary position. As Harvey, citing Sweezy and Baran's *Monopoly Capitalism*, writes:

The transition from competitive to monopoly to state monopoly forms of organisation certainly appears to represent a movement away from the "authority" of competition and therefore a movement away from the regulatory power of the law of value. Some Marxists have drawn such a conclusion. Baran and Sweezy, for example, argue: "We cannot be content with patching up and amending the competitive model which underlies [Marx's] economic theory... In an attempt to understand capitalism in its monopoly stage, we cannot abstract from monopoly or introduce it as a mere modifying factor; we must put it at the very centre of the analytical effort." The abandonment of the "competitive model" in Marx certainly does entail abandoning the law of value—which, to their credit, Baran and Sweezy are fully prepared to do. The trouble is that we cannot withdraw this, the linchpin of Marx's analysis, without seriously questioning or compromising all of the other Marxian categories.[77]

Robert Brenner

Robert Brenner is another Marxist who has looked in detail at recent empirical trends within the capitalist system. He has also, in a number of talks and articles, set out an eloquent and detailed analysis of the current crisis. He is critical of the notion that this is simply a crisis of financialisation:

It's understandable that analysts of the crisis have made the meltdown in banking and the securities markets their point of departure. But the difficulty is that they have not gone any deeper. From Treasury secretary Paulson and Fed chair Bernanke on down, they argue that the crisis can be explained simply in terms of problems in the financial sector. At the same time, they assert that the underlying real economy is strong, the so-called fundamentals in good shape. This could not be more misleading.[78]

He sees a low level of investment since the 1970s as originating from low profit rates: "The declining economic dynamism of the advanced capitalist world is rooted in a major drop in profitability, caused primarily by a chronic tendency to overcapacity in the world manufacturing sector, going back to the late 1960s and early 1970s".[79] The slowdown in investment and repression of wages as corporations attacked workers led to low levels of demand, with the gap being plugged by increasing levels of debt. A series of stock market and financial bubbles helped to keep the system moving forwards.[80] But profit rates were only partially improved: "Non-financial corporations...raised their profit rates significantly, but still not back to the already reduced levels of the 1990s".[81] So, for Brenner, the crisis we are seeing today is a deferred crisis, one that would have broken before, had not various counteracting mechanisms come into play.

There are many similarities between Brenner's framework and the IS tradition, particularly his emphasis on low rates of profit. But there are also differences. Notably, Brenner sees low profitability as rooted in overproduction and overcapacity, brought about by competition between blocs of capital with investments of fixed capital of differing age and efficiency.[82] As new capitals with more advanced and efficient fixed capital enter a sector, those with older "sunk" investment engage in price-cutting to maintain market share or suffer from excess capacity—either way the profit (the return on the *total* investment made by the capitalist) falls. Brenner concentrates on US manufacturing, where there was significant competition from Japanese and German exports from the mid-1960s, and suggests that a fall in profit rates in this area then impacted upon the wider profitability of the economy.

There are problems with such an account. For one thing, as Fred Moseley points out:

Ironically, Brenner's theory is fundamentally the same as Baran and Sweezy's theory in *Monopoly Capital*, even though, superficially, they appear to be opposite theories. The basic assumption in both theories is that *the rate of profit is determined by the degree of competition* (inversely) or the degree of monopoly (positively) in the economy... For Marx...the degree of competition or monopoly in individual sectors affects only the distribution of the total amount of profit among those sectors; it does not affect the total amount of surplus value or the general rate of profit.[83]

In other words, even if it is the case, as Brenner argues, that intensified competition in manufacturing reduced prices in this sector, this in turn would reduce the price of inputs for capitalists who use these

manufactured goods—and could be expected to raise the profit rates in other areas of the economy. To claim that a reduction of competition in manufacturing would solve capitalism's problems is wrong, even if it could redistribute some surplus value to manufacturing from other areas of the economy.[84] In addition, Anwar Shaikh has shown, in a painstaking empirical study:

There is little evidence of any impact on relative prices from "overcompetition", and their movements do not in any case correlate with those in profitability. Equally importantly, persistent "overcapacity" cannot explain the secular fall in profit rates, because they exhibit persistent downward tendencies even when (partially) adjusted for variations in capacity utilisation... The empirical results strongly indicate that secularly falling profitability is an intrinsic feature of post-war accumulation in all three dominant capitalist countries [Germany, Japan and the US].[85]

An alternative explanation of this trend is required. For Marx, the tendency for profit rates to fall was based on a rising organic composition of capital (roughly the ratio of investment in plant, equipment and raw material to that in wages). This squeezes out the source of surplus value (what Marx calls "living labour"), relative to overall investment. Unfortunately, Brenner rejects this explanation, believing it to be paradoxical that capitalists would "adopt techniques that *decrease their own rate of profit*".[86]

But it might be perfectly logical for the first capitalist in a sector to make a productivity-raising investment, driving down the value embodied in the individual commodities they produce, because this would allow them to undercut rivals, grabbing market share and boosting profitability in the short term. It is the succeeding process in which the innovation spreads through a particular sector, driving down prices, that puts pressure on profit rates. Eventually, every capitalist in a particular sector would have to introduce the new technology, because, even though the resulting rate of profit is lower, failure to do so means that they cannot compete with rivals by charging the new, lower price—and the reduced profits now on offer are better than no profit at all.[87]

Having rejected this Brenner is left with a detailed narrative focusing on the rise and fall of rival blocs of capital locked into competitive struggle in a particular phase of the system's development. But what is required is both a general account of the tendencies towards crisis, based on Marx's value theory, and an account of the "specific structural forms taken by capitalism during its history", which shape how these tendencies work themselves out.[88] I will turn next to two theorists who have sought to apply Marx's law of the tendency of the rate of profit to fall to contemporary capitalism, before looking at the IS tradition's account of the historical development of the system.

Andrew Kliman

Andrew Kliman has, like Brenner, argued that the current meltdown is rooted in a long-term failure of capitalism to shrug off problems that emerged from the 1970s: "The crisis is rooted in the fact that capital was not destroyed to a sufficient degree during the global economic slump of the mid-1970s".[89] This follows Marx, who saw crisis as a mechanism through which the capitalist system can restore profitability and temporarily work out the contradictions that build up in periods of growth:

From time to time the conflict of antagonistic agencies finds vent in crises. The crises are always but momentary and forcible solutions of the existing contradictions. They are violent eruptions which for a time restore the disturbed equilibrium.[90]

The collapse in the price of machinery, raw materials and other inputs during a crisis, along with the failure of whole companies (and attacks on wages and conditions of workers), can boost the profitability of firms that survive:

If a business can generate $3 million in profit annually, but the value of the capital invested in the business is $100 million, its rate of profit is a mere 3 percent. But if the destruction of capital values enables new owners to acquire the business for only $10 million instead of $100 million, their rate of profit is a healthy 30 percent. That is a tremendous spur to a new boom. Thus the post-war boom which followed the massive destruction of capital that occurred during the Great Depression and World War Two came about as a result of that destruction.[91]

Kliman makes a distinction between an "observed" and an "underlying" rate of profit. He claims that the latter is a mathematical limit governed by two variables—the rate of growth of living labour and the rate at which value is accumulated—which Kliman believes are both more or less constant.[92] The observed rate will tend to fall towards this limit, before being boosted by the destruction of capital in crisis—if this destruction of capital is able to take place. Kliman's formulation is essentially a mathematical proof of the direction profit rates should move in, rather than a description of their concrete movements. There seems little reason to believe that the accumulation rate and expansion of living labour will stay constant in the short term, but Kliman believes that they may be trendless when considered over long historical periods.[93] It appears that his argument is directed against the large number of Marxist theorists who have rejected the law of the tendency of the rate of profit to fall altogether.[94] But for those who already accept this tendency, which would include

most of those who have written in this journal in recent years, a focus on actual movements of the organic composition of capital, which in turn imply changes to profit rates, may be more useful.

Kliman's central point about the destruction of capital stands, whatever approach is taken and, of course, begs the question of why the contradictions did not work their way out of the system.[95] Kliman points to the reluctance of policy makers to allow the current crisis to destroy capital.[96] This in turn needs to be embedded in an account of the trajectory of capitalism since the Second World War, showing why this reluctance is greater than it was in previous crises, a point I shall return to below.

Anwar Shaikh

Anwar Shaikh is the Marxist theoretician who, perhaps more than any other, has stressed the centrality of the rate of profit to the dynamics of the system. For Shaikh the current crisis is a "structural crisis that had been postponed or turned into a false boom". The period since the 1970s has been one in which the amounts of profit generated by the system have risen but profit *rates* have been "essentially stagnant".

The additional point added by Shaikh's analysis is that it is necessary to look at sustained shifts in interest rates alongside profit rates in order to understand the accumulation that did take place in recent decades. "What stimulates accumulation is not the profit rate but the profit rate net of the cost of borrowing capital, ie the interest rate. If the profit rate is flat and interest rates are falling, the incentive to accumulate is kept alive, though it's kept alive artificially." The prime rate (the interest rate that businesses care about) tended to rise gradually from the end of the Second World War, with the rise accelerating sharply in the late 1970s and early 1980s, before beginning a gradual long-term decline.[97]

This created a "false boom" based on "profit of enterprise"—the term used by Marx in the third volume of *Capital* for profits net of interest payments. The long decline in interest rates also allowed consumer debt to grow for a period without, at least initially, massively increasing the debt repayments made by workers.[98]

Pulling the insights together

What is required is an analysis of capitalism as it ages combined with the rigour of Marx's value theory, drawing on the insights of many of the theorists I have surveyed.

Aging capitalism leads to the growth of unproductive and "waste" areas of economies. For instance, the IS tradition emphasised the role of arms spending during the long post-war boom. Military rivalry between the two Cold War superpowers, which maintained high levels of arms spending following the Second World War, created a "permanent arms economy".[99] This spending could stabilise the system as a whole by functioning as a "leak" out of the circuit of capital and thus draining off surplus value that otherwise would have been accumulated.[100]

The permanent arms economy contained the seeds of its own collapse. The boom period also saw the rise of "non-militarised state capitalisms" (notably Japan and Germany), which spent less on defence. They could invest a greater proportion of surplus value in export industries, undercutting the major arms spending economies in these areas by engaging in price competition. In the wake of the rise of these powers, and reductions in the defence budgets of the US and USSR, arms spending, though still high in absolute terms, ceased to keep pace with the growth of the world economy.[101]

Other forms of spending that are not directly productive of surplus value have also grown, and done so more evenly across the advanced capitalist economies and without subsequently declining. These include unproductive expenditures, for instance advertising.[102] There are also areas that might be described as "indirectly productive", such as public healthcare and education, which do not directly yield surplus value but which are essential to the reproduction of the kinds of labour power required in a modern capitalist economy.[103]

The rise of waste can stabilise the system but it is also a burden on the particular capitalist economy in which the waste spending takes place. Fred Moseley, for instance, believes that the rise of unproductive labour had as great an impact in reducing the US profit rate from the late 1940s to the mid-1970s as the rising organic composition of capital.[104]

In the post-war period the system did not grow as rapidly as it might have if all the surplus value had been accumulated in productive areas. However, nor did the ratio of investment to labour grow, or the rate of profit fall, as rapidly as it would otherwise have done. It was this that allowed the boom that followed the Second World War to extend for an unprecedented duration. When from the mid-1970s onwards crisis returned, it impacted upon a world that had been transformed during the long boom. In particular the units of capital—the firms within the system—had become larger through the processes of concentration (the gradual accumulation of capital) and centralisation (mergers and takeovers) identified by Marx.[105]

This meant that the very mechanism that clears out the system and restores it for a time to some level of health—economic crisis—had become more dangerous for the system. The collapse of one or two giant

multinationals now posed the risk that profitable sections of the economy could be dragged down alongside unprofitable sections. The firms that made up the economy had also become more deeply intertwined with the state and financial system, and indeed the recent growth of finance has exacerbated the problems.[106] The growing dangers explain the recent panic over the implosion of Lehman Brothers and the way the state has intervened to manage the restructuring through bankruptcy of the US car giants GM and Chrysler.[107]

The unwillingness of capitalist states to allow crisis to sweep through the system does not imply a collapse into permanent stagnation. Capitalism remains a system of competitive accumulation, along with imperialist rivalry, even if large firms have more freedom to determine prices until competitors harness the resources required to enter a market.[108] But unless there is destruction of capital on a sufficient scale, a sustained boom for the system as a whole, as opposed to temporary and localised booms, is unlikely—and periods of stagnation across areas of the system a real possibility.

As Kliman and Brenner argue, a sufficient destruction of capital certainly did not take place in the 1970s or early 1980s. Instead mechanisms came into play that deferred the crisis at the cost of generating growing contradictions that permeated the system. There was a dramatic increase in the rate of exploitation from the 1980s onwards. This is reflected, for instance, in the extension of the working year in America, to the extent that "in manufacturing the average worker put in nearly two weeks more in 2002 than in 1982".[109] The offensive on labour allowed for a partial, but only partial, restoration of profit rates.[110]

Finance, fictitious capital and real accumulation

The other mechanism deferring crisis was the growth of finance as capitalists and some states sought investment opportunities beyond the rather unprofitable productive economy. This had three effects.

The first was to prevent a crisis arising from the inability of firms to sell their output and so "realise the surplus value" embedded in the goods and services produced by the system.[111] If profit rates are high, limited consumption by workers is not a problem because there is plenty of demand for machinery, raw materials and so on. In a period of low profitability—and therefore low average levels of investment—the restriction of workers' wages can create huge problems. The growth of debt, especially personal debt in economies such as the US, allowed consumers to form a "market of last resort", providing the demand to keep capitalism in business.

The second effect was to create the illusion of profitability and dynamism through asset price bubbles. As profits sought an outlet in the world of finance there was a process of accumulation of what Marx calls "fictitious capital". Fictitious capital does not mean capital that does not exist, or necessarily imply fraud of some kind. Rather it is investment in "paper claims" over a share of value to be produced. The fact that fictitious capital entitles the owner to a stream of income makes it *appear* like real capital that a capitalist might throw into production to generate surplus value or loan out at the going rate of interest.

One classic example would be the bonds issued by governments, which entitle the owners to a share of future tax revenue; another would be the shares issued by companies that entitle shareholders to dividends that are a portion of the surplus value generated by the company.[112] Marx points out that, even when the paper claim "does not represent a purely fictitious capital...the capital-value of such paper is nevertheless wholly illusory". In other words, if we are dealing, for instance, in shares in a productive enterprise, the paper is merely a "title of ownership which represents this capital". Marx cautions against the illusion that the titles *are* the actual capital: "Capital does not exist twice, once as the capital-value of titles of ownership (stocks) on the one hand and on the other hand as the actual capital invested, or to be invested, in those enterprises".[113]

Fictitious capital can be traded. Indeed, Marx argues, it circulates according to "its own laws of motion", different from the laws of motion of real capital.[114] The market prices of shares might rise and fall depending on how the income flowing from them compares with that which can be obtained from other sorts of investment. Because the price of shares and other examples of fictitious capital can fluctuate in this manner, investors may also start to speculate—purchasing them in the expectation that their prices will rise and they can later be sold at a profit. In an economic "bubble" investors outbid each other in the chase after such claims and, in the process, raise their prices. So, for instance, shares in a company can be pushed well above the level represented by the actual value of the plant and equipment it owns.

The process of "fictitious accumulation" associated with rising asset prices could boost the balance sheets of the firms involved, especially financial corporations, creating the illusion of profitability.[115] In addition, although fictitious accumulation in itself produces nothing, it could spur some development of productive areas of the economy, which can add to the sense of dynamism. (For instance, the workers who serve coffee at the Starbucks branches that have sprung up across the City of London are productive workers, even if their customers are often not.)

The third effect of the growth of finance was to further reduce the pressure for profit rates to fall. One reason for this is that the growth of the financial sector is in itself a growth of waste. The investment that goes into buildings or wages in the financial sector is unproductive—it does not lead to the generation of new surplus

value and is therefore a burden on productive capital. It constitutes a "leak" from the system in much the same way as arms spending did in the post-war boom.

However, not all the money harnessed by finance represents such a leak. In the traditional Marxist picture banks gather "interest-bearing capital" which they loan to industrial capitalists, who then use it to generate surplus value, some of which then goes to the bank as interest. When this happens, "fictitious accumulation" translates into real accumulation.[116]

If, as Lapavitsas and others have argued, banks are increasingly interested in lending to workers rather than industrial capital, how does this modify the picture? The lending gives banks a claim over workers' future earnings. This has the effect of raising the rate of exploitation of the workers, unless they succeed in forcing their employer to pay higher wages, in which case the employer in effect pays for the interest on the workers' loans through a reduction in their surplus value. The bank then has the possibility of using the interest payments for productive investment.

But there is nothing automatic about finance flowing towards productive ventures, rather than speculation. For instance, mortgages and other debt have, over recent years, been repackaged as securities with names such as "collateralised debt obligations". Capitalists could then gamble on the future value of these. Derivatives called "credit default swaps" were created, which insured against people defaulting on their loans. These too became subject to speculation.[117] More generally, as a whole series of markets in fictitious capital were created or expanded, with increasingly tenuous relationships to the generation of surplus value in the wider economy, the market prices of these assets lost touch with the underlying process of value creation.[118] As long as the resulting speculative bubbles were growing, these markets could act as a temporary a "reservoir" for surplus value (as opposed to a permanent "leak" because some of this value could, in principle, find its way back into production, for instance if assets were sold and the money ploughed into a productive firm). As each bubble collapsed, another one had to be blown on an even greater scale. But crisis always threatened to force markets in fictitious capital back into line with the prospects for value production in the wider economy.

The destruction of fictitious capital goes hand in hand with the wider devaluation of capital through crisis. In principle it can help pave the way for future expansion by removing a burden on productive capital, by accelerating the processes of restructuring through crisis (for instance, by firms taking over failing rivals whose share price has collapsed) and by removing some of the claims on future value.[119] But in practice it is increasingly hard to disentangle fictitious accumulation from real accumulation. If banks that have speculated unwisely go bust, they can drag down firms that have borrowed to invest in production. If financial institutions that are seen as central to the system have lost money and are threatened with collapse, states may step in to bail them out, and they will expect either productive sectors of the economy or workers to pick up the tab.[120]

So the collapses taking place in finance are adding to the trauma of the productive sectors of the economy, even as the chronic problems afflicting these sectors for 30 years are exposed and the credit dragging the system forward is withdrawn. Financial expansion is best seen as a "counteracting tendency", deferring crisis, but one of a transitory nature. The price paid for this temporary fix was the creation of enormous imbalances within the economy—including the growth of unsustainable levels of debt, soaring financial and trade imbalances such as those between China and the US, and the formation of economic bubbles on an enormous scale. These features of the previous period help explain why, when the deferred crisis eventually broke, it did so with enormous speed, global reach and coordination, and with such terrible severity.

Notes

1: This has been the object of some fascination in the mainstream press, which has reported a seven-fold increase in sales of Marx's Capital in Germany, the success of a Manga comic version of the work in Japan and now a musical, currently in production in Shanghai, which, according to the director, "will bring Marx's economic theories to life in a trendy, interesting and educational play that will be fun to watch".

2: For instance, Graham Turner's recent book (2008) or, from a more right wing perspective, Martin Wolf's latest work-see Callinicos, 2009. On Turner's book, see also Murphy, 2009.

3: Willem Buiter, "The Unfortunate Uselessness Of Most 'State Of The Art' Academic Monetary Economics", Maverecon, 3 March 2009, http://blogs.ft.com/maverecon

4: For an illuminating discussion of the International Socialist tradition in political economy, listen to Alex Callinicos's recent seminar on the subject-available from www.isj.org.uk/?s=resources#alexseminar

5: Blackburn, 2007a. The article was written in the wake of a short and sharp decline in stock markets on 27 February 2007. The warning by a "Lehman Brothers analyst" was particularly ironic. A year and a half later

Lehman Brothers' exposure to toxic assets caused it to implode in the largest bankruptcy in world history-six times bigger than the previous record (WorldCom) and ten times bigger than Enron.

6: "Subprime Sickness", Financial Times, 23 February 2007. By September 2008 the last two surviving Wall Street investment banks had changed their status to that of commercial banks.

7: See for example Blackburn, 2007b.

8: Harman, 2007, pp157-158.

9: Blackburn, 2006, p44.

10: Marx, 1972, pp338-343; Lapavitsas, 2003, pp66-70. And, historically, credit pre-dates productive capital: "Interest-bearing capital, or, as we may call it in its antiquated form, usurer's capital, belongs...to the antediluvian forms of capital, which precede the capitalist mode of production"-Marx, 1972, p593.

11: Harvey, 2009, p18.

12: I argue the latter in Choonara, 2008.

13: Blackburn, 2006, p39.

14: Mann, 2009, p120.

15: Blackburn, 2009, pp129-130. Blackburn draws on Turner, 2008, to make this argument. But while the great strength of Turner's book is to root credit bubbles in wider economic patterns, in particular wage repression, from a Marxist perspective it is also necessary to consider tendencies arising from accumulation, in particular Marx's famous law of the tendency of the rate of profit to fall. Blackburn also claims that his account is framed by the writings of the Marxist authors Robert Brenner, Andrew Glyn and Giovanni Arrighi (see, for instance, Blackburn, 2008, pp65-66) but there are important differences between these theorists precisely over questions such as the cause of the decline in profitability. So, for example, Moseley, 1999, pp132-133, contrasts the approaches of Glyn and Brenner.

16: Blackburn, 2008, p85.

17: As we were going to press we were saddened to hear of the death of Peter Gowan after his courageous battle with cancer.

18: Gowan, 2009, p5. He argued that this break with the "common sense" meant that "real actors" such as US homeowners were not responsible for the crisis and that "new actors" based on a "New Wall Street System" were to blame. But this seems to beg the question of whether some of the "old" capitalist actors in the wider economy (as opposed to US workers) were also to blame-Gowan, 2009, p6.

19: Panitch and Gindin, 2009, puts forwards a position similar to Gowan's: "The current economic crisis has to be understood in terms of the historical dynamics and contradictions of capitalist finance...the origins of today's US-based financial crisis are not rooted in a profitability crisis in the sphere of production." Elsewhere, these authors have argued that the development of the "New Wall Street System" effectively resolved the crisis of profitability of the 1970s. See Panitch and Gindin, 2006, and the response Callinicos, 2006.

20: Gowan, 2009, pp7-9.

21: Gowan, 2009, p21. See also Brenner, 2004, where the emerging system of "Stock Market Keynesianism", as he puts it, is explicitly seen as a response to the failure of profit rates to recover.

22: Blackburn, 2006, p39.

23: Gowan, 2009, p7.

24: Blackburn, 2008, p69.

25: By "productive economy" I mean, following Marx, the areas of the economy producing surplus value, the basis of profit and interest payments.

26: Husson, 2008, p2.

27: Harman, 2008a, is a particularly vehement rejection of such accounts.

28: Blackburn, 2006, p43. See also Lapavitsas, 2009b, p20.

29: Harvey, 2005, p33.

30: Gowan, 2009, p21.

31: Blackburn, 2008, p84.

32: Blackburn, 2008, p106.

33: Mann, 2009, p126.

34: Blackburn, 2009, p128.

35: Blackburn, 2009, pp133, 134.

36: Lapavitsas, 2008a, p11.

37: Lapavitsas, 2008b, p19. See Lapavitsas, 2009b, pp14-19, for a more lengthy discussion.

38: Lapavitsas, 2009a, p13.

39: Although, again, the trends are less sharp than sometimes implied. See the graphs in Lapavitsas, 2009a, pp14-17.

40: Lapavitsas, 2008b, pp17-18.

41: Lapavitsas, 2009b, pp12.

42: And many of the innovations required were in place before financialisation took off. See, for instance, Panitch and Konings, 2009, p69.

43: Fine, 2008, p3.

44: Lapavitsas, 2008a, p15.

45: Choonara, 2009, pp29-35.

46: Marx, 1970, pp164-172.

47: Something Lapavitsas, of course, recognises-2009b, p10.

48: Lapavitsas, 2009b, p8. The term "direct exploitation" is especially confusing because Marx uses the phrase to mean exploitation of labourers in production, ie in the opposite sense to Lapavitsas-see, for instance, Marx, 1972, p244.

49: Lapavitsas, 2009b, p13.

50: Marx, 1972, p609.

51: Lapavitsas, 2008b, p19.

52: McNally, 2008, p4.

53: McNally, 2008, p3. Jim Kincaid, 2008, has put forward a much harder version of the argument, claiming, "The basic story of the world economy over the past 25 years has been one of rising profits, and growth in output and levels of capital accumulation. Advances in productivity have not undermined profitability." I have not considered his argument here because it was developed prior to the current crisis, but see Harman, 2008b.

54: McNally, 2008, p4. See, for example, Moseley, 2008, p171. See Moseley, 2003, for the evolution of his account.

55: Calculated from Bureau of Economic Analysis data.

56: For this, and a careful critique of Brenners' method, see Shaikh, 1999.

57: Kliman, 2009, pp3-4.

58: McNally, 2008, p4.

59: McNally, 2008, p10.

60: Liu, Chow and Li, 2006, p3. And even at its subsequent peak, foreign direct investment into East Asia, excluding Japan and South Korea, was substantially lower than flows into the OECD economies. See also, UNCTAD, 2006, pp39, 82.

61: See, for example, the graphs in Foster and Magdoff, 2009, pp47, 55.

62: Foster and Magdoff, 2009. Some of the essays that make up the book are available from www.monthlyreview.org

63: Foster and Magdoff, 2009, p77.

64: See Foster and Magdoff, 2009, pp63-65, for a summary of this account of "monopoly capitalism".

65: Foster and Magdoff, 2009, pp83-84.

66: See Harman, 1984, for an account of the IS tradition.

67: Sweezy, 1970, pp162-186.

68: Carchedi, 1991, pp184-186; Carchedi, 2009; Fine and Harris, 1979, p79. See also Cliff, 2001, p106.

69: They do point out that in crisis capital is "devalued" boosting profitability-Foster and Magdoff, 2009, p20. They follow this up by quoting Marx, who writes, "The real barrier of capitalist production is capital itself." The passage comes from part three of the third volume of Capital, entitled "The Law of the Tendency of the Rate of Profit to Fall". The subsequent sentences have some bearing on the MR analysis: "Capital and its self-expansion appear as the starting and the closing point, the motive and the purpose of production; that production is only production for capital and not vice versa, the means of production are not mere means for a constant expansion of the living process of the society of producers"-Marx, 1972, p250.

70: See for example, Foster and Magdoff, 2009, pp12-20.

71: Foster and Magdoff, 2009, pp42-44.

72: See Brenner, 1999, and the references therein.

73: Harman, 2007, pp151-152.

74: Foster and Magdoff, 2009, pp41, 75-76, 87.

75: Foster and Magdoff, 2009, p21.

76: Choonara, 2009, pp21, 68-70, 77.

77: Harvey, 2006, p141. Sweezy claimed that he had merely "transformed" value theory, but if this is the case, he transformed it beyond recognition. See Howard and King, 1992, p120.

78: Brenner, 2009.

79: Brenner, 2008.

80: See, for example, Brenner, 2004.

81: Brenner, 2008.

82: He provides the most detailed account of his approach in Brenner, 2006, pp27-40. For detailed critiques of this work, see the symposium in issues 4 and 5 of Historical Materialism, in particular Harman, 1999; Callinicos, 1999; Moseley, 1999; Shaikh, 1999; Carchedi, 1999.

83: Moseley, 1999, p139.

84: Moseley, 1999, p145.

85: Shaikh, 1999, p115.

86: See Brenner, 2006, pp14-15, and, in particular footnote 1 where he links his rejection of Marx's account to the "proof" by Okishio. For refutations of Okishio see Kliman, 2007; Carchedi, 1999; Shaikh, 1999.

87: Shaikh, 1999, pp121-122. For an introductory elaboration of Marx's law of the tendency of the rate of profit to fall, see Choonara, 2009, pp68-78.

88: Callinicos, 1999, pp18, 25-28.

89: Kliman, 2009, p1. Earlier Kliman wrote a useful account of the developing crisis for International Socialism (though obviously, like all the articles penned at this stage, it has now been overtaken by events)-Kliman, 2008.

90: Marx, 1972, p249; Choonara, 2009, pp79-82.

91: Kliman, 2009, p1. Brenner, 2009, also puts forward the view that "it's by way of crisis that, historically, capitalism has restored the rate of profit and established the necessary conditions for more dynamic capital accumulation... The current crisis is about that shakeout that never happened." For the role of the Second World War in the recovery from the 1930s, see Freeman, 2009.

92: The precise expression for the limit will depend on how much constant capital is fixed and how much is circulating. See the references in Kliman, 2009, for the maths.

93: Personal correspondence.

94: See Kliman, 2007, chapter 7, for a terrific defence of Marx in the face of this barrage. Carchedi, 2009, also provides a powerful vindication of Marx's explanation of why the profit rate falls.

95: Although there are debates over terminology. According to David Harvey, "Capital that is not realised is variously termed 'devalued', 'devalorised', 'depreciated' or even 'destroyed'. Marx-or his translators-seem to use these terms interchangeably and inconsistently. I shall restrict my own uses of them in the following way. The 'destruction of capital' refers to the physical loss of use-values. I shall restrict the use of the idea of 'depreciation of capital' largely in accordance with modern usage, to deal with the changing monetary valuation of assets... And I shall reserve the term 'devaluation' for situations in which the socially necessary labour time embodied in material form is lost without, necessarily, any destruction of the material form itself"-Harvey, 2006, p84.

96: Kliman, 2009, p1.

97: See, for instance, www.project.org/images/graphs/Prime_Rate_1.jpg

98: Shaikh, 2008; all quotes are my transcriptions from this recording.

99: See, for instance, Kidron, 1970.

100: Choonara, 2009, pp134-137. Harman, 1984, chapter 3, gives a more detailed explanation of the role of arms spending.

101: For instance, US arms spending now represents between 4 and 5 percent of GDP, compared to about 10 percent in the late 1950s. World arms spending was about 2 percent of world GDP in 2007.

102: On the astonishing amounts spent on advertising in the US, see the figures in McChesney, Foster, Stole and Holleman, 2009.

103: Choonara, 2009, pp45-49.

104: Moseley, 2003, pp217-218.

105: Choonara, 2009, pp90-95.

106: "The effect [of the growth of finance] was not to subordinate state capacities to market forces, but rather to make political intervention all the more necessary-not least in fighting fires sparked by financial volatility-as well as more feasible... The result was the step by step construction of a too big to fail regime, whereby intermediaries that were so large and so interconnected that their failure would bring down a significant part of the system could count on the US state, and especially the Treasury, to come to the rescue"-Panitch and Konings, 2009, p72.

107: There has been some "restructuring through crisis" in recent decades-Harman, 2007, pp151-152. Anwar Shaikh, 2008, makes a similar point about the crisis of the 1970s: "You had recovery in the 1980s because of job losses, because of bankruptcies, because of business failures and because of a decline in real wages...which greatly stimulated the profitability of surviving companies." Shaikh contrasts this with the crisis in Japan, which, he argues, the state prevented from sharpening through business failure and which was, consequently, a much more drawn out crisis.

108: Even in the most extreme version of monopolisation-bureaucratic state capitalism as practised in the USSR-in which the law of value was "partially negated", competition reasserted itself through the struggle to produce use-values, in particular weapons, enforcing a drive to accumulate-see Cliff, 1996, chapter 7.

109: Moody, 2007, p34.

110: See Harman, 2007, for a detailed discussion.

111: Marx, 1972, p244.

112: These are the examples given in Marx, 1972, pp465-468.

113: Marx, 1972, p466.

114: Marx, 1972, p465.

115: Although often this was rather opaque. On the kind of financial wizardry practised in the City of London, see Lancaster, 2009.

116: Fine, 2008, p3.

117: Ultimately it was credit derivatives issued by AIG that brought down the insurance giant. For more on the way credit default swaps were exploited by bodies such as pension funds to get round statutory requirements for them to invest only in safe concerns, see Carchedi, 2009.

118: And in some cases the assets created were so complex and unique that markets for them simply did not exist. Those who held the assets had to guess how much they were worth. This has created a situation where many banks hold assets (often off their balance sheets) that have turned out to be worth only a fraction of

their "market" price. It was in this context that the recent announcements by the Bank of America of losses of $15.3 billion and Citigroup of $18.7 billion "confirmed what many experts have long suspected: the subprime losses of 2007 were a bullet that fatally wounded the banks. Many lost so much money on toxic subprime mortgage-related derivatives that they have been essentially insolvent for more than a year"-Financial Times, 18 January 2009.

119: See Perelman, 2008, especially pp29-31.

120: For instance, the British government admits it has lost at least £50 billion bailing out banks.

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