[The informal empire, finance and the mono cause of the Anglo-Saxons]
Michael Roberts, November 12, 2013

I attended the 10th annual Historical Materialism London conference at the weekend. This gathering of Marxist and radical academics generates hundreds of papers on a range of subjects to do with economics, philosophy, social trends, theoretical and otherwise. I presented a joint paper written with Guglielmo Carchedi – but more of that later. This year's conference had as its theme, The Making of the World Working Class, and certainly the emphasis of many papers was on the global aspects of capitalism.

Every year, there is a Deutscher Prize lecture by the author of the previous year's winner of the best radical or Marxist book of the year. Last year, this was won by David McNally for his book *Monsters of the Market* (see my post,). David McNally called his lecture "The Blood of the Commonwealth: War, the State and the Making of World Money", and by many accounts, it was a tour de force, filling in gaps in the Marxist theoretical and historical account of the interrelationship between state and capital in a global system.

So it was no surprise that this year's winner of the best book was The making of global capitalism: the political economy of the American Empire by Leo Panitch and Sam Gindin. Gindin is the former Research Director of the Canadian Autoworkers Union and Packer Visiting Chair in Social Justice at York University and Panitch is Canada Research Chair in Comparative Political Economy and Distinguished Research Professor of Political Science at York University. The two have worked together on many books and publications.

Panitch and Gindin argue that market economies have never existed independent of nation states. The state was necessary for the genesis of capitalism and the state was, and still is, necessary for its historical development and continuous reproduction. The book's primary aim is to challenge the widespread notion that globalisation has led to the retreat of the state. As Marx wrote, capitalism has the capacity to "nestle everywhere and settle everywhere". But there is nothing inevitable in the development and expansion of the system. Through the New Deal and the Bretton Woods framework, the American model was applied to the remaking of capitalist states after the Second World War, with the US dollar becoming the central currency for reconstruction. It was in that period that the American state took responsibility for creating the political and juridical conditions for the general extension and reproduction of capitalism internationally. But they reckon that America did not dictate or impose its will on other states; rather *"it has set the parameters within which the others determined their course of action".*

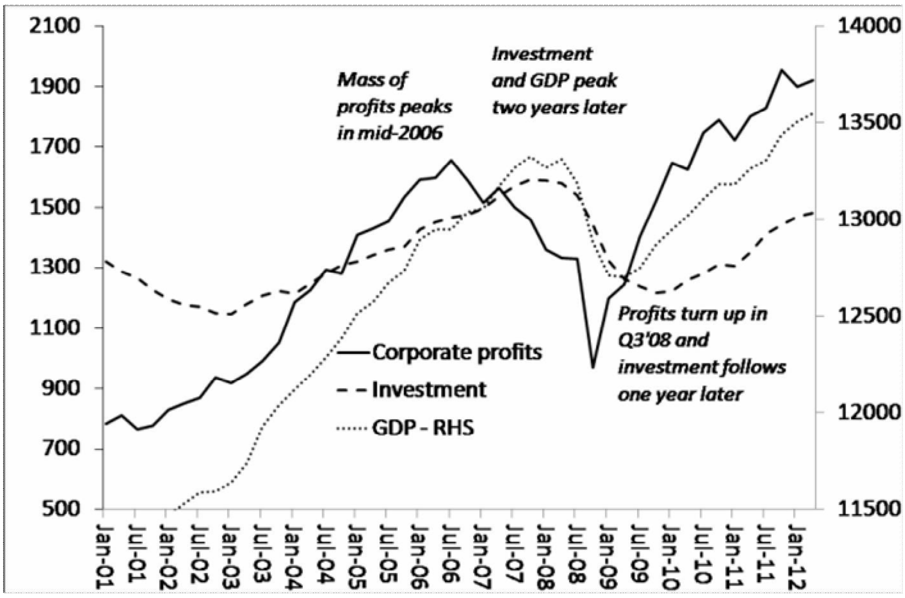
The argument that states still have a role in directing global capitalism is obviously right. America is still the leading imperialist power and leads the other imperialist powers in an 'informal empire'. But in addition, Panitch and Gindin maintain that workers are generally weaker now and the American state and global *"informal American empire,"* has greatly strengthened since the post-1973-83 crisis. But I am not sure that American imperialism is actually stronger now than 50 years ago. Also, the idea that the neoliberal period was also a Golden Age like the post-war period is wrong, if we mean by that fast growth in GDP, high profitability and productive investment. Sure, growth in the 1980s and 1990s was faster than in the crisis period of the late 1960s and 1970s, but it was still slower than in the first Golden Age and investment was way less productive (the evidence for this can be found in my book, *The Great Recession*). Just because in the neoliberal period the finance sector had a bonanza and thus so did American imperialism does not mean it was a golden age, I think.

Another area where I have a strong disagreement is with Panitch and Gindin's theory of capitalist crisis as expounded in the book. It is crucial to their thesis that each crisis is unique depending upon the particular relationships and alliances forged between workers, business, finance, and the state. There have been four major historical global crises, the Long Depression in the 1870s onwards, the

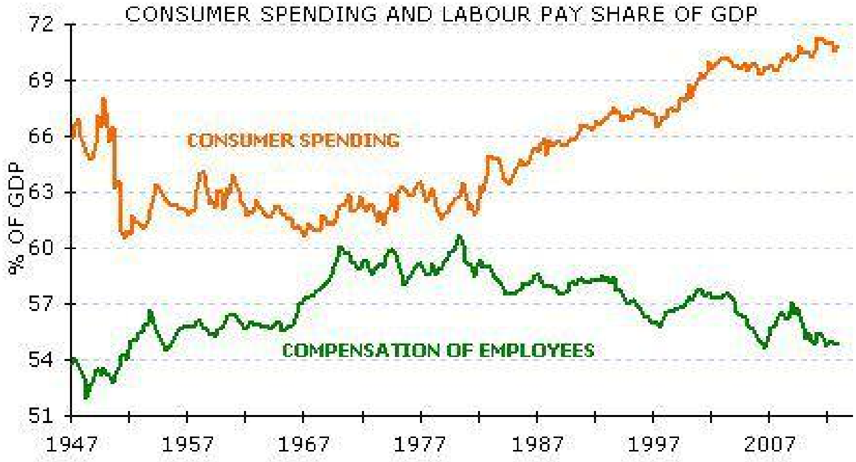
Great Depression of the 1930s, the Great Recession of 1970s, and what they call the Great Financial Crisis of 2007-09. For them, each has a different cause.

This is an argument that was echoed by many at this year's conference (more on that later). As Panitch and Gindin put it in the book: *"Going back to the theories of imperialism a century earlier, that overaccumulation is the source of all capitalist crises, the crisis that erupted in 2007 was not caused by a profit squeeze or collapse in investment due to overaccumulation. In the US in particular, profits and investment has recovered since the early 1980s… Indeed investment was growing significantly in the two years before the onset of the crisis, profits were at a peak and capacity utilisation in industry had just moved above the historic average… it was only after the financial meltdown in 2007-8 that profits and investment declined."* Instead, the authors prefer to explain the Great Recession as a result of stagnating wages, rising mortgage debt and then collapsing housing prices, causing *"a dramatic fall in consumer spending"*.

But this account of the years before the credit crunch of 2007 and the Great Recession of 2008-9 just does not correspond with the facts. As G Carchedi and I show in the paper we presented to the conference (The long roots of the present crisis), US corporate profits were falling some two years before the recession began and investment dropped as a result before GDP contracted. And in the recovery, again it was profits that led investment and GDP up.



Indeed, consumption as a share of GDP had never been higher in 2007. And the subsequent fall in consumption was much milder and later than the huge collapse in investment – so a lack of consumption could hardly be the major cause of the crisis.



The argument that the cause of the global financial collapse of 2007-8 and the Great Recession of 2008-9 was really just a financial collapse and nothing to do with profitability of capital is also a conclusion of another new book, Profiting without producing; how finance exploits us all, by Costas Lapavitsas. Lapavitsas presented his book at an HM session just before Carchedi's and mine. The book's key point is that capitalism has been transformed in the neo-liberal period with the emergence of a financial sector that bears no relation to what Marx experienced in the 19th century. It now gets profit not from interest on lending to corporations but through the exploitation of workers through mortgages and this a huge innovation. Mortgage debt can be flipped on and capital gains can be made again and again. So the financial sector can make huge profits without any connection with the production sectors.

So "Anglo-Saxon Marxists" who are obsessed with the rate of profit and production crises are missing the trick. The Great Recession was not preceded by a fall in the rate of profit, but by a financial crisis in mortgages and securitised debt. And Lapavitsas is ambiguous about whether this profit comes from a deduction from wages or reduced variable capital (although what is new about that – are not taxes a deduction from wages or surplus value?) or from surplus value (i.e. the profits of other capitalists) or is in some way additional to surplus value created in the productive sectors (in which case, in Marxist theory, is it not just fictitious?). But wherever it comes from, it is a new form of profit and so it makes its own crises, according to Lapavitsas.

In this sense, I think Lapavitsas takes the same position as those bourgeois theorists who see the Great Recession as a result of a banking crisis or panic induced by excessive credit, financial speculation and a lack of regulation (see my previous post). The policy conclusion could also be similar to the bourgeois, namely that more regulation or the end of speculative banking might solve these crises. Indeed, the subtitle of the book suggests this when it says that finance *'exploits us all'* (the productive capitalists too?). Lapavitsas, being a good socialist, no doubt would deny this and say his conception has revolutionary implications and anyway he is not denying the contradictions in the production sectors either. But his theory of 'financialisation' does seem to suggest that the crisis is all the fault of greedy bankers directly exploiting the workers rather than due to the contradictions within the whole capitalist mode of production.

Indeed, all these theories that there has been a structural change in the nature of modern capitalism through 'financialisation' seem to lead towards a view that the cause of crises is centred in finance and not in capitalism at large – this is something that a paper by Juan Pablo Mateo Tome has shown (Financialization_theory_of_crisis_JPMT_PERI). And it is the point made by Maria Ivanova in a recent paper (she also presented at this year's HM conference, CONF_2011_Maria_Ivanova MARX and MINSKY).

It seems to me that this new form of financial profit that Lapavitsas analyses is not new at all. Either it is a deduction from the surplus value created by the productive sector of capital (interest-bearing debt) or from workers wages (mortgage debt interest), or it is fictitious profit from an extension of credit (selling on mortgage-backed securities), which eventually must be brought into line with real values through crisis. In that sense, it does not change the nature of capitalist accumulation or exploitation (see Ben Fine's clear paper on this issue, Ben Fine, Locating financialisation, HM 18 2010-1).

It would be more fruitful to try and measure just how much of the rise in profits in the neo-liberal period was actually fictitious and driven by an expansion of financial instruments, thus hiding the reality of falling profitability in the productive sector. This is what Tony Norfield (who also presented at the HM conference) does in his excellent paper Tony Norfield on derivatives and the crisis. Also, in a recent paper to the Australian Society of Heterodox Economists last month, Peter Jones has has tried to identify just how much profit generated by the financial sector since the mid-1980s is fictitious. His measures show that when this fictitious profit is stripped out, the overall profitability in the US has been falling, especially from about the late 1990s. This would support a 'monocausal ' explanation of the Great Recession of 2008.

Nevertheless, the idea that each major capitalist crisis has had a different cause and there is no 'monocausal' theory of crisis remains dominant. Riccardo Bellofiore's contribution on the two Marxist Pauls, Sweezy and Mattick (senior), was very entertaining as he went into lots of anecdotal and personal accounts of his readings of and meetings with Sweezy, Sraffa and others. But his main point was to argue that he had read the letters exchanged between Sweezy and Mattick and concluded in his readings of all their stuff that Sweezy was not really an eclectic multi-causal stagnationist and Mattick was not really a crude 'monocausal' breakdown theorist. According to Bellofiore, Mattick was right about Keynesian policies not really working in the 1970s when the crisis was one of a 'profit squeeze'. But, you see, each major crisis has had a different cause 'within the Marxist paradigm': in the 1890s it was a 'classic' crisis of profitability under industrial capitalism; the Great Depression of the 1930s was a crisis of 'realisation'; the crisis of the 1970s was one of profit squeeze and the current one is a post-Fordist financial credit one. So Mattick was right in the 1970s and presumably Sweezy is sort of right now.

Instead, we 'Anglo-Saxon' Marxist economists remain 'obsessed' with finding the ultimate cause of crises in the production sector and in trying to find a 'mono cause' for the regular re-occurrence of crises. And that is what we try to do in the paper that Carchedi and I presented to the HM Conference. Our paper was originally published in the World Review of Political Economy, Spring 2013 (The Long Roots of the Present Crisis: Keynesians, Austerians and Marx's Law). At the conference, I outlined how we reckoned that the US data show a close connection between the movement in the rate of profit and Marx's law of profitability, including its countervailing factors; and also that the movement in the mass of profits is the driver behind boom and slump (as Peter Jones also shows).

As a result, what is wrong with Keynesian and Austerian explanations of crises and their 'solutions' is a denial of any role for profit in what is after all a profit economy where businesses are money-making machines – and where meeting some people's needs for goods and services is merely a necessary, but not sufficient, side-effect. Nowhere does profit appear in the Keynesian multiplier, which has only investment and consumption as its drivers. But unless profitability recovers, no amount of Keynesian fiscal spending or monetary injections will revive the global economy.