# A MARXIST INTERPRETATION OF THE CURRENT CRISIS

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**Abstract**: This article proposes a Marxist interpretation of the current crisis of capital, mobilizing in particular Marx's concept of fictitious capital. It analyses the origins, manifestations, and effects of the crisis, and presents a critique of the orthodox anti-crisis policies, as well as of the recent so-called return to "Keynesianism." According to the author, there is a very high probability that the present crisis will become more acute as a systemic crisis of capital, since all the conditions are there for that to happen. This will force us to reconsider the alternatives of post-capitalist social transformation, which more and more of us, in spite of our differences, hope to be socialist.

**Key words**: crisis; capitalism; Marxism; fictitious capital; Keynes

A frequent error in interpreting the current crisis is that it would be a financial crisis which is contaminating the sphere of the "real economy." It is, in fact, a crisis of capital, of which one of the most visible and publicized aspects has emerged within the financial sphere because of the extreme degree of financialization of contemporary capitalism. We are dealing with a systemic crisis that is affecting the very heart of the present capitalist world system, i.e., the power centre of high finance which has been controlling capital accumulation over the past three decades. It is not due to conjunctural factors: it is a structural phenomenon (Herrera and Nakatani 2008).

The long series of repeated monetary–financial crises that have successively hit different economies over the past 30 years are indeed part and parcel of the same crisis, since the "financial *coup d'État*" made by high finance (by the unilateral,



المنارة للاستشارات

brutal rise in the interest rate) in the United States in 1979; Mexico in 1982; the developing countries' debt crisis during the 1980s; the United States itself in October 1987; the European Union (including Great Britain) in 1992–93; Mexico in 1994; Japan in 1995; the so-called emerging Asia in 1997–98; then Russia and Brazil in 1998–99; and the United States again in 2000 with the burst of the "new economy bubble"; then Argentina and Turkey in 2000–01, and so on.

The crisis has worsened recently, above all since 2006–07, starting with the hegemonic centre of the world system and becoming generalized, developing into a crisis with socio-economic, political, or even humanitarian dimensions, but also concerning food, energy, or climate—and again and always financial, particularly affecting European countries such as Iceland and Ireland, then the so-(nicely)-called "PIGS," Portugal, Italy, Greece, and Spain. Consequently, it is not "*the beginning of the end of the crisis*" as perceived by some advisers to President Barack H. Obama. It is not an usual credit crisis, nor yet a temporary liquidity crisis, through which the system reorganizes and reinforces itself and begins to function "normally," with a new growth of productive forces in a framework of modernized social relations. Indeed, it appears to be much more serious.

## 1. The Reference to Marx as a General Theoretical Framework

To analyse this particular capitalist crisis, as for capitalist crises in general, it seems to us fundamental to refer to Marx, because, in spite of some difficulties and uncertainties, Marxism, or Marxisms—including fruitful mixtures with other "heterodox" authors (for an analysis of such mixtures, especially in Latin America, see Herrera [2003, 2010b])—provide us with very powerful tools, concepts, methods, and theories for making such an analysis, as also of the political outcomes. It is the strongest and most useful theoretical framework for understanding and analysing the crisis, and above all for comprehending the current transformations of capitalism and trying to clarify the post-capitalist transitions that are opening up and getting under way, for reasons and in conditions that we shall be developing below.

The—unbelievable—fact is that, at the moment, there are few theoretical analyses of crisis within the current dominant economic thinking in economics, i.e., the neoclassical mainstream (Herrera 2006, 2010a). For sure, there is a literature on business cycles, regarding the short-term fluctuations, but, according to us, inadequate for explaining the current crisis. (For a critique of the real business cycle theory, see Herrera [2011]; for an internal critique, see Summers [1986].) More amazing still, "crisis" considered as a structural phenomenon does not appear to exist from a strictly theoretical point of view in orthodox economics, so that most of its standard encyclopaedias do not even contain any chapter or entry

for "crisis." Whether in theory (which for neoclassical economics is a matter of mathematical formalization) or in empirics (which in this same standard economics consists of econometrics), there is scant interest in the subject of crisis. Very little academic, deep work in the neoclassical school is dedicated to it, including at its neo-Keynesian (internal) frontiers.

For the mainstream in economics, money is not integrated into the cycle and dynamic of the reproduction of capital: value equals price and rate of profit equals rate of interest. As a matter of fact, in micro-economics, money does not appear in the Arrow-Debreu version of the general equilibrium theory, while in macro-economics, money is in general considered to be neutral, so that equilibrium is automatic, and crisis thus becomes structurally "prohibited." It is therefore important to bear in mind from the very beginning that the scientific ideology of capitalism does not consider crisis as an object of study, and hence, it cannot understand the crises of capitalism as they are unfolding today.[1]

As the crisis is however a fact that is extremely difficult to deny in practice, those among the neoclassical economists who are interested in studying it do so based on factors that are outside the markets and that disrupt the automatic mechanisms of price correction, such as State interventions, computers' bugs (as most of the financial transaction orders are transmitted by computers, with a reaction time measured in a billionth of a second [i.e., in nanoseconds]), or the excesses in behaviour of certain economic agents (like Madoff's Ponzi–type frauds).

Nevertheless, speculation is not an "excess" or "error" of corporate governance: it is a magic potion against the structural evil of capitalism, a remedy to counteract the tendency for the rate of profit to fall, and it provides outlets to the masses of capital that are no longer able to invest profitably—the bursting of the "financial bubbles" being the price to pay (and to be paid by the people). In the orthodox view of things, the concentration of private ownership and the logic of the maximization of individual profit are not considered as problems in practice. Furthermore, the neoclassical conception of the State remains that of a body separated from the economic sphere and not dominated by the interests of capital. Trade unions exist, at least in theory, but not class warfare. Such interpretations must be discarded, because we know that crises play an integral part in the contradictory dynamic of the expanded reproduction of capital.

Let us be a bit provocative: many heterodoxies become stronger as soon as they come close to Marx. This is so in the case of Keynes (Mattick 1969; Nakatani and Herrera 2010). In his criticism of the neoclassical economists, Keynes has drawn part of his ideas from theoretical sources common with Marx. Both of them reject Say's law. In one sense, Keynes returns to the theory of labour value, obviously without emphasizing it or even mentioning exploitation. In his *Treatise on Money* (Keynes 1930), he takes up the "reproduction schemes" of Volume II



المنارة للاستشارات

of *Capital* (Marx 1964)—probably without being aware of it, because Keynes did not really read Karl Marx, but he knew the Russian Tugan-Baranovski's work on *The Industrial Crises in Contemporary England*—in order to tackle the problem of the crisis from the monetary angle, following the business cycle theories of that period (and therefore in a different way from Marx), concluding that it was insufficient investment (and not savings) that gave rise to the crisis.

Like Marx, Keynes saw capitalism as ending in collapse—if the policies he favoured were not followed—for reasons that were inherent in the system. Looking at it closely, the ultimate cause of the crisis for Keynes was close to the Marxian interpretation. *En dernière instance*, the crisis was to be explained, not so much by the insufficiency of investment—due to a reduction in the marginal efficiency of capital, which is itself linked to the obsolescence of capital and possibly accentuated by the rise in interest rate—as by capitalist competition; that is what Marx calls the internal contradictions of capitalism. Moreover, the definition of profit used by Keynes is closer to that of Marx than to that of the neoclassical theorists. According to Keynes, if the profits diminish, lowered expectations will reduce investment—Kalecki is right in correcting this, when he says that expectations reduce investment plans (Osiatynski 1991). Thus, this will put the economy into crisis, characterized by an equilibrium without full employment and without spontaneous structural adjustments by the markets.

It is therefore necessary to go beyond enquiring into the question of sharing out the added value between wages and profits, as is done by most of the Keynesians (true or false).

## 2. Marx on Fictitious Capital: Some Theoretical Elements

The current crisis was certainly going to happen. For some years now, there has been a certain number of Marxist thinkers who maintain that a devalorization of capital was inescapable, and that it would be brutal and on a large scale.[2] Basically, this crisis could be interpreted in Marxist terms as a crisis of over-accumulation of capital that ensues from the very anarchy of production and leading to a pressure on the tendency for the rate of profit to fall when countering tendencies—including the new ones, linked to new financial instruments, as we shall see—have dried up. This over-accumulation manifests itself through an excess of sellable production, not because there are not enough people who need or desire to consume, but because the concentration of wealth tends to prevent an increasingly large proportion of the population from being able to buy the merchandises. However, instead of it being a question of a standard over-production of goods, the expansion of the credit system makes it possible for capital to accumulate in money-capital which can take forms that are increasingly abstract, unreal, and "fictitious."



المنارة للاستشارات

The concept of "fictitious capital" is important in analysing the crisis (Carcanholo and Nakatani 1999; Nakatani and Herrera 2009). Its basic principle, which is the capitalization of revenue based on future surplus value, as well as its various forms, like banking capital, stock transactions, or public debts, were identified by Marx in his time (Marx 1964). He sketched out the study of this, along with the studies of interest-bearing capital and the development of the capitalist credit system, in Section 5 of Volume III of *Capital*, particularly from Chapter XXV onwards and above all in Chapter XXIX about the "components of banking capital" up to Chapter XXXIII.

The ideas were incomplete—and they remain so still, in spite of the work of important writers (see, among many others, Harvey [1982]). Obviously, things have greatly changed since the times of Marx: money has changed form, becoming even more immaterial; the exchange markets have immeasurably expanded since the system has no longer been tied to the gold standard. Nevertheless, Marx left us key elements that are still useful in comprehending the fictitious movements of capital, which integrate the credit system and monetary capital. Analysis of these leads to that of "expanded reproduction," together with the exorbitant development of ever more unreal forms of capital, as sources of autonomized valuation that appear to be more and more separate from surplus value or appropriated without labour, as though "by magic." Marx talks here of capital functioning as an "*automat*" (Marx 1964)—one could call it an "autocrat," as Marx could, elsewhere, have called the State machinery.

Fictitious capital is above all formed in the credit system, which links capitalist enterprise to the capitalist State. At this intersection are to be found the stock exchanges, the banks, the pension funds, but also the speculative hedge funds that are situated in the tax havens and other similar bodies. More precisely, the most favoured vehicles of fictitious capital these days are securitization, which transforms assets (e.g., receivable claims) into financial securities, and the trade in derivatives, which are "supreme powers" of fictitious capital.

Nevertheless, there are problems here both theoretical and practical, multiple and delicate. Among the theoretical problems, there are, for instance, how to distinguish the different sources of fictitious capital, according to their support from the sphere of the real economy or their detachment from it; or how to show that the profits from fictitious capital are also *real*; or even how to show how these "fictitious profits," which are also real, can be attributed as a countering tendency to the reduction in the rates of profit? In addition, there are also empirical problems: how to demonstrate the origin of fictitious profits; or how to recalculate the rates of profit and to know to what extent fictitious capital plays a part in rectifying the rates of profit; or how to divide the surplus value between the different capitalist fractions?



المنارة للاستشارات

Fictitious capital is by its nature complex, dialectic, and at the same time both unreal and real. Its nature is partly parasitical, but this kind of capital benefits from a distribution of surplus value—its liquidity gives its owner the power to convert it, without loss of capital, into money, i.e., into the "liquidity *par excellence*." So this capital nourishes an accumulation of additional fictitious capital, as a way of remunerating itself (Carcanholo and Nakatani 1999). In a more general way, one of the most serious problems of this subject is the virtual impossibility of formalizing it—whether or not one is a Marxist in economics—without being obliged to separate the "real" and "financial" spheres. And this is not very satisfactory—even if it is true that capital in the form of merchandises and in the form of money must be separated only to become finally inseparable.

Let us return to the origins of the crisis.

## 3. The Origins of the Crisis

The crisis that broke out in the subprime section of the US housing market had been prepared for by decades of over-accumulation of fictitious capital. Thus, one must understand this crisis within the context of a long period of worsening dysfunction in the regulation mechanisms of the world system under the hegemony of the United States, at least since the over-accumulation of money-capital in the 1960s, linked to US internal and external deficits (caused partially by the Vietnam war), to the untenable strains on the dollar and to the proliferation of eurodollars, then petrodollars, on the inter-bank markets.

In this process, certain events played a fundamental role, among them being, in the exchange market, the dismantling of the Bretton Woods agreements because of the US decision, in 1971–73, to abandon the convertibility of the dollar into gold and to de-monetize gold—hence dismantling the system of the gold standard under Nixon (and Paul Volker, now adviser to President Obama) and to introduce flexibility in exchange rates at a worldwide scale (Herrera and Nakatani 2008).

This was the cause of the huge waves of deregulation of the monetary and financial markets that started at the end of the 1970s, especially with the "liberalization" of the rates of exchange and rates of interest. The debt crisis of the countries of the South stems from the rise in the rates of interest of the Federal Reserve Bank (Fed) in 1979 and from the "financial *coup d'État*" through which high finance, essentially that of the United States, re-established its power over the world economy. This means that the deep origins of the current systemic crisis lay in all these processes of deregulation—and then re-regulation by the financial oligopolies—and the integration of the financial markets into a globalized market, which displaced the centre of gravity of world power toward high finance, thus enabling it to impose its diktats on the capitalist world system.



للاستشارات المنارة

In this new "neoliberal" era, the financial markets have been modernized, particularly through the expansion of hedging instruments. These instruments have been made necessary by the flexibility in exchange rates and interest rates in markets that have been progressively integrated. We are talking here about the so-called derivatives, that is to say new contracts supporting transactions, whether firm—with fixed terms (futures), with terms made by mutual agreement (forwards), or by exchange flows (swaps)—or optional—fixing future financial flows as a function of the variations in price of the underlying assets, which could be a rate of exchange, a rate of interest, the prices of shares or raw materials, or a future probabilistic event. All these are technically "hedge" instruments, but in fact they more often serve as speculation strategies, playing on the "leverage effect" by taking a risk based on a limited investment; above all, when they are hybrid and lead to "short sells" (without offset), where the most risky operations can, in theory, bring about mathematically infinite losses (e.g., on "put" options).

As a result, the amounts corresponding to the creation of this fictitious capital have very quickly and broadly overtaken those destined to reproduce productive capital. As an example, in 2006, the annual value of world exports was equal to 3 days of trade in over-the-counter contracts (OTC), i.e., "off-exchanges" negotiated by mutual agreement without intermediaries, therefore outside the stock exchanges, with approximately 4,200 billion dollars traded per day. What does this value mean? It tells us nothing any more, but these 4.2 teradollars are traded by a very restricted number of financial oligopolies, the "primary dealers" referred to by the Fed as the "*G15*": Morgan Stanley, Goldman Sachs, and 13 others.

It is above all those that are called credit derivatives, with their very complex arrangements of credit default swaps (CDS) or collateralized debt obligations (CDO), which have created problems by completely changing the traditional vision of credit and bringing into play several degrees of fictitious capital—of the CDOs of CDO, or CDO to the power of two. These are problems from which we have not yet extricated ourselves, because one of the most recent innovations of finance has been the CDO of $CDO^2$, which means CDO to the power of three. For sure, these are traded outside the stock exchanges, not recorded on balance sheets, and created with almost no precautionary restrictions.

However, it is important to understand the current crisis also and above all in terms of the interactions between the financial and real economy spheres. The contradictions that this crisis has revealed have long-term roots in the exhaustion of the motors of economic expansion after World War II, which has led to these profound financial transformations. In the real economy sphere, the forms of extraction of surplus value and the organization of production had reached their limits; they had to be replaced by new methods (e.g., of the Kanban type) and given new dynamism by technological progress (information technology, robotics,



المنارة للاستشارات

etc.), which has upset the social bases of production, particularly by substituting capital for labour. After a long over-accumulation, concentrated increasingly in the financial sphere in the form of money-capital, excess supply has accentuated the pressures lowering the rate of profit that has been observed from the mid-1960s through the early 1980s. In its (fictive) efforts to resolve this problem, the Fed in the United States, using very tight monetary policy to repress the "real economy," had unilaterally increased its interest rates at the end of the 1970s (October 1979), which marked the beginning of the so-called neoliberal era—this term has no meaning unless it is given class content and attached to the power of the oligopolies of modern high finance.

Certain important factors of the crisis are clearly "real" and linked to austerity: the subprime crisis, which has caused many poor families to find themselves defaulting on their mortgages, is also explained by the neoliberal policies which have been followed for more than 30 years and pursued implacably and which have destroyed wages, made jobs flexible, massively increased unemployment, and reduced standards of living. They are policies which have shattered demand and set in motion mechanisms that have rendered demand artificial and unsustainable.

The neoliberal regime has thus been unable to maintain growth except by doping to death the demand of private consumption while promoting lines of credit to the maximum. It is this exorbitant expansion of credit that has ended by revealing the crisis of over-accumulation in its current form. In a society where increasingly large numbers of individuals are being excluded and without rights, the expansion of outlets offered to the principal owners of capital can only delay the devaluation of the excess capital placed on the financial markets, but it can certainly not avoid it.

The crisis has been caused by the logic of the dynamics that lie at the heart of the US economy with, on the one hand, a re-balancing of the internal and external imbalances created by the draining off of foreign durable capital—which can be seen as an operation by the dominant US classes, tapping the wealth of the rest of the world—and, on the other hand, the greatest concentration of wealth within the United States that has been seen for a century. This can be shown by some statistics: out of total revenues, the proportion of income monopolized by the wealthiest 1% was 10% 30 years ago; it is now 25%. The share of the wealthiest 10% was one-third of the total revenues in 1979, and in 2009, it has risen to a half (see Atkinson, Piketty, and Saez 2011). The tremendous growth of the financial profits—from fictitious capital—of the dominant classes hugely deformed the economy of the United States taken as a whole. In addition, the rate of savings had become negative just before the crisis. Hence, via the sphere of the real economy, we are experiencing the present catastrophe. How does this catastrophe manifest itself?



المنارة للاستشارات

## 4. The Manifestations of the Crisis

The first manifestation of the crisis was a brutal destruction of fictitious capital. In the year 2008, the total capitalization of the world stock exchanges dropped from 48.3 to 26.1 millions of million dollars (or thousands of billion dollars)! This descending spiral in the value of assets was accompanied by a loss of confidence and a situation of illiquidity on the inter-banking market . . . in a world which was over-liquid—the most probable explanation being the insolvency of numerous banks.

As a consequence, in a context in which the prices of composite derivatives and the risks which they carried were increasingly badly assessed—because assessment was impossible (and not to speak of the aberrant behaviour of the rating agencies like Moody's, for example), the problems moved from the subprime housing sector to that of credits of credits (that is to say from fictitious capital of the first degree to fictitious capital of the second degree), then toward solvent loans (the primes), before the bursting of the bubble of the instruments linked to the housing mortgages contaminated the other sectors of the financial markets, and from there, the money market itself. Thus, the whole financial system of the economy became blocked.

The devalorization of capital had a real dimension through the credit crunch and the disappearance of credit, particularly of loans for consumption. Therefore, the economies entered into depression conjuncturally as from 2007, but also, for structural reasons, in a world where the peak had been reached for certain strategic natural resources, with oil being in the forefront, and where the search for new sources of energy poses objective limits to growth—giving rise to pressures to wars. As a result, the economic indicators have been affected: falls in the rate of growth, in trade, and in household consumption; losses of exploitation in industrial companies; unemployment; and losses in housing, savings, etc. A very worrying aspect of this crisis, finally, is the indebtedness of the public authorities, particularly the States (who have partially "nationalized" the private debt) and the consequence difficulties in public finances, including local governments, particularly as regards social budgets (education, health, pensions, etc.), hence the restructuring (through repurchasing and regrouping) of sovereign debts that is currently being discussed.

Crisis and war are very closely linked. First because war is integrated into the cycle, economically, as an extreme form of the destruction of capital, but also politically, for reproducing the maintenance of control by the leading segments of the dominant classes—high finance—over the world system (Herrera 2010c).

During the Cold War, the growth of productive forces was partly stimulated in the United States by military spending and the military–industrial complex,



المنارة للاستشارات

through the arms race and related technical advances (information technology [IT] systems, robots controlled by computers, Internet, etc.). Nowadays, military expenditure remains high, with a fifth of the US federal budget, about 45% of the world's defence spending (Herrera 2013), and over 1,000 bases round the world, and the military–industrial complex continues to play a key role, although from now on under the control of financial oligopolies (Herrera and Cicchini 2013). The ascendancy of high finance over the US armament companies is growing, and this can be seen by the taking over of the ownership structure of their capital by institutional investors which are themselves dependent on the great financial oligopolies. At the beginning of the 2000s, this proportion reached 95% of the capital of Lockheed Martin, 75% of that of General Dynamics, 65% of Boeing, etc. It is the same thing for the private military companies; an increasingly large number of them have passed under the control of high finance as the State "externalizes" its defence activities. Military Professional Resources Inc. (MPRI) has been bought up by L-3 Communications, Vinnell by Carlyle, DynCorp by Veritas, and so on.

Military expenditure has become a major source of profit for capital in a context in which the use of armed forces is the strategy imposed on the world by US high finance as a condition for its reproduction, in which militarization is a mode of existence for capitalism, and in which the role of the (neoliberal) State is fundamental for capital—because it is indeed the State that goes to war on behalf of capital and it is the governmental agencies that allocate astronomical amounts of military contracts to the transnational armament companies (e.g., General Electric, ITT), via their lobbying.

Moreover, it is significant that the wars of Afghanistan and Iraq were launched at a very specific time. Concerning Afghanistan, the year 2001 was already a time of crisis—just as 1913 and 1938 were crisis years. It was a crisis that emerged just as changes were taking place in US monetary policy, following the worsening of the country's internal and external imbalances—the first because of the need for financing linked partially to these wars; the second being due in part to outsourcing, above all to China. Thus, following the slowing down of economic growth in 2000, the Fed greatly reduced its interest rate: from 6.50% in December 2000 to 1.75% in December 2001, then to 1.00% in mid-2003, and it was kept at this very low level until mid-2004. It was precisely at this time—in the context of the Operation Iraqi Freedom (from March 2003 to its conversion into Operation New Dawn) and the coming Operation Enduring Freedom in Afghanistan (launched in December 2004)—when real interest rates had become negative, that the mechanisms of the subprime crisis were set up with greater and greater risk-taking, especially in the housing sector. Then because of the increased pressure caused by the war effort, the Fed—among other decisions, but significantly—had to raise the interest rate



المنارة للاستشارات

again as from mid-2004 (that is a year after the beginning of the Iraq war) to 5.25% in mid-2006. And shortly after this, from the end of 2006, began a massive defaulting on mortgage payments by debtors—their numbers increasing because of the contraction in growth and the stagnation in wages.

The Federal Reserve maintained this rather high rate of interest, above 5%, until mid-2007, although the signs of the crisis were already apparent. It was only as from August 2007, therefore very late, that the Fed started giving the banks quantities of credit at reduced rates, gift rates, and close to zero—without, however, averting new financial panics (i.e., "modern panics": cries no longer coming from financial traders but from IT mice). Thus, the crisis exploded when a critical mass of debtors had difficulties in repaying their loans. This was the case at the end of 2006, after the Fed had raised its interest rates to attract the capital for financing the military budgets that had been inflated by the new imperialist wars.

All that, without there being a military victory by the United States, nor a revival of accumulation through the destruction brought about by these wars. And the pursuit of the latter is exacerbating the deep capitalist contradictions still further.

## 5. The Effects of the Crisis

First, what are the effects of the crisis in the North? In a highly uncertain environment, the massive creation of money and the fixing of interest rates just above zero, together with massive fiscal deficits (with a budgetary deficit corresponding to nearly 10% of the gross domestic product [GDP] of the United States) and the disproportionate increase of the public debt, all this has brought about a relative depreciation of the dollar and a "currency war." The latter has for the time being been won by the dollar—explaining that it has been relatively strong since 2009—for the fundamental reason that the United States has at its disposal an extraordinary weapon of "mass destruction": its central bank can create limitless amounts of money which is accepted by other countries because the dollar remains the world's reserve currency. This enables the United States to impose on the rest of the world the terms of a capitulation that obliges these countries to pursue neoliberal policies, as well as supporting the dollar's rate of exchange that best suits the strategy of US domination—even if this entails a considerable depreciation of the currency reserves held by the monetary authorities of other countries. But for how long?

The United States thinks that a depreciated dollar will reabsorb their trade deficit and stimulate their internal production. This is incorrect, for we have been seeing for years that these variables react very little, indeed less and less, to the lowering of the dollar value. But the very weak economic growth—almost stagnation—in the United States has obviously deeper, structural causes. It will be said that the

GDP growth of the neoliberal regime was already feeble. This is true, indeed, but the situation has worsened because the causes are now due to problems of the whole system of the financing of the US economy. Another related upheaval is also taking place in the raw materials markets, particularly in oil, against a background of the exhaustion of world energy reserves, which is provoking the current rise in prices.

As we know, the worst consequences of the real effects of the current crisis are borne by the poorest of the popular classes. This is creating enormous damage, including in the United States, which is still the top economy in the world in terms of GDP, but displaying relatively bad social indicators compared with the other rich countries of the North, including for life expectancy, infant mortality rates, the right to health, and even education. The damage also includes, in the North, a generalized *mal vivre* or "bad-being," particularly at work (for those who have it), including the phenomenon of individuals having psychological break-downs to the point of suicides as has been observed by many industrial health specialists. We are referring here to the combined effects of the threat of unemployment and the methods of individual evaluation, causing competition among workers within the same production unit, thus breaking the ties of respect, loyalty, solidarity, and conviviality. Hence, the distrust among workers, surveillance, auto-control, and fear at work—in worlds where the collective spaces for thinking and acting together are being reduced. Pathologies of loneliness have appeared, accompanied by feelings of moral betrayal of oneself, an awareness of the lies about total quality and certification by the market, the losses of moral frames of reference, of the sense of responsibility, and of the need to regain the means for transforming work relationships. These depressions are no longer economic but psychological, no longer social but individual—even on the frontiers of psycho-analysis. Finally, on the political level, we think we do not really need to emphasize the risks of the rise of the extreme right, in their diverse variants—from a religious spectre to a neofascist one, via the drift of the "traditional" right. None of this, again, and unfortunately, excludes the risk of new wars.

And what about the effects of the crisis on the South? First, there is the increase of transfers from the South toward the North, through the different channels that we know: repatriation of the profits from foreign direct investments or portfolio investments, repayment of external debt, transformation of official reserves in credits (immediately granted to the United States), unequal exchange, but also flights of capital, etc. These transfers toward the North are going to have to accelerate in the future to try to finance the rescue of the central capitalist system—knowing that the US hegemony has at its disposal the key currency of the international monetary system and the military arsenal that goes with it, to impose this haemorrhage of capital from the rest of the world. The United States has up until now been able



المنارة للاستشارات

to impose it on everyone, from its imperialist partners of the North to its potential rivals of the South (China, especially)—but for how much longer?

It should be observed that the effects of the crisis vary, according to the characteristics of the economics of the South and the degree of their integration into the capitalist world system. Some countries are so excluded from this world system and drowning in destitution or poverty traps that the current crisis seems not to be affecting them. But it will be affecting all of them, whether they are "emerging" or not. The agricultural sector plays a preponderant role in most of these economies, for example. Nevertheless, the dysfunction and paradoxes of this sector are extremely serious: 3 billion people on the planet are suffering from hunger or food deficiencies, while agricultural production greatly (by at least 50%) exceeds food needs. This reveals that there is a crisis of over-production there too, on the agricultural markets. And three-quarters of these people are peasants. Besides, the extension of lands being put under cultivation at the world level is often accompanied by the reduction of peasant populations vis-à-vis those of the cities, which are absorbing the massive rural exodus. An increasing proportion of land is being cultivated by the transnationals, which no longer aim at producing for consumption but for industrial or energy outlets (e.g., biofuels). In most of the countries of the South that are excluded from the benefits of "globalization," a relative dynamism in agricultural exports from commercially grown crops coexists with the importation of basic food products. Here, we would even suggest interpreting the events that are currently shaking the Arab-Muslim world—without, of course, underestimating their complexity and their diversity—as being related to a capitalism that has destroyed their structures over a long period as well as to the neoliberal form of this capitalism that has created, under the cover of the so-called good governance (Herrera 2004a), the basis for the current social explosion—particularly via the precipitous rise in the prices of food products.

Fundamentally, and apart from that, it would seem that the conditions are combining so that a major consequence of the crisis could be the deepening of the North–South confrontation—in spite of the cooptation of the "G20." The North–South confrontation is taking place in a world where the levels of contradictions are becoming more and more complex: between the ruling classes and the classes they dominate; between the different ruling classes that control the State; between the countries of the South themselves, but with a predominance at the moment of the contradictions between ruling classes, together with the rise of the "emerging" countries.

Internally, the path chosen by a large majority of these ruling classes in the South is that of capitalism or one of its variants. However, not only is there no way out by this path—because the resolving of the contradictions produced by the capitalist system is absolutely impossible in the South—but it also leads them


المنارة للاستشارات

into conflict with the imperialist powers of the North (Nakatani and Herrera 2008). As a consequence, one of the risks weighing on the current popular struggles in the South is to see their resistance taken over, neutralized, and transformed into pro-systemic forces by the ruling classes, while these ruling classes in the South, above all those which have the most consistent and rational development strategy will probably not make progresses without internal transformations that would change the power relations in favour of the popular classes. That is certainly valid for Latin America—for Bolivarian Venezuela, for example (Herrera 2010b).

## 6. Criticism of the Orthodox Anti-crisis Policies

The first anti-crisis policies consisted of coordinating the actions of the central banks to inject liquidity into the inter-banking market by creating primary money, by offering lines of special credit to the primary-leader banks, and by reducing interest rates. The main aim was to avoid the total collapse of the system—and also to limit the devalorization of fictitious capital by braking the fall of the markets, particularly so that the derivatives were paid at more or less their face values. However, this in no way resolved the profound contradictions of the system.

A turning point was, as we know, the non-intervention of the US monetary authorities—as neoliberalism requires—when Lehman Brothers failed in mid-September 2008. From all evidence, there has been no assessment of the implications of this failure to act, in terms of the exacerbated risk of destabilizing the whole system, including through State indebtedness.

Hence, in a few hours, there was a complete 180° turn-around of the Treasury and the central bank in the United States: a number of financial institutions in danger (like American International Group [AIG], the insurance company) were nationalized—usually without the right to vote and no new criteria for control; short sells were temporarily suspended in Great Britain, then in the United States; the Fed opened lines of credit to the primary dealers in special conditions, with almost zero rate of interest; and the State helped these institutions in organizing the take-over of bankrupt groups and re-capitalizing them. In other words, the State strongly supported the hyper-centralization process of the financial oligopolies' power over the ownership structures of capital which became increasingly concentrated: Lehman Brothers was taken over by Citigroup, Merrill Lynch by the Bank of America, the Washington Mutual Savings Bank by Morgan, etc. A "*defeasance*" funds for "*bad banks*" was created so that the State guaranteed "toxic" securities, and—a crucial measure—the Fed extended in October 2008 its organization of swap lines or "*temporary reciprocal arrangements on currency*" for the central banks in the North and the large countries of the South, rendering them almost "unlimited."



المنارة للاستشارات

Then, there were the Paulson plans No. 1 and No. 2, and the plans for the general support of the US economy (including General Motors and others, without preventing massive lay-offs)—with, along the way, the recapitalization of the Fed, which was at the end of its resources. Finally, at the beginning of 2011, the President of the Federal Reserve warned the Treasury (and the Congress) that the Fed would not continue to finance public deficits, that there had to be a return to greater rigour, and that the rates of interest had to be increased. However, a rise in the interest rate would incur two major risks: for the United States that the burden of public debt became still heavier, and for the rest of the world that capital flows would return to finance the US deficits, enabling the country to continue to live once again beyond its means. All that was happening under the eyes of the general public, who realized that not only had the State turned against the public services, but that they themselves would be made to pay for the rescue of the high finance which controlled the State (Herrera 2006b).

In light of all this, a small but significant minority among dominant currents of thought continue to become more and more radical in their support of the ultra-neoliberal theses inspired by von Hayek, von Mises, or Rothbard. Their analyses of the crisis (see, e.g., Rockwell [2008] or Rozeff [2013], from the Ludwig von Mises Institute) are based on a reaffirmed faith in the automatic character of market re-equilibrium. Clearly, this is annoying for the neoliberals, insofar as these ultra-liberals defend the idea that the crisis came about from an excess of interventionism and that the state ought not to save the banks and companies in difficulty. What needs to be done, according to them, is to put an end to state regulations that limit the freedom of agents on the markets. As an example, while public housing policies claimed that citizens could all aspire to house ownership, the markets (which themselves are not "populist") have demonstrated that this is not so. These ultra-liberals are therefore against any anti-crisis plan, and in particular against any regulation of interest rates by the central bank.

The most extreme among them go so far as to call for the suppression, pure and simple, of State institutions—including the army—as well as a privatization of the currency. Of course, they are aware that these measures would push capitalism toward chaos, but they think that, thanks to the market mechanisms, such chaos would benefit capital and that capitalism would reconstitute itself faster and better than through State interventions in the form of artificial public assistance to enterprises that in any case were doomed to fail.

And what about the "reformist" positions? The gravity of the situation of crisis has favoured a return to the theses of Keynes. Keynes would be today more than ever the flavour of the month, said Paul Krugman (2009)—who is himself a neoclassical economist! In fact, even if they oppose the traditional neoclassical theses, neo-Keynesian interpretations come from the same theoretical matrix—



المنارة للاستشارات

which we would call "bourgeois." For the most advanced among them, in spite of nuances, variants, and subtleties, their visions generally consist of introducing only minimal changes in the functioning of capitalism in order that it can survive as long as possible.

The report of the Stiglitz Commission is a good illustration. Its final document, drawn up in 2009 at the request of the president of the United Nations General Assembly, does not question the bases of the dominant ideology. The old neoliberal certainties have only to be revised, not to be abandoned: exchange rates should be flexible; the virtues of free trade are reaffirmed as against the "dangers of protectionism"; the defects of corporate governance should be corrected, but the management of risks continues to be entrusted to the financial oligopolies and the regulation of the world system remains under the hegemony of the US dollar. We are a long way from the rejection of globalized financial liberalization as expressed by an increasing number of the countries of the South—not without strong contradictions, it is true (Herrera and Nakatani 2008).

## 7. About Keynes and Keynesianism

Let us be clear: the anti-crisis policies are not Keynesian. While "Keynesian" measures are perceptible—e.g., in the G.W. Bush plan of 2008 (with its handover of part of the taxes), and above all in the program of President Barack H. Obama (with works of infrastructure, etc.), priority is clearly given to neoliberalism to save as much as possible the over-accumulated fictitious capital. A more nuanced analysis would be to say, at least, that the Obama Administration has combined elements of Keynesian policy (stimulus plan) with other regulationist strategies (some re-regulation of finance), but without breaking with the neoliberal model. The emergency conversion of plans to rescue capital by State interventionism, organized in an extremely anti-democratic way by the governments of the North, should not deceive us. The anti-crisis policies and their initiators have not extricated themselves from orthodox neoliberal dogmas.

The Fed and the other central banks of the North continue to create primary currency on a massive scale, only just recently again, with Quantitative Easing 2. Nevertheless, this monetary policy which is apparently "Keynesian" has in fact fallen into the "*liquidity trap*," where the strategy of lowering the rate of real interest has shown that it is incapable of increasing the marginal effectiveness of capital and of transferring money-capital from the financial sphere into the productive one. Hence, the current concern in the United States since the beginning of 2011 is the indebtedness of the public administrations: of the Treasury, of the federal State, and also of the federated states and local authorities. While Ben Bernanke's primary emphasis has been on near-term monetary (and requested fiscal) stimulus



المنارة للاستشارات

with a deficit reduction plan for the long run, he periodically warned the Secretary of the Treasury, Timothy Geithner, and the US Congress about the budget deficit. According to the president of the Fed, the hour has come for tightening the plans for budgetary adjustment. In fact, that what must be done is the exact opposite of what Keynes recommended. And to "*clean house*" means to reabsorb the deficit by increasing taxes and reducing expenses by lowering the number of civil servants and their salaries, thus putting the burden on to the workers including measures on health, pensions, etc. The same thing for us in Europe. So, in reality, there is no return to "Keynesian" policies, either in the United States or in Europe. The dominating concept of the State remains that of a neoliberal State, at the service of capital—particularly for the credit system.

Even if there were to be—which is highly unlikely—a "return to Keynes," it would come up against several problems. First of all, there would be theoretical problems. There is no "general theory" of Keynes on crisis. There are many theoretical elements scattered here and there, but partial, and sometimes contradictory, which have often given rise to confusion and misunderstandings among some observers or his own disciples—beginning with the complex concept of "*effective demand*," which has to be understood to be "supply" as the anticipated value of sales (Lavoie 1985). Keynes tried hard to find a strategy for getting over the crisis in order to save capitalism, by discovering the secret of a "capitalism without crisis," i.e., a capitalism that was regulated, in which the solution was the creation of an effective demand through an exogenous factor, the State, whose intervention could, in the contraction phases of cycles, minimize the impact of crises. He had understood, like others, notably Schumpeter (1951), that the course of history was moving toward an overtaking of capitalism. However, his theory ran up against difficulties in treating money in general and the financial system in particular.

These limitations of Keynes in understanding the crisis—limited when compared to Marx—were perceived and stated by certain lucid, honest Keynesians, like the brilliant Joan Robinson, who wrote that Keynesian theory elaborated a number of refinements and complications overlooked by Marx but that the essential can be found in the analysis of Marx on investment as "a purchase without sale" and savings as "a sale without a purchase" (Robinson 1966). Keynes then retorted to Joan Robinson, who had tried to reconcile him with Marx in an essay published in 1942, that there was no point in wanting to give sense to what has no sense (Harrod 1951).

Nevertheless, it is above all the fundamental quality of money functioning as capital, which was analysed by Marx, that was not developed (or even clear) in Keynes' work—and surely even less so in the orthodoxy's quantitative theory. Keynes' limited analysis of the system of credit and his lack of differentiation



المنارة للاستشارات

between state money and credit money, logically—but improperly—led him to attribute too much importance to money (Keynes 1930, 1971, 1987; see also Vilar 1974), above all giving excessive responsibility to the State in setting rates of interest. According to him, the central bank pushes the rate of interest down thanks to the growth in the supply of money, through the creation of primary money, in order to stimulate investment in assets in which the marginal efficiency of capital is lower—hence, investment would thereby increase according to this strategy, and this until such a time when the "shocking aspects" of capitalism, as he calls them, disappear (unemployment, inequalities, etc.) (Keynes 1936). Now, as we know, the monetary policy implemented by the central banks, whose objectives are the stabilization of money and the fight against inflation, has completely reversed the process by which the rate of interest is determined by the market. They use the rate of interest as the main tool, with its financial and real effects on the whole economy. Besides, we know that the rate of interest of the central bank is above all influenced by the rates fixed by the greatest financial oligopolies on each segment of the markets (of derivatives, especially) over which they have a dominant position.

Hence the problems, or the political illusions, transmitted by Keynes' conception of the State: the Keynesian belief in the all-powerful capacity of the State, which is very different from Marx. For, in spite of the limitations of the Marxian theory of the State, even in this field, he is superior to Keynes (Nakatani and Herrera 2010). At what point are we today? Is the State not sustained by capital, through the public debt, for example? Is the creation of money not essentially of private origin? Do the Fed's rates of interest not depend upon those fixed by the financial oligopolies, which have great power over its policy? Is the Fed itself not largely infiltrated by the private interests of these oligopolies? Does the State not allocate military contracts to those transnationals that are controlled by high finance? Is the neoliberal State all the more active because it is subjugated by high finance? In sum, the Keynesian State is a fiction! And its "reformism" can only spread illusions and false hopes.

## 8. Conclusion

There is a very high probability that the present crisis will become more acute as a systemic crisis of capital, since all the conditions are there for that to happen. As we have seen it, finance recently invented the CDO of CDO of CDO or $CDO^3$—but this game of cubes will collapse. The measuring unit here is the million million dollars or the teradollar ($10^{12}$). Something will burst before we get to the petadollar ($10^{15}$)! Capitalism is in danger, including at the centre of the system. You will say that there have been other capitalist crises, many of them, and that the system has



المنارة للاستشارات

always come out of them stronger than ever, more monstrous, more monstrously concentrated. Yes, that is true, there have even been pre-capitalist crises. We are not about to announce the end of the world (in 2012?). It is an illusion, yet another—perhaps due to impatience—to believe that capitalism is going to collapse from the effects of the current crisis: the monster is going to survive and will continue to kill.

Over the course of history, especially during the Great Depression of the 1930s, capital has known how to create institutions and instruments of public intervention, essentially linked to the policies of the central banks, that have made it possible to "manage" the crises to some extent and to cushion its most destructive effects—at least in the North, at the centre of the capitalist world system. However, these reorganizations of the domination of capital have never overcome its contradictions. We are therefore going to suffer for a long time yet the evils of aging capitalism—and, in the South, the "*silent genocide of the poorest*" for which it is responsible. The present situation does not resemble the beginning of the end of the crisis, but the beginning of a process of a long period of collapse of the present phase of capitalism, which is oligopolistic and financialized. And this process of collapse opens up great possibilities for a transition, in which the class struggle will become tougher and more complex. This will force us to reconsider the alternatives of post-capitalist social transformation, which more and more of us, in spite of our differences, hope to be socialist.

If the structural problem for the survival of capitalism is indeed that of downward pressure on the rate of profit, and if financialization is not a sustainable solution, the only thing that this system will offer, until it is in its death agony, is the worsening exploitation of labour. Fictitious capital demands to be remunerated, and it obtains this by transferring the surplus of productive capital and by a constant pressure to increase the exploitation of the labour force. To be able to relaunch a cycle of expansion at the centre of the world system, the crisis that we are currently experiencing must destroy the absolutely gigantic amounts of fictitious capital, most of it parasitical. But the contradictions of the world system have now become so deep and so difficult to resolve that such a devaluation will risk pushing it toward collapse. There are some orthodox thinkers who also believe that the present crisis will lead to the collapse of capitalism, like, e.g., the analysts at the *Global Europe Anticipation Bulletin*, whose predictions about the worsening of the situation lead to the total geopolitical dislocation of the system, the collapse of the dollar, and the disappearances of the bases of the globalized financial system. Then, there are those of *Money and Markets* in the United States, who foresee the forthcoming deepening of the crisis in a much more traditional sequence: the hollowing out of the fiscal deficit, the swelling public debt, and insufficient defence of the dollar by the monetary authorities.



المنارة للاستشارات

So, what are the alternatives? For us, it is time to reconstruct radical alternative proposals, on the left. Among the most difficult questions to deal with are those concerning money and finance. These questions relate to the external component of monetary policy (the exchange systems) as well as the internal component of this policy (should there be political control of the central bank?). Other questions relate to the financing of the economy (how to regulate the financial oligopolies or, better still, how to nationalize and control them democratically?); to the control of foreign capital, together with the balance of payments; to common strategies on the external debt; to those about building alternative regionalizations (with nationalizations, to break with the logic of the system and respond to the social needs of peoples—which should in fact be the main objective of the science of economics). Finally, there are questions about new forms of planning in the socialist transitions now under way or to come—from the theoretical viewpoint (going as far as suppressing money?), but above all involving the democratic participation of the people in all the processes of decision concerning their collective future.

## Notes

1. Unfortunately, this does not mean that, on certain points, some neoclassical analyses do not do better than the Marxists, because on these points, orthodox economists can grasp better what is going on—e.g., concerning the complex transmissions of the effects of the financial sphere to the real economic sphere or even in (mathematical) finance, as Marxists are not very well up in this subject (Herrera 2011).
2. Personally, on February 2004, I wrote, "The very deep disequilibriums of the U.S. economy have presently reached the extreme limits of the bearable. Their correction, taking the form of a devalorization of capital, certainly brutal, is unavoidable" (Herrera 2004b). See also Herrera (2007).

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