

MARX, MONEY AND THE MODERN WORLD

FINANCE CAPITAL AND IMPERIALISM TODAY

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Harvey and Callinicos on contemporary imperialism

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Introduction

There are two moments in the first decade of the 21st century that will be etched sharply in the historical record for many years to come.

- On 11 September 2001 the attacks by Al-Qaeda terrorists, on the World Trade Centre made history turn on a diabolic course. The most right-wing administration America had seen since the Reagan years, took the opportunity presented to declare a permanent war on states and people's considered hostile to US influence.

The turn to the 'war on terror' contained just as much hubris and triumphalism as the claim to universalism and the "open door" policies of previous years. But under the surface the new discourse expressed a sense of uncertainty and loss of superiority. The once frequent comparison amongst the political elite with Pearl Harbour died away as it became an uncomfortable reminder of American failure. Bugged down in two un-winnable imperial adventures; this was a very different America to the one that had emerged unchallenged in the capitalist world after just five years of fighting following the attack on the US navy by the Japanese air force in 1941.

- One of the memories that remain so striking about the days after 11 September is Bush's request to "shop for America", fearing the paralysis and inactivity sparked by the terrorist attacks

would deepen US economic woes as it struggled out of recession. In retrospect this was another telling expression of the under-the-surface weakness and volatility of the US-led order. Almost exactly seven years later this would explode to the surface in the catastrophic financial collapse triggered by the bankruptcy of US investment Lehman Brothers on 15 September 2008. The biggest ever bank bail out failed to avert the most synchronised world recession ever.

If the 1990s was the decade of a great ascent and expansion of the capitalist world order under the auspices of US hegemony, then the last decade – and these two key turning points within it – has seen this project enter a new phase of crisis. How this crisis will unfold, which individuals, classes and states, will win in the struggle underway for the future of the system, is the pressing question of our time.

Answering it will mean going beneath the surface of events and looking for a deeper explanation of the mechanisms that govern today's crisis-ridden system.

The starting point for the collection of articles presented here is that we can find the answers we need in the classical canon of Marxist political-economy.

Thus, this anthology seeks to do link together two things: the contradictions

of the global economic system and the developing tensions and frictions in international relations with the rise of new global powers.

Marcus Lehner offers an outline of Karl Marx's theories of money, banking and finance and shows how it can provide a compelling account of what caused the great financial crisis. Updating an earlier analysis written for the German Marxist journal *Revolutionärer Marxismus* he applies the theory to the

American banking system.

Luke Cooper surveys the work of two recent high profile Marxist theories of imperialism developed by David Harvey and Alex Callinicos.

And Keith Spencer makes a case-study analysis of a 'Great Power' that was at the centre of the global financial whirlwind: Britain.

This is a special issue of the Marxist journal *Fifth International*.

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Theories of late capitalist development:

Harvey and Callinicos on contemporary imperialism

Luke Cooper

1.1 Imperialism and the post-Cold War world

The last decade has seen an upturn of interest in Marxist theories of imperialism.¹ The background has been, of course, the drive of the last American administration to fundamentally alter the balance of power in the strategically important, oil-rich region of the Middle East, by using unilateral military power to achieve 'regime change' in states considered hostile to US influence. The bellicose rhetoric of the Bush administration and the idea of an unending number of supposedly 'preventative' wars ('the Bush Doctrine') put forward by leading neo-conservative protagonists at the time, provided fertile ground for a renewal of debate and argument on the Marxist left over the concept of imperialism.

Bush's Iraq adventure had, after all, undermined a number of previously accepted assumptions about the post-Cold War world. On the left and the right many had viewed America's 'unipolar moment' of the early 1990s and the globalisation of the world economy under its leadership in the two decades that followed, as having inaugurated a new world order marked by an amelioration of inter-state conflict and global social and political integration.² The belief and excitement in 'globalisation' may now largely exist as little more than a distant memory of a collective flight of fancy, but, for a time, the features of the post-1991 order appeared to seriously challenge classical Marxist assumptions about the nature of the global system. In particular, the issue was to what extent global economic integration and political multilateralism in a world with only one superpower represented a post-imperial evolution of the system? Proponents of the view that it did, could point to the new discourse of multilateralism and strictly 'humanitarian' intervention by allied western powers into supposed 'trouble spots', the proliferation of international agreements and the formation of the WTO, the sharp increase in the reach and power of western multi-national companies globally, and the booming world trade system and financial markets.

The Iraq and Afghan conflicts – not to mention the explicitly imperialist designs of the Project for a New American Century school of thought that underpinned these wars – broke these ambitious but flawed theoretical edifices, which had argued the various concrete features (international agreements, economic integration, *et al*) of the international system in the 1990s, were basically epiphenomenal expressions of more profound and transformative changes in the relationship between states and markets across the globe. If, however, as seemed increasingly obvious,

there was continuity as well as change in the pre and post Cold War worlds (most importantly, the endurance of the capitalist-nation-state system) then a space could be opened up for a reconsideration of classical theories of imperialism as *explanans* - the means by which we go about finding an explanation - for the workings of the contemporary international order. Part of the issue was explaining the juxtaposition of the 'war on terror' policy of the United States with the on-going globalisation of international economic exchanges; how did the two intersect? If the actions of the Bush regime were not simply 'mad' but based on at least some kind of rational calculation of US geopolitical and economic interests, then there must be a relationship to be excavated between the contradictions of the global economy and the superpower's increasing propensity to openly promote its own imperial power.

This question of how the pursuit of economic and political power connect with one another in late capitalist development concerned two Marxist theorists, David Harvey and Alex Callinicos, who have both played an important role in stimulating the resurgence of debate of imperialism over the last decade. Both were concerned to situate the aggressive policy of the last US administration within the tectonics of global capitalism as it had developed historically over previous decades. As David Harvey described his own endeavour in the opening pages of his *New Imperialism*:

"I seek to uncover some of the deeper transformations occurring beneath all the surface turbulence and volatility, and so open up a terrain of debate as to how we might best interpret and react to our present situation."³

The common thread to both Callinicos and Harvey's work was their shared view that the logics of political and economic power had to be situated in an irreducible but dialectical relation to one another, if, that is, a concrete explanation for the latest bout of American imperial hubris was to be achieved.

Meanwhile, the theoretical explanations of international political economic development they offered have simultaneously had to wrestle with crucial changes in the global political economy happening across this time. Any reinvigorated Marxist theory of imperialism had to rise to the challenge of not only explaining the historical changes in the international system since the end of the Cold War, the related impact of neo-liberal/conservative Anglo-American policies on the world stage since the late 1970s, but, in addition to this, the great financial crisis that erupted in the fall of 2008, the deep global recession which followed, and the new Obama-led administration in the United States, who has of course invoked a language suggesting some degree of policy change with the Bush era. The consequence of this more recent set of historical changes is a world order that makes for a dramatic contrast with 1992: i.e., one increasingly eliciting a tendency to 'multi-polarity' with the US capacity to pursue its interests freely in the name of the system as a whole increasingly inhibited by the growth in the relative political and economic power of its rivals.

Whatever we might make of all this,⁴ it is quite plain that the fast-changing and crisis-ridden nature of global political and economic life in the last decade has provided ample grounds for testing and elaborating competing theories of the global system. It is against this background, then, that below we consider the work of David Harvey and Alex Callinicos. The analysis and critique proceeds along four

basic lines. The first part of the article situates today's debates within the context of the contested legacies of the classical tradition in Marxist imperialism theory. It then draws out two themes based on criticisms Callinicos makes of Lenin's *Imperialism*: (i) whether the idea of 'parasitism' remains an essential means by which to understand the bondage of the south and east to the imperial heartlands and the related impact on the internal class structure of these 'core' states; and (ii) whether the notion of 'finance capital' as used by Lenin and Hilferding was attached to a specific organisational form that no longer exists, leaving not only their theories outdated, but our idea of 'imperialism' itself in need of quite fundamental re-formulation. The fourth part moves onto the major point of convergence between Callinicos and Harvey; the need to conceptualise imperialism as the intersection of geopolitical and economic logics of power. Through the course of these four themes the article seeks to show the strengths of a more traditional 'Leninist' approach to the world system; understanding imperialism as a specific evolutionary stage of capitalist development based on corporate oligopoly.

1.2 The long shadow of the classical legacies: contesting the nature of the system

The evolution of the capitalist order across the 20th century has of course been a recurring subject of great debate amongst Marxists. In the pre-war period the great writers of the classical tradition (Lenin, Hilferding, Bukharin, Trotsky, Luxembourg, Grossman et al) developed the concept of imperialism to describe not only the colonial conquest and economic subordination of much of the world to the most highly developed Great-Powers, but, also, and arguably most intriguingly, to develop an historical and evolutionary account of the changing forms of capitalist economic production, trade and exchange within a single, internationally consolidated system. In the post-war period, the collapse and decline of the great socialist and communist internationals and the access of Marxists to the universities from which they were previously barred, for good or ill created an academic Marxist milieu to whom the baton was passed and with it the task of reappraising the classical tradition in light of the transformation in the international order following the war. The latter certainly stimulated debate and an extension of research into wider areas, but it had the disadvantage that, unlike debates between the major writers in the early part of the last century, it tended to become disconnected from political practice. So whereas in the classical tradition – with the sharp polarisation on the left and the wider, intensive political and social instabilities of the first half of the 20th century – political and programmatic consequences were demarcated very clearly, the tendency in the post-war debates is for them to be downplayed.

Another consequence of these two stages in the intellectual lineages of imperialism theory is that it has been marked by a great deal of contestation and argument. Firstly, the political split in the Second International in 1914 over the First World War led to the development of different analytical frameworks by the reformist and revolutionary sides on the nature of the international system and its (stable or crisis-ridden) prospects. Secondly, in the post-war period the academic turn encouraged greater heterogeneity as a penumbra of distinctive competing par-

adigms developed (world systems theory, dependency theory, unequal exchange theory, the under consumptionist/monopoly capitalism school, *et al*). The classical tradition casts a long shadow over the latter developments – with Lenin’s work particularly influential, even amongst those who criticised it – as competing schools drew on different aspects of their approaches, and dropped others, to develop new theories. Andre Gunder Frank and his co-thinkers amongst the underdevelopment theorists, for example, took up the idea of exploitation of the periphery states by the developed nations, but, dropped more fundamental Marxist assumptions about capitalism and historical materialism.

As with all discussion of imperialism in theory and practice Lenin’s famous work, *Imperialism: the Highest Stage of Capitalism*,⁵ acts as an overarching historical and theoretical influence on both Harvey and Callinicos’ efforts. Lenin’s work was produced as part of a wide-ranging debate amongst Marxists of his generation who were all concerned to understand how capitalism was evolving as it moved from a period in which it was struggling for the domination of the globe to one in which it had become the dominant international system, incorporating to an ever-greater degree other more backward social systems in the periphery of the system. Naturally enough this theoretical task necessitated building on Marx’s understanding of capital, and applying the framework he developed – at its different levels of abstraction and concretisation – to these historically new circumstances.

It is the strength of Callinicos’ book, *Imperialism and Global Political Economy*, that he offers a theoretical reflection on the classical tradition and situates the whole question within the context of continuing Marx’s *Capital*. As he notes, this endeavour was historical just as much as it was theoretical; the challenge for the ‘Marxists after Marx’ was reaching a more historically specific understanding of the contemporary changes in the capitalist world economy.⁶ Marx’s work established a set of theoretical prescriptions – the abstract categories of analysis by which he theorised the substantive essences of capitalist relations – that later thinkers had to both respect and creatively re-elaborate in light of the changing historical transformations of the capitalist system. These stipulations are not dogmatism but are a crucial part of achieving the kind of historically focused application of Marx’s theory that makes it genuinely testable and scientific, and, consequently, open to empirical refutation:

“... I wish to emphasise that this strategy for continuing *Capital* by developing a more concrete theory of different phases of capitalist development seems perfectly consistent with Marx’s own approach. But that approach also imposes an important constraint on such efforts, namely... that the conceptualisation of imperialism be consistent with the more abstract account of the constitutive relations, tendencies and mechanisms of the capitalist mode developed in *Capital*, or, where they depart from that account, that they provide good reasons for doing so. This stipulation may seem like a dogmatic confinement of empirical research, but this is not my intention. In the first place, the classical theories of imperialism that explain it as a specific phase of capitalist development can only claim to be continuations of *Capital* if they observe some such constraint. Moreover, in doing so, far from representing a retreat from empirical enquiry, they offer a way of making Marx’s discourse open to refutation...”

[and] on this basis... these accounts can play the function... of testable auxiliary hypotheses."⁷

What Callinicos brings out nicely here is the unity of the historical and the theoretical in the dynamic evolution of Marxist analysis: thus, Marx's original postulates should be enriched and developed in the course of their historical re-elaboration in "testable auxiliary hypotheses" about the contemporary world. Both Callinicos and Harvey share these basic assumptions about Marxist scholarship; both are 'fundamentalists' in the sense that Marx was 'basically right' but beyond that, like most Marxists, they diverge. And this affects their treatment of the classical legacy in imperialism theory. By political propensity Callinicos is more sympathetic to Lenin than Harvey, who is not a 'Leninist' in any sense; his politics are of the radical left populist variety rather than revolutionary.⁸ He is also less inclined to reflect theoretically on the work of the Marxists 'after Marx' meaning the *New Imperialism* does not systematically engage with the classical theorists of imperialism. Callinicos in contrast does analyse the various facets of the classical legacy, but in the conclusions he draws and what this means for his theory he ends up moving further away from its main assumptions.

1.3 The classical tradition in imperialism theory today

The principal concern of the classical tradition generally was how they could reach an understanding within the confines of Marxist political-economy of the growing scope and scale of capitalism; both its growing international reach and the sheer size and power of the capitals rooted in the most advanced economies of the system. Hilferding's analysis, *Finance Capital*, was tremendously influential and identified the increasing power the banks had assumed over other capitals rooted in production. Bukharin argued this process went alongside another one that saw the financial oligarchy and state increasingly becoming interpenetrated in their domination over others. Both based their analysis on the recognition that there was a logic to capitalist competition that resulted in their being 'a winner', i.e. the size and scale of contemporary capitalist production was increasingly supplanting the competition that was supposedly at the heart of the system. Lenin built on these analyses to develop what became by far the most influential of these theories and, although those who were influenced by Lenin often drew badly wrong conclusions in other respects, there were good reasons to treat *Imperialism; the Highest Stage of Capitalism* as the higher synthesis of the wider debate, because it was the most concrete dialectical work – avoiding the one-sidedness that tended to beset the others.

Lenin argued that there had been an increasingly 'successful' transcendence of the period of competition with growing domination of monopoly concerns in the economy. A handful of industries dominated national markets and found that in order to expand further – as they were compelled to by the logic of capital accumulation – they had to operate internationally, to an even greater degree than previously.⁹ In this he drew on Bukharin's work, who saw this as the culmination of the endogenous process of concentration and centralisation of capital – the terms Marx

had used to describe the way mergers and expanded reproduction created larger units of capital.¹⁰ Whilst drawing on Hilferding's idea of 'finance capital', Lenin re-defined it as the fusion of banking and monopoly capital under the auspices of an oligarchic bourgeoisie.¹¹ With the erosion of competition that this brought with it, a stagnation and inertia also developed in production, which provided a further imperative to capital internationalisation. This historical evolution of the capital form was paradigmatically intersected in both Lenin and Bukharin's work with the nation-state system, one dominated by the great, imperial powers. There was thus a process of mutual inter-dependence, because finance capital required the global markets that, at the time, it was considered only empires could provide with the clear security and guarantees needed for their investments. The barbaric wars of the first part of the 20th century therefore could be explained by the intense nature of such competition.¹²

Harvey's references to the classical tradition are clipped and he does not draw out how Lenin, Luxembourge and Hilferding diverged. But in his account of imperialism today he notes the importance of financial and corporate monopoly concerns, as a powerful imperative on states to extend their power globally. He embraces the idea that the monopolisation of capital grows out of, but then constricts, competitive accumulation eliciting a consequent inertia and stagnation in the heart of the system from which "calls for an imperial presence in the world emanate."¹³ Similarly, he points to the predatory nature of the finance system – again, explicitly noting the insights of the classicists in this regard – but this is only a fleeting reference in the course of his discussion of imperialism as "accumulation by dispossession."¹⁴

Callinicos, in contrast, seeks to question the approach taken by Lenin in particular and locates some of the difficulties he finds with it in the fact that it represented a "critical synthesis" of Hobson's *Imperialism* and Hilferding's *Finance Capital*. The aspects of Lenin's theory subjected to criticism are, (a) the central position it places on the role of finance and monopoly in its identification of the essence of imperialism, (specifically whether the notion of finance capital used was particular to German development); (b) the exploitative relationship between more advanced and more backward states; and (c) the impact of this exploitation on class relationships inside the imperialist countries. Despite describing Lenin and Bukharin's approaches to imperialism as having a combined and synthetic character, Callinicos actually treats each of these theorists quite separately. And, as his outline develops, it becomes quite clear that he favours Bukharin ("the more rigorous analysis") because of his position on the state-capital relation and his view that the internationalisation of the world economy elicited a concurrent tendency to 'nationalisation' between capitals embedded in nation states.¹⁵

What Callinicos aims to do by way of the critique is to move the notion of imperialism onto more overtly political territory - a point, it should be noted, which arguably sits uncomfortably alongside his stated intention of continuing the project of Marx's Capital. Although Callinicos agrees that imperialism has to be understood as an historical evolution of the capitalist system, he wishes to detach this analysis from specific claims about the 'organisational form' of finance and monopoly capitalism. The crux of his criticism is that Lenin's view of imperialism

as the fusion of banking and monopoly capital into finance capital was based on one case study – the German system which Hilferding had analysed – and did not apply to the world hegemon of the time, Britain. This lays the basis, for his reconceptualisation of the essence of imperialism as an intersection of economic and political forms of domination, with rivalrous formal and informal empires vying for the political and territorial domination of the world. There is also a second aspect to Callinicos' critique. He argues that Lenin and the pre-war Marxists *per se* were concerned primarily with capitalism in the most advanced states, rather than the relations between these and the periphery. And, insofar as Lenin stepped onto this territory, Callinicos argues he drew a mistaken conclusion; namely, that imperialist powers used financial parasitism to extract tribute from the colonies and semi-colonies.

These two criticisms – that imperialism should not be identified with a specific organisational form of capital and should not identify exploitative mechanisms in centre-periphery relations – are held together theoretically by Callinicos' bringing into question the position of financial parasitism within a modern theory of imperialism. The predatory nature of the finance system was for Lenin at the very core of the subjugation of the colonial and semi-colonial worlds of his time, by the Great Powers in the world system; the investment vehicles that could make or break entire state economies in the underdeveloped world. Overall, then, Callinicos makes a pretty profound challenge to Lenin and many of the assumptions more widely held in the classical legacy. But is it justified on theoretical and empirical grounds? Below we argue that we need to keep hold of these two aspects of Lenin's writings: the idea of finance capital as key to any notion of modern imperialism and the economic bondage that results from its global domination. The theoretical defence of Lenin offered is principally based on the idea that 'finance capital' does not presuppose any one organisational form; but rather as the tendency of capital in its most developed state to detach itself from moorings in any single one sector or branch of production, and operate as 'pure capital' able to move freely between any number of investments either in production or fictitious forms of capital. When it comes to the bondage of the periphery to the heartlands of the system, a more empirically-based defence is put forward that looks at the role of creditor-debtor relations and the restructuring of class relations on the heartland countries that goes alongside it. In the process we look at how David Harvey approaches these questions, before returning to the issue of the intersection of capitalist and political power, where the two theorists partially converge.

1.7 Mechanisms of surplus extraction: parasitism, 'high finance' and the system

Callinicos develops his argument through an analysis of Rosa Luxemburg. This is a logical starting point because Luxemburg's theory of imperialism was concerned with the relationship between developed capitalist centres and the underdeveloped colonial and semi-colonial states, which often had only primitive and nascent forms of capitalist development. Luxemburg developed from this basis a theory of crisis that argued capitalism required a non-capitalist periphery to consume the products of the

industrialised core, logically, then, the development of capitalism as a global system would lead to its ultimate breakdown because it would have dwindling markets for its surplus products. Contained in this idea was the proposition that the exploitative nature of the capital-labour relationship meant workers could not provide a sufficient base for the consumption capitalism needed and, thus, as the working class became a truly global, international class, capitalism would be wracked with crises and collapse.

Luxembourg's view was well intentioned as she correctly understood a theory of capitalist crisis and instability was an essential foundation for revolutionary socialist ideas. But nonetheless it was profoundly wrong. In making her analysis, she explicitly attacked Marx's reproduction schemes from *Capital* vol. 2 that had shown how capitalism could create effective demand for its products endogenously, because, as well as competing, capitalists also constituted one-another's costumers – Marx had no intention of drawing from this any conclusions about the dynamism of the system, but simply sought to prove this point mathematically with the schemes.¹⁶ Callinicos notes that time and again Marxists have criticised the 'under-consumptionist' aspects of Luxembourg's thesis – by pointing out that capitalism creates effective demand and locating the final source of its crises in problems of profitability for capital not the consumption of commodities – even if, like Harvey, they been attracted to the idea of capitalism needing an 'other', i.e. co-existing systems of social relations external to capitalism that conversely become essential moments in its social reproduction.¹⁷

Luxembourg's theory, as Callinicos also notes, was not widely accepted at the time by other Marxists and difficulties arise in treating it as the overarching paradigmatic norm for the classical tradition as a whole. In particular, this leads to the fallacy exhibited by Ellen Wood who has argued that the early imperialism theorists were primarily concerned to theorise the exploitative mechanisms of a world economy that had not yet become fully capitalist. In contrast, Callinicos points out Lenin, Hilferding and Bukharin, were all concerned with evolutionary accounts of modern capitalist development.¹⁸ Part of this concern was how capitalism had evolved inside the advanced states of the system, but the other aspect was the international character of this phenomenon, 'world capitalism', which was incorporating into its economic orbit more backward states, thereby creating peculiar historic forms that were the subject of Trotsky's theory of 'uneven and combined development'.¹⁹ Callinicos agrees with all this, but he argues that the other classical theorists, unlike Luxembourg, did not really concern themselves with the relations between developed and underdeveloped spheres of the system and, insofar as Lenin stepped onto this territory, he claims he drew the mistaken conclusion of parasitic, rentier relations.²⁰ On this view, then, imperial powers are like 'big states', i.e. states where capitalism is developed to a certain stage, with a certain state-form developing in juxtaposition to this higher level of development, which taken together give these powers increased political leverage over the rest of the world. Important as this dimension is to any analysis of the contemporary world order, it loses sight of the need to study the changing economic forms of exploitation that emerge with the maturity and decline of capitalism as a socio-economic system.

Callinicos' position comes across most clearly in a reply he wrote with Sam Ash-

Figure 1: Foreign Direct Investment inflows, 1992-2003 (Billions of dollars)

Region/country	1992-7 (annual average)	1998	1999	2000	2001	2002	2003
Developed countries	180.8	472.5	828.4	1,208.00	571.5	489.9	366.6
Western Europe	100.8	263	500	697.4	368.8	380.2	310.2
Japan	1.2	3.2	12.7	8.3	6.2	9.2	6.3
United States	60.3	174.4	283.4	314	159.5	62.9	29.8
Developing economies	118.6	194.4	231.9	252.5	157.6	157.6	172
South, East, and South East Asia	69.6	92.1	109.1	142.7	102.2	86.3	96.9
China	32.8	45.5	40.3	40.7	46.9	52.7	53.5
Central and Eastern Europe	11.5	24.3	26.5	27.5	26.4	31.2	21
World	310.9	690.9	1,086.80	1,388.00	817.6	678.8	559.8
Developed countries as % of world	58.15	68.39	76.22	79.83	69.9	72.17	65.51

Source: Callinicos and Ashman (2006), p. 125

man to Harvey's *New Imperialism* back in 2006 where they objected to the idea – contained in Harvey's notion of 'accumulation by dispossession' – that the imperialist states extracted surpluses through a rentier relationship to the south or, as they put it, "that capitalism today lives by this kind of predation of the south."²¹ And, to substantiate this point empirically, Callinicos and Ashman pointed to the historically and contemporaneously dominant position of the highly developed capitalist economies in the global distribution of foreign direct investment (FDI) capital flows (see figure 1). If this argument is correct then it would represent a powerful challenge to the classical legacy as the theoretical postulate that the growth of capital beyond the national borders of the most advanced states led to it developing a predatory and rentier-like relationship to the south and east was a cornerstone of Lenin's theory of imperialist exploitation. In his book, the challenge Callinicos makes to this commonly shared view amongst the radical left comes through an objection to what he describes as "one of the weakest elements of Lenin's book, the portrayal of imperialism as an increasingly parasitic phenomenon"²², which, he argues, had been expressed in the following passage:

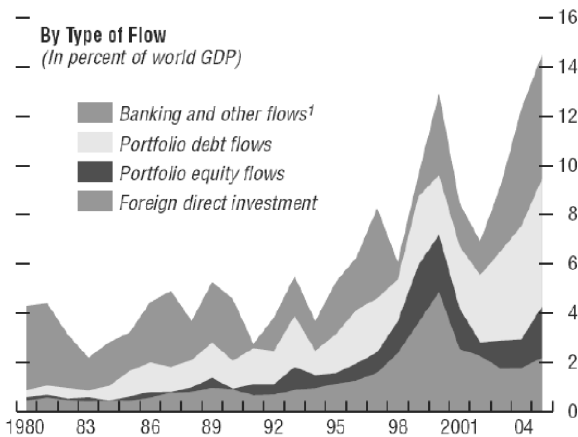
"Hence the extraordinary growth of a class, or rather of a stratum of rentiers, i.e., people who live by 'clipping coupons', who take no part in an enterprise whatever, whose profession is idleness. The export of capital, one of the most essential economic bases of imperialism, still more completely isolates the rentiers from production, and sets the seal on the whole country that lives by exploiting the labour of several overseas countries and colonies."²³

There are three aspects to Lenin's analysis here, the first is the development of the 'rentier class' which he uses as a broad category to describe what we today

call the strata of financier capitalists from stock and bond traders, investment bankers, fund managers, to speculators, who “take no part in an enterprise whatever” but whose investment decisions have a profound impact on production. The second refers to the exploitative relationship of these strata to international markets and the extraction of surpluses from “the labour of several overseas countries”. And the third aspect is the idea that a ‘rentier state’ develops, a feature of which is a change in class relations internally. Although he does not say so explicitly it does not seem likely that Callinicos could object, in the post-Lehman Brothers world, to the first aspect of this argument, namely the parasitic relationship of finance to the ‘real world’ of production – even if, as we will come to later, he does not consider such a relationship to be a key, structural feature of the imperialist stage of capitalism. Rather, his principal objection – the apparent empirical substantiation of which is given by the argument over FDI – is to the idea that the advanced imperialist countries extract surpluses from the periphery.

As Callinicos freely acknowledges, Lenin’s assumptions on this score are readily accepted on much of the contemporary radical left.²⁴ Those who have become familiar with the outsourcing of production and the mushrooming of international financial flows in the globalisation years, and the role of credit and debt in systematically reproducing poverty in the south and east, are often struck by the prescience of Lenin’s comments in this regard. What, then, should we make of Callinicos’ substantiation of his argument with FDI figures? Whilst it is true that FDI has tended in the post-war period to be concentrated in the historic imperial centres of the system, plus the relatively recent addition of China, there are two problems with taking this as a general indicator and measurement of total capital flows.

Figure 2. Composition of international capital flows 1980-2005



Source: IMF Global Financial Stability Report (April 2007), p. 65

Firstly, FDI has increased in the globalisation years, but not at anything like the same rate as banking, debt and equity based capital flows (see Figure 2). This illustrates the growing preponderance of forms of capital – debt, equities, securities, bonds and so on – that are not direct expressions of productive investment, but extract charges on it (debt, bonds) or speculate on future value creation (equities) or some combination of both (securities²⁵). In short what Marxists call ‘fictitious capital’. This arguably underscores one of the basic points Lenin was making on the parasitic relationship that developed with the growing domination of financiers over industrial capital, encapsulated in Hilferding’s idea of ‘finance capital’ itself. Secondly, we also need to critically interrogate FDI as an empirical indicator and category. Callinicos and Ashman make the following observation:

“It is interesting that the share of investment flows taken by the advanced countries actually increased during the huge surge in FDI at the end of the 1990s, which was fuelled by the Clinton boom in the US and the shift to the single currency in continental Europe. The same pattern has prevailed ever since the Second World War: the transnational corporations that dominate global capitalism tend to concentrate their investment (and trade) in the advanced economies – and indeed to a large extent in their own regions.”²⁶

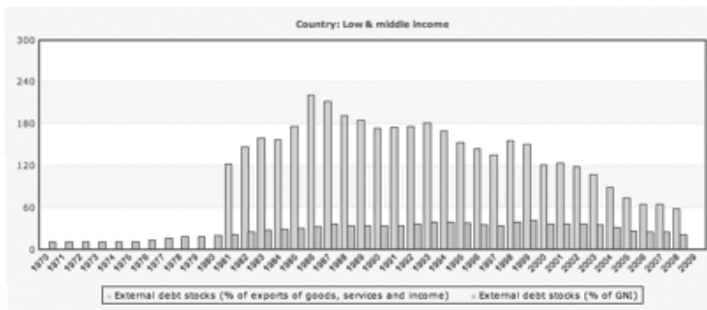
The problem with this conclusion, however, is that it ignores the actual make up of the FDI flows to which they refer. The boom in FDI over the last two decades between the advanced economies has been dominated by merger and acquisition activity. Between 1989 and 2001, FDI inflow in the advanced, highly developed economies as a proportion of GDP grew by over 350 per cent, but in the same period the proportion of ‘greenfield’ (new) investment went from being 25 per cent of total FDI in 1989 to 12.5 per cent, i.e., new investment as a share of total FDI in these states halved in proportional terms, with 88.5 per cent accounted for by merger and acquisitions in 2001.²⁷ The tendency this indicates is one of capital centralisation in the advanced economies – creating fewer, more monopolistic units. Marx had distinguished between this process and increased capital concentration which was the term he used to describe larger units created by way of net investment i.e. investment that actually expands the scope and scale of capital accumulation by, for example, building new plants which add to existing manufacturing capacity.²⁸ This distinction is important because capital centralisation normally involves ‘efficiency’ savings through downsizing or job cuts aimed at boosting productivity whereas an increase in capital concentration involves actual expanded reproduction.²⁹

What the figures presented by Ashman and Callinicos principally show, then, is the growing centralisation of capital – in other words, the tendency to oligopoly Lenin and Bukharin had identified – in the imperial centres. Indeed, FDI is a poor measure of the economic bondage to which states in the periphery are subject. A far better (and indeed more widely referred to example) of this process is debt and, as we saw in graph 1, the proliferation of forms of fictitious capital such as this is a key feature of modern capitalism. Many southern and eastern states trace their debt bondage to the oil crisis of 1973³⁰ – this brought enormous strains on both poles of the international system, as Soviet allies demanded more oil rather than buying at world market prices, while American allies had little choice but to accumulate runaway debts. American finance capital, however, was arguably the big winner in the

whole affair, because it sharply increased its capacity to extend credit globally as southern and eastern states took out large loans, and its institutions were also depositories of choice for the Gulf States’ petrodollars. It was in short at the very centre of ensnaring southern and eastern states in the system of global debt bondage.

If we simply contrast the debt to gross national income (GNI) of these economies we could mistakenly understate the scale of the problem. Their external debts since the 1980s have oscillated at around 30 per cent of GNI – generally lower than the rich world. But this contrast would be a superficial comparison, because we are speaking of much poorer, structurally underdeveloped states. Moreover, the debts accrued by these countries are denominated in hard currencies, usually dollars, therefore, these states have to raise the income to pay them off by exporting on the world market, thereby allowing them to service their dollar-debts to western financiers. They do not take out or pay these debts in their own currencies – what use, for example, is the Gold Cordoba, the currency of Nicaragua, to your average western bank? As Figures 3 and 4 show once the external debt and interest payments are considered in relation to exports of goods and services, then the real scale of this bondage becomes clear. They illustrate how creditors in the heartlands of the system are extracting tributes from the commodities produced in the periphery for sale on the world market.³¹

Figure 3: External Debt Stocks as proportion of Exports and Gross National Income (GNI) for Low and Middle Income Countries

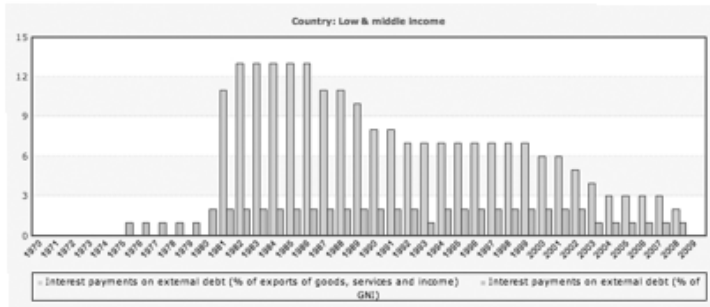


Source: World Data Bank (World Bank) <http://databank.worldbank.org>

Callinicos is not likely to entirely discount the significance of this bondage for the south and east, but would re-iterate that his argument is over to what extent capitalism in the advanced states is dependent on these tributes. Recall that he and Ashman argue, in response to David Harvey, that capitalism does not live on “this kind of predation on the global south” and that capital “continues to largely shun” these states.³² In this formulation there is arguably an ‘all or nothing’ fallacy committed: either capitalism in the west is seen as living entirely parasitically off the rest of the world or parasitism is seen as constituting an insignificant element of capital accumulation. If we want to reject both sides of this unnecessary dichotomy then we need a theory of contemporary imperialism that incorporates both

these elements – the domination of global capital accumulation by corporate and financial monopolies in the advanced states and the relationships of bondage between centre and periphery – within the historical evolution of capitalism as an internationally consolidated, truly global, system. This is indeed the starting point of Harvey’s idea of ‘accumulation by dispossession’; so let’s see now if it offers a composite incorporation of these two elements.

Figure 4: Interest payments on External Debt as proportion of Exports and Gross National Income (GNI) for Lower and Middle Income Countries



Source: World Data Bank (World Bank) <http://databank.worldbank.org>

1.5 Accumulation by dispossession – Harvey on the nature of imperial predation

Harvey begins his excavation of this idea with Rosa Luxembour’s argument on the ‘two sides’ of capital accumulation: the first “concerns the commodity market where surplus value is produced – the factory, the mine, the agricultural estate” and the second concerns “the relations between capitalism and the non-capitalist modes of production”. Luxembour noted that the “predominant methods” of this second aspect are “colonial policy, an international loan system – a policy of spheres of influence – and war”. “Force, fraud, oppression, looting” are “barely concealed” in this process, she argued, creating a “tangle of political violence and contests of power”, which made it difficult to discover within this nexus of barbaric practices the role played by the necessary, laws and tendencies of the capitalist mode of production.³³ As we noted above, Luxembour developed from these foundations a problematic theory of capitalist crisis, one that argued non-capitalist modes of production were an essential source of consumption for the excess products capitalism could not find the means to endogenously consume. Harvey does not accept this under-consumptionist argument and indeed he points out “the gap that Luxembour thought she saw [between the production of commodities and their consumption] can easily be covered by reinvestment which generates its own demand for capital, goods and other inputs”.³⁴ The imperatives of capitalism, consequently, are not to keep the periphery locked in feudal and tributary modes of production, but rather to unleash the forces of capital accumulation globally:

“... The geographical expansion of capitalism which underlies a lot of imperialist activity is very helpful to the stabilisation of the system precisely because it opens up

demand for both investment and goods and consumer goods elsewhere. Imbalances can arise, of course, between sectors and regions, and business cycles and localised recessions can result. But it is also possible to accumulate in the face of stagnant demand if the costs of inputs (land, raw materials, intermediate inputs, labour power) decline significantly. Access to cheaper inputs is, therefore, just as important as access to widening markets in keeping profitable opportunities open. The implication is that non-capitalist territories should be forced open not only to trade (which could be helpful) but also to permit capital to invest in profitable ventures using cheaper labour power, raw materials, low-cost land, and the like. The general thrust of any capitalist logic of power is not that territories should be held back from capitalist development, but that they should be continuously opened up.³⁵

Harvey, thus, following many others before him, dismisses the under-consumptionist line of argument in Luxembourg, but he remains attracted to the idea which he argues is implicit in her argument, that capitalism necessarily has to create its own 'other'. He seeks to develop this line of argument by investigating the relationship between the 'internal' and 'external' in capitalist development. Harvey considers how the capital-labour relation requires and creates certain externalities that are necessary to achieve on-going accumulation. Consequently in his first discussion of this issue he invokes Marx's analysis of the "industrial reserve army", i.e. the need for a structural pool of unemployed workers, which arises from tendencies within the capital-labour relation like the use of labour-saving technology to boost profitability. The reserve army comes out of and co-exists alongside the capital-labour relation, but it also plays a further functional role for the latter's internal life, as it allows capital to hold down wage demands and create a compliant workforce, by fostering workers' fears of being thrown into the ranks of the unemployed. In short, in this process, as Harvey puts it: "capitalism throws workers out of the system at one point in time in order to have them to hand for purposes of accumulation at another point of time."³⁶

Certainly here Harvey has invoked an externality to the capital-labour relation: the unemployed are not involved in the value-production process but the existence of structural unemployment does play a functional role for the production of surplus value. Harvey uses this, however, as a way into what is arguably a separate discussion of the extent to which the course of capitalist development requires the co-optation into its orbit of non-capitalist systems of social relations and, as part of this process, the seizure and theft of sources of value within such systems that then act as a catalyst for the capital accumulation process itself. This is what Marx called 'primitive accumulation' which he understood to be the 'original sin' of the capitalist mode of production as it seized, through force, theft and coercion, land and labour which could then be exploited in capitalist production to create surplus value.³⁷ Marx was concerned to explain how sufficient capital was accumulated to establish a bourgeoisie that could then proletarianise the surplus rural population in early modern Europe, before the full development of the capitalist system of accumulation. A recent example of this can be found in such a transition into capitalist production (in conditions that none of the classical Marxists could have anticipated): the restoration of capitalism in the former Soviet Union and the pillaging and destruction of the formerly bureaucratically socialised property systems this involved in order to re-es-

tablish a system based on capitalist social and property relations.

In outlining Marx's analysis, Harvey proceeds to take up the suggestion of Hannah Arendt, who had argued that what Marx had considered to be this 'original sin' was actually a necessarily recurring feature of capitalist imperialism.³⁸ Arendt and Harvey are surely right at this basic level. Primitive accumulation remains a key feature of global capitalist development. Just because capitalism is fully developed and can generate its own sources of accumulation, does not mean capitalists become prevented from augmenting their accumulation further by using theft and coercion. We can see this, for example, in the seizure of mineral and gas wealth by multinationals in Bolivia at the beginning of the last decade, involving the de facto expropriation of indigenous communities – and examples like this litter the periphery of the system and are a key feature of its contemporary subjugation. The propensity for such developments has been a pronounced feature of the last three or four decades; indeed, in the decades of the long post war boom such occurrences were more unusual. As Harvey, and others have noted then, there is a relationship to be excavated between slackening growth and accumulation rates within the imperial centres and the turn to these kinds of 'predatory' practices to sustain the global accumulation regime.³⁹

These processes are connected to the 'uneven and combined development' of global capitalism. More backward modes of production become part of interlocking national and international markets of commodity production and exchange, but they do not simply die out in a wave of modernisation. Rather capitalism forces the creation of combined social formations where capitalist markets become interpenetrated with other social property systems. In his initial discussion of Rosa Luxemburg, Harvey suggests a similar orientation to these processes: that is, the way capitalism brings into its orbit – even requires – co-existing systems of social property relations. But unless we are speaking at a very general theoretical level of internal and external relations in social systems *per se* there is surely a blurring of issues when he starts to invoke the 'industrial reserve army' to describe the same process. The former examples concern the interpenetration of capitalist and non-capitalist modes of production, while the latter example of the reserve army concerns relations internal to the capitalist mode. There is then a confusion of the theoretical and conceptual bounds of the categories, which precedes Harvey's extrapolation of 'primitive accumulation'. This arguably finds its reflection in his re-defined concept, 'accumulation by dispossession', as it extends the boundaries of the definition too far, creating a very general concept.

In Harvey's usage, 'accumulation by dispossession' describes a much broader range of predatory actions – far beyond the initial, more limited remit Marx had established for the concept of 'primitive accumulation' – that are found in the contemporary capitalist accumulation process. For example these include:

- Financial liberalisation (with its "speculative and predatory style"), debt incumbency of whole populations, corporate fraud, dispossession of assets, speculative raiding carried out by hedge funds, and so on.
- Classical 'primitive accumulation', such as dispossession of peasant popula-

tions in China and the ‘shock therapy’ of capitalist restoration in Russia.

- Commodification of cultural forms, involving the “exploitation and appropriation” by, for example, the music industry, of “grassroots creativity.”
- Escalating depletion of the global environmental commons (land, air, water) and “proliferating habitat degradations.”
- Rolling back of regulatory frameworks that protect labour.
- Privatisation of state assets, “social housing, telecommunications, transportation, water” that constitutes, “the reversion of common property rights won through years of hard class struggle... to the private domain.”⁴⁰

Harvey’s description of this whole process is nothing if not evocative. In both *New Imperialism* and *A Brief History of Neoliberalism* he gives a quite brilliant exposure of the hypocritical and self-serving character of the neoliberal agenda. Moreover, the processes that he groups together under the auspices of ‘accumulation by dispossession’ are certainly inter-connected. State policies, particularly in Britain and the United States (but also transmitted by way of competitive pressures to Europe and by way of coercion to the periphery), have sought to make economic development more attuned to the needs of finance capital. The re-structuring of finance capital through liberalisation, allowing it to diversify its forms, accumulation opportunities and global reach, on the one hand, coupled with aggressively anti-working class labour practices and wage restraint on the other, are what Harvey elsewhere refers to as ‘the restoration of capitalist class power’.⁴¹ His notion of ‘accumulation by dispossession’ shows how this process has hit the periphery, with the mobility of finance in global markets, the bondage of credit, and political pressures from the imperialist powers, have encumbered whole states and led to spiralling inequalities. Harvey, thus, entreats us to draw the processes together and understand them as not simply the reactionary political designs of the various neoliberal regimes of the last three decades, but as expressions of particular needs of capital accumulation. This is what writers in *Fifth International* journal amongst many others have tended to call the ‘neoliberal offensive’, understood as a package of policy measures designed to overcome the slackening rates of growth and accumulation which have beset western economies since the 1970s.⁴² Harvey, too, shares this basic assumption on the long-term difficulties faced by western capitalism. He also locates the drive to ‘accumulation by dispossession’ in the problems of over-accumulation – too much ‘surplus capital’ circulating in the system, which requires the opening up of new avenues for investment, leading to these predatory practices.

What is attractive about Harvey’s formulation is that it links this set of neoliberal policy measures to the categories of Marx’s *Capital* and points to how these have an explicitly imperialistic character. Nonetheless, there remains a difficulty in grouping together quite such a diverse range of state policies and financial predation under the single banner of ‘accumulation by dispossession’. This is particularly problematic because Harvey derives this idea conceptually from ‘primitive accumulation’, a term which has a much more specific meaning. Take privatisation for example. In the ‘Shock Therapy’ in the former Soviet Union there was a genuine

process of primitive accumulation: state assets were literally stolen and pillaged by bureaucrats undergoing a metamorphosis into nascent capitalist elites. In the privatisation of health services in Britain there are only *limited* similarities: former bureaucrats set up companies to exploit the privatisation they had set in motion when they were in office and can take advantage of the substantial state subsidies paid so that these new enterprises can turn profits. But, despite this commonality with ‘Shock Therapy’, this is not ‘theft’ *a la* primitive accumulation, not least because these capitalists still need to mobilise capital from the financial markets to ‘buy into’ these new investment opportunities. Neither does the state ‘leave with nothing’ – it gains revenues from the sale of assets, albeit at subsidised prices, and the process takes place according to the normal legal procedures of contract law and commodity exchange. Just because parasitic finance capital lies at the epicentre of this process cannot, in and of itself, make it primitive accumulation. To say otherwise is theoretically problematic, risking the creation of a rather elastic concept whose meaning is difficult to pin down. Aside from this concern, it is also ‘devaluing the currency’ somewhat to do so: reactionary as privatisation of health services in Britain is, it nonetheless does not involve the violence and theft from ‘the commons’ that Harvey correctly points out is often involved in imperialist practices elsewhere, i.e. where primitive accumulation exists in its classical form: the illegitimate, coercive seizure of sources of value which are then harnessed exploitatively in a system of capitalist commodity production.

Lastly, in the formulation of new abstract theoretical concepts in Marxist political-economy, which already has no shortage of them, we should apply the principle of Occam’s Razor, i.e. does it do something that other categories do not? The idea of the ‘neoliberal offensive’ is a historically concrete concept that involves a number of more abstractly defined mechanisms of capitalism, but it doesn’t identify a new mechanism of the capitalist system. One can argue, surely, that we do not actually need any new categories to explain that the capitalists are now re-capitalising services and industries whose nationalisation they once either needed to overcome their own bankruptcy or were forced to accept as the cost of pacifying a working class. All that is necessary is to show how this occurs using the existing theoretical foundations of Marxism (the role of state in policy and class struggle ‘from above’ in attempting to overcome fundamental problems of capitalist accumulation).

Whilst there is an overextension of his concept, Harvey is however right to draw our attention to these practices and to show how they relate to the financial parasitism at the centre of the system today. *The New Imperialism* is empirically as well as theoretically primed as Harvey moves effortlessly and with great literary skill between exposition and case analysis. Consequently, his discussion of accumulation by dispossession is full of vivid description of the human cost of imperialism. The examples he gives often involve processes of classical primitive accumulation. Consider for instance his treatment of land rights in Mexico and the immiseration that resulted from US-inspired Nafta economic measures:

“The 1917 Constitution from the Mexican revolution protected the legal rights of indigenous peoples and enshrined those rights in the *ejido* system, which allowed land

to be collectively held and used. In 1991 the Salinas government passed a reform law that both permitted and encouraged privatisation of the *ejido* lands. Since the *ejido* provided the basis for collective security among indigenous groups, the government was, in effect, divesting itself of responsibilities to maintain the basis for that security. This was, moreover, one item within a general package of privatisation moves under Salinas which dismantled social security protections in general and which had predictable and dramatic impacts upon income and wealth distribution. Resistance to the *ejido* reform was widespread, and the most vociferous of the campaign groups ended up supporting the Zapatista rebellion that broke out in Chiapas on the very day in January 1994 when the Nafta accord was due to be put into effect. The subsequent lowering of import barriers delivered yet another blow as cheap imports from the efficient but also highly subsidised agribusinesses... in the United States drove down the price of corn and other products to the point where small agricultural producers could not compete. Close to starvation, many of these producers have been forced off the land to augment the pool of the unemployed in already overcrowded cities. Similar effects on rural populations have been experienced worldwide.”⁴³

Analyses such as this makes for a useful corrective to Callinicos, as it puts economic exploitation and tribute-like relations back at the very core of contemporary imperialism. Harvey shows how the United States was able to establish a synergy between (a) enforced neoliberal restructuring in the south and east under the auspices of international institutions and (b) open global capital markets. Finance capital could flood into economies undergoing re-structuring on IMF and World Bank endorsed lines, encourage asset and industrial bubbles and extract its tributes, then flood out again, leaving behind a financial and social crisis. He writes of how Argentina, for example, went through “the most extraordinary wave of privatisation (water, energy, telecommunications, transportation) which resulted in a huge inflow of over-accumulated capital and a substantial boom in asset values, followed by a collapse into massive impoverishment (now extended to more than half the population) as capital withdrew to go elsewhere.”⁴⁴ Such externally induced financial crises have indeed been a core feature of economic instability in the periphery over the last two decades. What such events show is how finance capital, with its global reach, crises and contradictions, remains at the very heart and soul of the contemporary imperialist system.

What is frustrating about Harvey’s *New Imperialism*, however, is that he does not pull together the different elements needed to fully conceptualise the workings of today’s imperialist order. Indeed, if one danger in Harvey’s notion of accumulation by dispossession is that it is too general – categorising in a single formulation a very diverse set of predatory practices – the other danger, conversely, is that it is too narrow. Or, to put it another way, the fusion of financial liberalisation and aggressive pro-market state policies which are at the core of this idea, is not sufficient in itself to capture the variety of mechanisms of exploitation we find in the imperialist world.

As Ben Fine has pointed out, there is a neglect of ‘normal’ expanded capital reproduction in Harvey’s *New Imperialism*.⁴⁵ On this note, Harvey has problematically maintained that accumulation by dispossession has become the “dominant form of accumulation”⁴⁶ today and in objecting to such formulations Callinicos and Ashman do have a point. The core-value producing industrial sectors of the global economy

remain concentrated in a few states whose corporate monopolies dominate global production – and these concentrations of industrial urbanisation are where expanded reproduction as the ‘dominant form of accumulation’ take place. We should not leave out of account the extremely high rate of exploitation of relatively small numbers of workers within the imperialist economies each of whom mobilises gigantic amounts of capital. In the aerospace, defence and biochemistry industries, a few hundred thousand workers in Britain produce the greater part of an output that still makes Britain the sixth largest manufacturer in the world; such pockets of extremely advanced capitalist development are also characteristic of imperialism. It is difficult, then, to fault Fine’s conclusion that Harvey, in the end, makes Luxembourg’s mistake of assuming that capital can only reproduce itself through externally sourced dispossession.⁴⁷ Monopolisation, and the stagnation and inertia it elicits in production – which are the driving forces behind capital’s move into fictitious, financialised forms – apart from one or two references, are not given the kind of emphasis that the classical theorists had given them. This is a serious problem, for what is a lacuna in Harvey’s theorisation is arguably a key part of contemporary imperial power: as the more open markets brought into being by the globalisation world order not only allowed finance free rein, but also helped to consolidate the global power of western corporations through the internationalisation of production and trade liberalisation.

1.6 Class structure in the imperial heartlands: the ‘labour aristocracy’

Whatever the limitations and theoretical difficulties found in Harvey’s notion of accumulation by dispossession, it does, nonetheless, identify the predatory mechanisms of exploitation that exist between centre and periphery and thereby acts as a useful corrective to Callinicos’ challenge to this part of the classical tradition. In Callinicos’ argument, this critique is combined with a further issue: the class structure in the imperial heartlands. He challenges Lenin’s view that the parasitic relationship which existed between the imperialist world and the periphery of the system led to the modification in the form taken by class relationships internal to these states. Lenin and Bukharin held the large concentrations of finance capital in these states to be self-sustaining, i.e. through the control of mechanisms of investment, including monopoly profits, and credit, value could be re-distributed through the international system, reinforcing the economic power and scale of these concentrations of capital. Consequently, the greater material affluence that partially resulted from this nexus of global economic relations, led to the fostering of a sizeable middle strata in the population that was relatively affluent, particularly when compared to colonial and semi-colonial states. Lenin noted how the physiognomy of the working class underwent change as a result of this process too, as it led to the creation of a ‘labour aristocracy’ – incorporating the large bureaucratic officialdoms of the labour movement and more materially privileged sections of the working class on which they rested. This did not mark an end to the class struggle in these states; on the contrary, labour aristocracies could come into existence through a sharp fight against the bosses. The point being, however, that the ruling classes in these wealthier, imperialist countries had greater ‘room

to manoeuvre' in terms of settling their demands and splitting them off from wider layers of the class.

A version of this idea was anticipated in Hobson's *Imperialism* and was indeed quoted by Lenin in his work as part of his explanation of why the social democratic parties had supported the First World War, despite their formal commitment to an anti-war stance based on the principles of revolutionary internationalism. This passage, Callinicos argues, mistakenly links a parasitic notion of finance to evolving class relationships in the advanced states:

[The successful exploitation of China, Asia and Africa]... "would drive the logic of imperialism far towards its realisation; its inherent necessary tendency towards unchecked oligarchy in politics, and parasitism in industry, would be plainly exhibited in the condition of the 'imperialist' nations. The greater part of western Europe might then assume the appearance and character already exhibited by tracts of country in the South of England, in the Riviera, and the tourist-ridden or residential parts of Italy and Switzerland, little clusters of wealthy aristocrats drawing dividends and pensions from the Far East, with a somewhat larger group of professional retainers and tradesman and a large body of personal servants and workers in the transport trade and in the final stages of production of the more perishable goods: all the main arterial industries would have disappeared, the staple foods and manufactures flowing in as tribute from Asia and Africa."⁴⁸

In his book, Callinicos rather assumes that quoting this passage alone will be enough to inspire disagreement in the reader – which is a strange assumption, given that any reader, particularly those in Britain who have experienced the neoliberal offensive in full force, may well be struck by the prescience of Hobson's remarks. The internationalisation of production over the last two decades and the change in the structure of capitalist enterprises inside the imperialist countries, alongside the growth of retail, financial and service industries and a tendency to contraction in the size and scale of the industrial manufacturing sectors, all seem to rather underline the tendencies Hobson had – albeit, somewhat one-sidedly – emphasised in this passage. It is even tempting to conclude that Hobson's vision only found its true moment of flowering in Britain during the globalisation years. If we understand his view as identifying a *tendency* towards parasitism and an international division of labour that reflects this, then he had surely identified a very real feature of imperialist world economy. As figure 5 shows the course of the 20th century saw the rise and then fall of industrial production as the dominant form of employment in the advanced capitalist states, underlining the argument that Hobson was right about the trajectory of world capitalist development towards the outsourcing of industrial production and the development of more parasitic forms of rentier capitalism in the imperialist countries.

Callinicos is not wrong to link these two aspects of Lenin's analysis together – the role of parasitism and the 'labour aristocracy'. But, given that he makes this link in his critique, it is odd for him to argue that Lenin identified no "economic mechanism" by which the labour aristocracy came into being. In the passages Callinicos cites, Lenin links the formation of this stratum directly to the role of monopoly profits.⁴⁹ The idea here is that as imperial capital dominates global trade and finance,

it corners markets, imposes monopoly pricing, extracts charges through credit and other investment vehicles, and can consequently accrue a far greater share of global social value than that which could be achieved were it simply operating in domestic markets. This redistribution and concentration of global social value in imperial economies effects domestic social and class structure as this wealth feeds its way through the system. But the way that this occurs, by amplifying social stratification within and between classes, makes the whole process a dynamic and crisis ridden one. In this sense, the concrete composition of the labour aristocracy is never 'fixed', but is subject to processes of formation and reformation with the historical development of capitalism. At the core of the concept of the 'labour aristocracy', as used by Lenin, then, is the simple idea that the working class is socially differentiated and stratified economically.

The historical experience of the 20th century can, however, help us to develop and refine this point further, with greater reference to the mechanisms of capitalist accumulation. Capital that is rooted in the imperialist countries seeks to develop into forms that allow it to:

- Maximise its competitive advantage in its domestically grounded production, by using labour-saving technology to raise industrial productivity and focusing investment on sectors requiring a high technical base;
- Take advantage of low wage, low skilled labour markets, either by creating new low wage domestic markets (migration, flexibilisation, precarité), or international markets through trade ('by cheap, sell dear') and the outsourcing of production;
- Diversify into highly parasitic financialised forms, able to redistribute value through the global system, and also to aggressively restructure failing capitalist enterprises, by asset stripping and raising levels of exploitation.

The result of this complex of processes is to increase social stratification within the working classes: expanding the low paid sectors, shrinking the 'old' labour aristocracies, creating others anew, pushing others further into the middle strata, in an overall dynamic process.

In this process of capital restructuring, the social also becomes intertwined with the spatial. Old urban manufacturing heartlands of the United States, Detroit, Cleveland, Pittsburgh, Baltimore, amongst others, for example, have seen their populations halve since the 1950s, in a period that has seen the overall population of the country double. As Harvey has discussed in his case study of Baltimore, the local elite's coping strategies have focused on growth industries like hotels, services and retail, creating a large low wage, precarious, new labouring class, and also reshaping the urban landscape.⁵⁰ Although it might appear to be a process of creative destruction – as old industries give way to the nimble and dynamic – what actually emerges is an economic model built on the sand of asset and property price bubbles, as the world saw to its cost in the crisis of 2008.

Moreover, as Harvey has pointed out, there is nothing that says the money generated flows back into the local economy, let alone to projects with any general social utility – it is far more likely to end up on the stock markets of London and New

York in a new round of speculation.⁵¹ A particularly extreme example of this process was Obama's treatment of the troubled Detroit-based General Motors in his first year in office. A once confident, skilled, well organised, largely labour aristocratic section of the working class – a force that had been so important in consolidating US capitalism in the 1950s and 60s – faced a jobs massacre pushed through with open union complicity. But, most strikingly of all in terms of this reconfiguration of social hierarchies in the class, was that the workers who remained found themselves organisationally-incorporated into the enterprise, as the union took a shareholding in the company in exchange for accepting the restructuring without any fight. Could there be a more compelling illustration of the destruction, recreation and *reincorporation* into the system of the labour aristocracy than this one?

Underpinning Lenin's acknowledgement of the importance of this changing physiognomy of the working class in highly developed capitalisms was his concern with a political problem. Namely, how to explain the hold of social democratic and labour parties, and reformist ideas more generally, on the working class in these states? He recognised empirically that the relative wealth of these economies gave the capitalists greater room for manoeuvre to foster privileged strata within their population which could help to stabilise capitalist rule overtime. Following Engels before him, he simply observed that this process led to a working class that was more 'internally' stratified with a layer of more privileged, skilled workers closer to the middle classes in terms of their standing of living. Insofar as these layers were organised in the workers' movement, this provided a favourable social basis for reformist, social democratic ideas. If the first part of Callinicos argument is concerned with the economic formation of the labour aristocracy, the second part of his objection comes through a critique of this political conclusion. He argues that during the post-war radicalisation in Western Europe (1918 – 1920) it was often skilled, better-paid sections of the working class rallied to the communist, anti-imperialist cause espoused by the nascent communist parties and away from the social democratic leaders who had supported the First World War.⁵² Although Callinicos poses this point as a criticism it really need not be, if, that is, we reject the excessively reductionist idea that a workers' level of radicalisation can simply be read off their social standing in the class. Indeed, Callinicos is just presenting Lenin's point very one-sidedly. Lenin was not saying that it was impossible to win such layers to the communist flag, but acknowledging the existence of a *tendency*; identifying it was actually a precondition for overcoming it in a conscious political intervention.

Moreover, we have seen time and again how the dynamic process of destruction and recreation of the labour aristocracy, can see profound radicalisations amongst these more privileged layers when their conditions are threatened. In the period following the First World War, cited by Callinicos, for instance, there was a very serious cyclical recession in Western Europe and, as in all such crises, once relatively privileged workers found their conditions under threat. Similarly, an economically reductionist error was made by those who believed the British miners would never fight Thatcher, as many had bought their council houses under her "right to buy" scheme. Although the miners were not as a mass 'labour aristocratic section' – with 300,000 mineworkers social stratification existed within their ranks – never-

Figure 5: Deindustrialisation – The fall in proportion of total employment in industry in the most advanced capitalist economies across the 20th and 21st centuries.

	Peak Year	% in industry at peak	% in industry in 1998	% in industry in 2008	% fall: peak year to 2008
United Kingdom	1955	47.9	26.6	21.3	55.5
Belgium	1957	47	26.1	24.7	47.4
Switzerland	1964	48.8	26.3	23.3	52.2
Australia	1964	38	21.9	21.5	43.4
Sweden	1965	42.8	25.7	21.6	49.5
Netherlands	1965	41.1	22.2	18	56.2
United States	1966	36.7	23.6	19.1	48
Canada	1966	33.7	22.4	21.5	36.2
New Zealand	1967	39.7	24.1	21.5	45.8
Germany (FRG)	1970	49.3	35	29.9	39.4
Denmark	1970	37.8	26.8	22.9	39.4
Norway	1971	37.5	23.4	21.1	43.7
Italy	1971	39.7	31.9	30	24.4
France	1973	39.5	25.2	20.6	47.8
Austria	1973	42.8	30.4	26	39.3
Japan	1973	37.2	32	27.3	26.6

Source: OECD

theless, when it came to the fight with Thatcher, it was not a simple case of the unskilled radicalising and the skilled, labour aristocrats, acting as a brake on the struggle. There is thus no simple axiomatic relationship between social status and ideas – the interaction between living standards, radicalisation, consciousness, militancy and organisation is a dialectically mediated and historical process. The point Lenin was emphasising, a point that has stood the test of time, is that the working class cannot be united on an economic level alone – its intrinsic stratification and unevenness makes this impossible – and therefore needs to unite on a political level around revolutionary socialist ideas. In this respect, the analysis was linked closely to his earlier political ideas on the role of the party in developing socialist consciousness in the class outlined famously in *What is to be done?* It was a part of Lenin's theory that carried with it the most overtly political conclusions, for it recognised reformism as a social force inside the working class movement that necessitated the developing of tactics and strategies that could overcome it.⁵³

1.7 Finance capital – the evolution of the capital form and imperialism

Up till now, the analysis has focused on the predatory impulses of finance capital, and the critiques made by Callinicos of the idea of the 'labour aristocracy' and parasitism in Lenin and Bukharin's theory of imperialism. So far, then, we have not come to the theoretical core of either Callinicos or Harvey's arguments, which focus

on the need to reconceptualise imperialist domination as the intersection of territorial and capitalist logics of power. Part of Callinicos' motivation for this rethinking of the theoretical premises lies in his concern that the classical theories of imperialism gave too great a focus to the role of finance capital, whose domination was seen as encapsulating the evolution of the capitalist system to a new stage. The difficulty, he argues, is that the notion of finance capital developed by Hilferding was focused on the German banking model and did not 'fit' the imperial hegemon of the time, Britain. This problem was deepened further in Lenin's work, he argues, insofar as he adopted Hobson's supranational notion of finance capital, which suggested a potential post-imperial evolution of the system that transcended the nation state form and its conflicts. For these reasons, Callinicos seeks to re-orientate imperialism theory by focusing on the irreducible role played by the geopolitical and nation state system in the evolution of the capitalist mode of production. Before we come in the last part of this article to look in greater depth at this suggestive idea of the intersection of capitalist and territorial (geopolitical) logics of power, let us now consider how Callinicos constructs this step in the argument.

At the heart of his argument is the question that has long troubled not only Marxism but social theory more generally: how to understand the relationship between the general and the particular, or, in other words, the universal and the historically specific? Callinicos argues that conflating the one with the other when it came to the notion of finance capital has dogged classical Marxist theories of imperialism. He writes:

"... The classical Marxist theory of imperialism sometimes conflated the historically specific with the universal: thus the theory of finance capital that Lenin took over from Hilferding extrapolated far too much from characteristic that were distinctive particularly to late nineteenth century Germany."⁵⁴

Callinicos' criticism is that Hilferding made a generalisation about what exactly constituted modern finance capital from the historically specific form taken by it in Germany. And, both Lenin and Bukharin, he argues, had taken up this concept of finance capital, which Callinicos summarises as "the fusion of banking and industrial capital under the dominance of the former"⁵⁵ and, alternatively, but in a similar vein, the tendency for the merger of industrial capital with the banks to form finance capital.⁵⁶ As an assessment of Hilferding's position, this is certainly accurate; at the core of his notion of finance capital was the increasingly dominant role played by the banks over industry due to the dependency of the latter on credit. Key to his idea was the growing domination of 'interest-earning capitalists' over 'profit-earning capitalists'. He writes of the banks becoming, thus, "the founders and rulers of industry":

"The mobilization of capital and the continual expansion of credit gradually brings about a complete change in the position of the money capitalists. The power of the banks increases and they become founders and eventually rulers of industry, whose profits they seize for themselves as finance capital, just as formerly the old usurer seized, in the form of 'interest', the produce of the peasants and the ground rent of the lord of the manor. The Hegelians spoke of the negation of the negation: bank capital was the negation of usurer's capital and is itself negated by finance capital. The

latter is the synthesis of usurer's and bank capital, and it appropriates to itself the fruits of social production at an infinitely higher stage of economic development.⁵⁷

What we see in this passage is Hilferding wrestling with a real problem; namely, to what extent was the dominant position played by the banks in German industrial development expressive of the general form of the new finance capital? This is the tension that exists here in his general statements on the negations involved in the evolution of capital and his more concrete observations on German industrialisation. His attempted resolution of this tension, as Callinicos notes, was to use what was, in effect, a version of Trotsky's idea of the 'privilege of historical backwardness': which noted how late industrialisers had to use special means, including borrowing on the technical accomplishments of their already industrialised competitors but also adopting novel methods of their own, in order to be able to overcome their backwardness and compete on the world market.⁵⁸ In the German case, this process meant the banks were the key drivers and controllers of industrialisation, as they were the principal source of credit – storing as they did wealth held by the non-capitalist classes – and therefore acted as the locomotive of German development. Hilferding recognised this specific arrangement arose from the demands of German development within an international-political-economy already transformed into a system of global commodity production and exchange, and within which Britain played a hegemonic role.⁵⁹ But he argued this correlation of power within the ruling class – the domination of the banks over production – nonetheless expressed an evolution of the system more generally to a new stage.

Callinicos' critique of this approach is that in Britain, where the banks did not play this role, the form taken by finance capital was different. But as his argument develops it transpires he is making stronger objection: that the organisation of finance capital should not be one of the main objects of enquiry in imperialism theory.

The problem here is that Callinicos would need to do far more to justify this profound change in the analytical focus than he does. The classical Marxists recognised an apparent connection between the evolution of capitalism towards financial oligopoly and the territorial conquest of the globe; it was quite legitimate to ask how these occurrences related to one another (and, as it happens, Callinicos' own periodisation of the rise of imperialism from the 1870s onwards, implies he, too, recognises an inter-relationship between these elements). In terms of finance capital, the issue was how to theorise and explain, within the framework of Marx's *Capital*, this more and more apparent historical change in the advanced states, which, in one form or another, saw financial institutions and large investment vehicles increasingly play a hegemonic role over production. The contradictions involved in this process and the tensions between production and finance within the new configurations of bourgeois power, were rightly judged to be crucial in determining the evolution of modern capitalism. By seeking to move the analysis of imperialism onto another stage altogether – the more general processes of interaction between the geopolitical and the economic – Callinicos is losing sight of the need to account for the 'how and why' involved in these economic changes.

Taking a balance sheet of Hilferding's approach is important, but not because of a mistaken induction he made on the basis of the German developmental experience. Rather, the issue was with his theoretical framework and specifically his understanding of money, which meant he did not draw out the contradiction that was lodged in the interaction between capital in its money and commodity forms. Consequently, his theory contained no account of the potential for crisis which arose due to the growing dissonance between production and finance which set in as capital developed in a more centralised and monopolistic direction. When it came to his view of finance capital as the domination of banking over industry, this led him to overstate the power of the banks and their capacity to bring competing industrial capitals to heel using the weapon of credit and thereby act as an instrument for the rational planning of production.

Without a doubt, Hilferding's analysis was enormously influential. But the extent to which other Marxists of his generation took up his understanding of finance capital without modification is a question of debate. Bukharin and Lenin recognised the universal role of the banking system and its enormous power, but they situated this within the more general tendency towards oligopoly that had beset capitalist enterprise. So Lenin wrote of how the banks' new powerful role, which had arisen out of the massive expansion in the scale of their accounting operations, had given them more power than ever to act as a "single collective capitalist" and control the fate of whole branches of enterprise. However, in the same chapter, he recognised the tension in this "coalescence" of banking and industry and how the universal character of banking was only the form it assumed, while, in substance, it combined the private "interests of big capital, and primarily, of huge, monopoly capital".⁶⁰ Crucially, Lenin, in his discussion on finance capital, recognised the contradiction lodged in the separation of productive and money capital *per se* and noted this was now greatly amplified, reaching "vast proportions" with the rise of the financial oligarchy.⁶¹ This last position is likely to have reflected the criticism that he made of Hilferding – alas, one he never extrapolated – for adopting a wrong theory of money in *Finance Capital*. Clarifying and building on Lenin's comment is essential. But what was the substance of his critique? Harvey explains what Lenin might have meant with typical clarity:

"Marx built his theory of money out of an analysis of capitalist commodity production and exchange without reference to the circulation of capital. In so doing, he first identified the contradiction between money as a measure of value and money as a medium of circulation in order to lay the basis for understanding how the contradiction is heightened when money circulates as capital. This contradiction disappears almost entirely from Hilferding's work. Monetary phenomena are reduced to 'pure organs of capitalist financing', completely under the control of finance capital. Hilferding depicts finance capital as both hegemonic and controlling, whereas Marx depicts it as necessarily caught in its own web of internal contradictions. The central contradiction for Marx lay between what he called the financial system and its monetary basis."⁶²

Consequently, when it came to the financial system, Hilferding recognised the growth of fictitious capital that was at the core of the growing domination of finance, but he did not see the potential for crisis lodged in this growth, as capital in

its fictitious form outpaced – for example, through speculation on property prices – the production of real value, leading to a misalignment between imagined and real values, one that eventually would result in a crisis. As this example should illustrate, the issue was understanding the contradictions lodged within the development of capitalism towards a highly centralised and financial form: this required a view of finance capital as *both* a contradictory movement of interest-bearing capital *and* a change in the configurations of power inside the bourgeois class.

Harvey has argued forcefully in *Limits* that the missing element in the classical analyses was Marx's theory of money (*Capital Vol. 1*) and finance and banking (*Capital Vol. 3*) which, taken together, provide a theorisation of finance capital as a conflicting and crisis-prone process: that is, "a contradiction-laden flow of interest-bearing capital – a conception, which we should note is entirely consistent with Marx's general view of capital as a *process* rather than a thing."⁶³ This leads Harvey to offer a reformulation of Lenin and Bukharin's typography of finance capital: as a unity of banking and industrial capital that "internalises tension, antagonism and contradiction" owing to finance capital's fundamental inability to eliminate this antagonism between capital in its commodity and money forms.⁶⁴ This reformulation is useful, for drawing in the crisis-ridden nature of finance capital. It is interesting that it also echoes a description used by Trotsky in the late 1930s, after the experience of the major financial crises, of finance capital as "monopoly with tendencies of anarchy".⁶⁵

There is also another dimension to the analysis present in both Lenin's and Bukharin's work, which comes out in Lenin's discussion of the separation of money and industrial capital.⁶⁶ In his discussion of the rentier-like, parasitic nature of finance, there is the idea of an evolution of capital to a new form more and more separated from production.⁶⁷ This had been previously suggested by Bukharin who wrote of the "growing impersonal character of capital" that came with the "the growth in stocks and bonds" as expression of forms of property and ownership characteristic of the growing domination of finance capital.⁶⁸ The idea suggested is that this was the emergence of a form of capital which had transcended any 'sectoral' roots – i.e. in a single branch of production – and it was, so to speak, the closest that the social force of capital in concrete space and time, could come to the abstract concept of capital Marx had theorised. In this respect, we see in the evolution of capitalism to an imperialist stage the emergence of a form of 'pure capital', able to move through different industries at will and organised in large concentrations of capital such as the modern investment vehicles that have multiple interests and complex ownership structures. Capital in the age of oligopoly, thus, can be understood as driving towards this 'pure form' – forcing a unity of banking and industrial capital that incorporates tensions, pressures and contradictions. Moreover, it is exactly this kind of analysis that would represent a real attempt to try to 'continue the project of Marx's Capital' - the stated commitment of Callinicos at the outset of his book - by applying the abstract framework of the mechanisms of capitalism he established, in order to trace the concrete evolution in the capital form itself and how this relates to the changes in the political-economic order.

The result of this theoretical approach for imperialism is to defend the project

of understanding the contradictions lodged within the historical evolution of capitalism to a new stage of high finance and monopolisation, whilst enriching the theory through engagement with Marx's writings on interest bearing capital. In this way, Callinicos' argument that there is no single organisational form of finance capital can be challenged at both a historical and theoretical level. Historically, the approach outlined in this critique takes as its object the contradictions of the system of finance capital that emerged with the growing concentration and centralisation of capitalism at the tail end of the nineteenth century. Theoretically, it provides a means by which to explain and analyse the concrete organisational configurations of finance capital that arise out of the contradictions between industrial and banking capital, in these conditions of heightened capital centralisation. These shifting organisational configurations of finance capital are also, we should add, subject to contingent externalities to the capitalist accumulation process. In particular the actions of governments that continually look to re-work regulatory frameworks in an unending bid to do the impossible: solve the fundamental contradictions of capital. As Harvey explains:

"The shifting patterns of control of corporations by banks or banks by corporations have also to be seen as part of a perceptual process of probing for an organisational form that will enhance the capacity of capitalism to survive in the face of its own internal contradictions. In exactly the same way that perceptual oscillations in market prices are fundamental to the establishment of equilibrium value, so perpetual oscillations in the balance of control between bankers and corporations are essential to the achievement of that equilibrium relation between finance and the production of surplus value..."⁶⁹

In this chapter of *Limits*, Harvey emphasises how the balance of power between finance and industry tends to change at different moments of the accumulation cycle, because the cycle "invariably produces phases that are long on commodities and short on money and vice versa."⁷⁰ But, whilst this certainly affects the balance between banks and industry in the cycle, arguably more significant are the politically enforced changes that affect the organisational structure of finance capital across whole decades. The importance of such changes is difficult to overstate. After all we have seen in the last three decades how they can impact on the form taken by finance capital itself. Successive legislative changes on the domestic and international scale provided the institutional and regulatory framework which allowed US and British finance capital to diversify into a variety of seemingly evermore fictitious forms. To understand such changes, which take place on what Richard Brenner has called the 'metacyclical' level⁷¹ – i.e. the longer temporalities that can incorporate a number of accumulation cycles – we need to analyse *both* the economic imperatives for capital (the search for "organisational forms in response to internal contradictions"⁷²) and the struggles within and between classes that determine the form and content of the political response to these intrinsic and fundamental capitalist contradictions.

Last of all, this understanding of 'finance capital' also touches at the heart of the finite character of the existing economic order: that the capitalist system, having reached this stage of the evolution of capital into finance capital, has 'nowhere else

to go'. A position that challenges the various conceptions of hyper-imperialism - understood as a post-imperial evolution of the system - posited by a diverse range of theorists over the last hundred or so years. Although Callinicos also rejects a theory of hyper-imperialism, his reasons for doing so lie outside any notion of the capital form itself, but stress only the centrifugal pressures elicited by capital and their intersection with geopolitics. What this misses out on is that once capital evolves to a monopoly form with its consolidation as 'finance capital', it reaches its intrinsic limitations. This dimension of the analysis is important not simply on historical and theoretical grounds, but also because the evolution of capital to such a stage posits within itself the possibility of socialist transition. It represents a growing socialisation of production the enormous possibilities of which are obstructed by its continued private ownership. In this regard, there is much more to Lenin's analysis than economic and geopolitical competition, creating rivalries and tensions, and systemic unevenness. There is also a social theorization of the material possibilities for socialist transformation in the existing system.

1.8 History, concepts and analysis: the method of non-deductive concretisation

What this analysis shows is that at one level Callinicos simply asked the wrong question: i.e. 'is there one organisational form of finance capital'? It did not, naturally, take him long to find that there was no single organisational form. But this led him to drop the project of theorising the mechanisms of finance capital as part of the imperialist evolution of the system. Perhaps at the root of this mistake is the method of abstraction and concretisation Callinicos outlines at the beginning of *Imperialism and Global Political Economy*. In his opening statement of method, as we discussed earlier, Callinicos invoked the idea of continuing Marx's project of *Capital* and generating "testable auxiliary hypotheses". In the process, he discusses Marx's method of abstraction and concretisation which he summarises in suggestive terms as a system of 'non-deductive concretisation'.

This is an understanding of Marx's method in *Capital* as one that involves the progressive introduction of more complex determinations that enrich and deepen the analysis at each stage; for example, Callinicos correctly points out that Marx starts with the notion of the commodity and only afterwards builds into his analysis the capital-labour relation, as a more concrete concept which makes capitalism distinctive from earlier systems.⁷³ The strength of this view of Marx's method is that it understands the descent from more general to more concrete determinations in *Capital* as being undertaken non-deductively. As Callinicos explains, "a deductive argument is content preserving: the conclusion of such an argument, when validly inferred, makes explicit content implicit in the premises. By contrast, the introduction of each more complex determination in *Capital* adds new content to the analysis."⁷⁴ This interpretation of Marx's work can act as a legitimate riposte to erroneous criticisms of Marx's method as circular and self-referential, i.e. deductive. In actual fact his methodology marked an explicit departure from just such assumptions; for example, consider Ricardo, whose political-economy greatly influenced his own, but who had applied a deductive method of economic abstrac-

tion, one consequence of which meant that he could not complete his labour theory of value as a concrete explanation of the distribution of social value in the capitalist mode of production.⁷⁵ Consequently, Marx's dialectical and historicised method of concretisation should be understood as one that successfully transcended the traditional divide in western thought between inductive (empirical) and deductive (abstract-theoretical) frameworks.

Nonetheless, whilst there may be merits in seeing Marx's dialectical method as non-deductive in its basic premises insofar as his arguments are not circular but dialectical, there are more serious demerits in the method Callinicos outlines which make this very problematic as a general interpretation of *Capital*. There is first of all the rather banal complaint which can be made that, whilst Callinicos establishes the principles of the framework of non-deductive concretisation early on in his book it does not feature extensively (with one exception discussed below) in the rest of his analysis; as a result, the categories of classical imperialism theory are not actually framed within the method of Marx's *Capital*, for example, as 'more concrete determinations' that are 'progressively' built into the analysis. Had Callinicos followed through more systematically on the promise of this method of 'testable auxiliary hypotheses' of Marx's work, he may not have drawn the conclusions he did on the organisational form of finance capital, which are, in the end, rather empiricist. But the more egregious issue is that the main influence on Callinicos' understanding of Marx's method of political-economy is the French structuralist, Louis Althusser. This is qualified by Callinicos' rejection of Althusser's "notorious anti-humanism", i.e. his view of the political and social subjectivities of agents as being epiphenomenal to their position within a structural system.⁷⁶ However, despite drawing this line in the sand, in his reading of Marx's method, he adopts two key Althusserian positions.

Firstly, Callinicos argues that the relationship between the categories of *Capital* is "analytical and not historical".⁷⁷ This is seriously wrong. The concepts Marx mobilised are defined and related to one another in temporal terms. It is true that Marx differentiates between two different things: the historically specific role played by economic categories within capitalism and the succession of the appearance of these phenomena - such as exchange - in historical time. So he writes: "The point is not the historic position of the economic relations in the succession of different forms of society. Even less is it their sequence 'in the idea' (Proudhon) (a muddy notion of historic movement). Rather, their order within modern bourgeois society."⁷⁸ If this is all Callinicos means, then there is no objection. But the relationship between the categories is still both historical and analytical, because part of the issue is showing the historically specific ways in which more general features of human society exist in capitalism. In general, abstractions denote necessary causal relationships between people and Marx's method of abstraction moves between the necessities operating at different historical levels of the analysis of society he presents. As Andrew Sayer puts it:

"The hierarchy of types of concepts in Marxism [range] from the most basic abstract concepts which refer to transhistorical necessities, through [to] historically specific abstract concepts, through [to] the tendencies... [and on] to the more concrete level.

As we have seen, because of the historical nature of society, which historically specific abstractions must be used depends on the kind of basic necessary relationships which obtain at any point in time.⁷⁹

In other words, Marx's method of abstraction takes the historical development of society as its starting point for the process of abstraction and concretisation; the aim being to identify the real causal mechanisms in specific modes of production by incorporating 'necessities' operating at differing levels of historical particularisation and generality. Marxist exposition thus proceeds by, if we want to use Callinicos' phrase, "building in" more historically specific categories at each stage; from foundations of historical materialism (e.g. people, nature), to transhistorical claims (e.g. social relations of production), to historically specific abstractions (e.g. capital-labour), down to the formation of concrete concepts (e.g. 'the nation-state system').⁸⁰ Each level of the framework, then, sits at a certain 'temporal' level of the analysis and as you move down to more concrete concepts, they incorporate the mechanisms denoted by the more abstract categories in irreducible and specific ways.

Secondly, Callinicos argues that Marx "abandoned the attempt he made in the Grundrisse to 'dialectically' deduce the concept of capital from that of money" and instead treated "labour-power and related concepts (surplus value, exploitation, etc.) as a distinct set of determinations irreducible to those they succeed."⁸¹ This leads him, for example, to see the idea of non-deductive concretisation as leading to a rejection of the view that the capital-labour relation is contained in the commodity.⁸² This view may appear at first to be an attractive position; even if, for example, we embrace an historical notion of abstraction, is it not the case that the commodity in the simplest sense of the term - a product of labour produced for exchange - cannot 'contain' the idea of the capital-labour relation, because the production of products for exchange is a phenomena that historically precedes the advent of capitalism and therefore the capital-labour relation as it is properly understood? The capital-labour relation would in this respect have to be 'added in' through the course of an historical analysis of specifically capitalist commodity production. But Callinicos has already argued against such an historical reading of Marx's method of abstraction. Thus what is at stake here is the relational status of the categories in Marx's understanding of the capitalist mode itself. It is precisely because Marx's whole method is geared towards the historicising of his conceptual apparatus that the concepts he applies can only be defined in their essence as part of internalised and relational systems of human social relations. As Derek Sayer has argued:

"Neither wage-labour nor capital, for instance, can be defined 'in themselves', as autonomous particulars, conceivable independently of one another. Nor can they properly be understood as externally 'interacting' on one another. Each is what it is only by virtue of its relation to the other, and must be conceptualised accordingly. The concept of capital implicitly contains that of wage-labour, and vice versa."⁸³

The irony of this fallacy committed by Callinicos is that one of the reasons he gives for his attraction to Althusser is the apparent 'relationality' of his concepts.⁸⁴ But in Althusser this is a 'relationality' between phenomenon that are essentially conceived as externalities of one another, while, in contrast, for Marx the whole notion

of 'totality' imbues his dialectical methodology as dialectical relations are conceived as internal, systemic ones. The consequence of this approach is that modes of production should be theorised as concrete, historical totalities. So, in *The Poverty of Philosophy*, for example, Marx points out that to "define bourgeois property is nothing else than to give an exposition of all the social relations of bourgeois society. To try and give a definition of property as an independent relation, a category apart, an abstract and eternal idea, can be nothing but an illusion of metaphysics."⁸⁵ In *Capital*, then, Marx was engaging in an increasingly concrete analysis of the capitalist mode of production as a totalising, historical phenomenon. This is the reason that he refined his categories in the *1859 Critique* and after; it did not represent a fundamental change in his method away from the dialectic, but, rather, the more historically concrete form the determinations took - away from notions of labour 'pure and simple' in a transhistorical sense - expressed the fact that he was moving to a more historically specific level of abstraction: that is, the necessities operating in the capitalist mode of production.⁸⁶

There are at least two implications that follow from this critique of Callinicos' method. Firstly, the concept of capitalism that emerges is a non-reified one as it provides the tools to situate the emergence of this specific mode of production within the development of human productive and social capacities more broadly. One consequence of this, then, is that only with this interpretive reading of Marx's work, can historical materialism claim to be a theory of history in the true sense of the term - with an ontology and hierarchy of concepts able in principle to be applied in a non-reified and historically concrete way to any number of different historical modes of production - rather than just a theory of one mode of production, capitalism. Secondly, and related to this point, it incorporates time, change, and all the dynamism and movement that comes with these concepts, into the analysis in a way that structuralism tends not to. The method of the latter often proceeds on vertical lines - how structures intersect with one another from the top-down at specific historical conjunctures - rather than the contradictions and processes that govern the 'horizontal' movements in time between these conjunctural moments. As a result, structuralists tend to miss out the transformations occurring in structure over the course of historical time. To return to the subject at hand, with all the risks of over-extrapolating from this methodological digression, it does seem fair to say that this tendency is found in Callinicos' view of finance capital, because it takes a 'snap shot' of the historically specific organisational form Hilferding had analysed and sees the theory as standing or falling on the basis of the extent to which this vertical-structure of organisation generally endures.⁸⁷ Left unexcavated are the historical mechanisms that lead to transformations between these forms.

1.9 Markets, states and 'the international': between Nicolai Bukharin and Hannah Arendt

The question that remains, then, is what this conception of the mechanisms of finance capital means for the domination of the world by the most powerful states, seeking territorial and economic expansion for their rival formal and informal empires - what Callinicos calls the *differentia specifica* of modern imperialism.⁸⁸ The an-

swer in the classical tradition – which Callinicos and Harvey both largely embrace – is that the increased concentration and centralisation of capital leads it to outgrow national borders and this necessitates the need for their domestic political jurisdictions to work towards an international order favourable to this expansion. As Bukharin puts it, quoting Hilferding favourably in the process:

“The development of world capitalism leads, on the one hand, to an internationalisation of the economic life and, on the other, to the levelling of economic differences, and to an infinitely greater degree, the same process of economic development intensifies the tendency to “nationalise” capitalist interests, to form narrow “national” groups armed to the teeth and ready to hurl themselves at one another any moment. It is impossible to describe the fundamental aims of present day politics better than was done by R. Hilferding. “The policy of finance capital,” he says, “pursues a three-fold aim: first, the creation of the largest possible economic territory which, secondly, must be protected against foreign competition by tariff walls, and thus, thirdly, must become an area of exploitation for the national monopoly companies.” The increase in the economic territory opens agrarian regions to the national cartels and, consequently, markets for raw materials, increasing the sales markets and the sphere of capital investment; the tariff policy makes it possible to suppress foreign competition, to obtain surplus profit, and to put into operation the battering ram of dumping; the “system” as a whole facilitates the increase of the rate of profit for the monopoly organisations. This policy of finance capital is imperialism.”⁸⁹

What Bukharin emphasises here is the intrinsic need of capitalism to force open the ‘economic territories’ of the world. Explicit in both Hilferding and Bukharin’s analyses was the struggle for the exploitation of global markets by finance capital, as corporations exhaust domestic markets and look for expansion globally. But the corollary of this, in the language of dialectics, is its ‘negation’, i.e., this process of capital internationalisation elicits a simultaneous tendency to ‘nationalisation’ owing to the competition dynamic inherent in the system. Unfortunately, the extract also illustrates Bukharin’s propensity to one-sidedness – the unilinear projection here is that imperialism must always take control of territory and operate behind tariff barriers. Although this is an understandable conjunctural observation given the events of his day and is similar (albeit more one-sidedly expressed) to Lenin’s view that the direction of development was towards formal colonial empires, it nonetheless cannot be taken as a substantive essence of imperialism given post-war decolonisation. Whilst these pressures and imperatives around tariffs and protectionism have been a recurring theme of the international-political-economy for well over a century now, we have seen in different periods, the pressures over access to markets vary in their intensity. In the mid-part of the 20th century, we saw the process of decolonisation change the political and juridical terrain in which the struggle for markets in the south and east took place whilst, of course, at this same mid-point, the expansion of the Stalinist eastern bloc closed off whole territories to capital. At least two of these themes – varying intensities of inter-imperial rivalry in different periods and the post-war decolonisation – pose the question of how to account for the relationship between the struggle of capitals for markets within the geopolitical context of the national-state system, one dominated by a select few, ‘Great Powers’.

It is in how they account for this relationship that we find the principal point of convergence between Harvey and Callinicos; both understand imperialism as representing a contradictory unity between the political and economic logics of power on the international stage. This is an attractive solution, because, as a basic formula, it sees the link between political domination – be that through the formal structures of colonialism or the more subtle and informal mechanisms of the post-1945 state system – and the economic logic of monopoly and financialised capital, as existing in a dialectical relationship. To develop a full and rich picture of the evolution of the global system, then, it is beholden on us to incorporate both these elements, the politics of imperial subordination and the contradictory flows of capital accumulation, into a ‘moving picture’ of modern capitalist history. But how exactly should we conceive of the theoretical – that is, causal and ‘lawful’ – intersection between these two elements, the political and economic?

Pace Callinicos’ claim that his difference with Harvey is “not... one of content but merely one of formulation”⁹⁰, there is a substantive divergence between the two theorists in the answer they give to this question. Drawing on Arendt’s understanding of imperialism, which sees capital accumulation requiring a parallel accumulation in political power, Harvey introduces the idea of two logics of power, the economic and the territorial, and suggests that they operate according to co-existing and mutually reinforcing but, at the same time, separate and contradictory imperatives. In contrast, Callinicos talks of the intersection of the geopolitical – i.e. the systems of nation state interaction rather than the territorial form of political governance – with the economic, and, drawing on Bukharin’s understanding of the state and capital, argues that that nation-state system can be understood as a concrete determination of the capitalist mode of production (this is where he does apply his idea of ‘non-deductive concretisation’).

The need for a degree of creative thinking on these questions of how the economic and the political intersect, results from the developments in the international order in the decades following the Second World War. This is what Callinicos calls the phase of ‘superpower imperialism’ which marked a shift between the closed and formal methods of political colonisation to the ‘Open Policy’ of the United States, designed both to extend its sphere of influence internationally in the wake of the fall of the European empires and to open up opportunities for its capital through increased economic integration with the liberal capitalist states that emerged out of the post-war settlement.⁹¹

In the extract cited from Bukharin above, the policy of finance capital is seen as fostering closed economic spheres of influence and, on the surface at least, the post-war period seems to confound this expectation. The historical specificities involved in this ‘negation’ are drawn out by Harvey and Callinicos who both identify the importance of the historically unprecedented long boom in capitalist expansion c. 1950 – 1970 and the conflict with the Soviet Union (with this common enemy ameliorating the antagonisms within the western bloc).⁹² Both note the specificity of the US imperial hegemon in the aftermath of the Second World War; it was able to realise an unprecedented degree of hegemon and power over the imperialist nations. By contrast, in the period of British hegemony, the world order remained a

multi-polar one with powerful challengers to the leading power. The US was able to develop a discourse of universality and “open” policy that disguised the fact that it dominated the political and juridical framework established in the post-war western institutions like Bretton Woods.⁹³ In this experience there is the interesting implication that having a hegemon that can impose an imperialist order on the world is a better overall “solution” for the weaker imperialist powers, than a situation like that which obtained between the two world wars when no power could impose order and so all suffered the dire consequences of their own frenetic, inter-imperialist competition.

Importantly, both Callinicos and Harvey recognise that in this period there remained serious economic tensions within the western alliance. Harvey notes that the nature of the relatively open juridical framework in tariff and trade relations established by the US made it vulnerable to economic competition from its rivals. So, when over accumulation hit the system in the 1970s, US multinationals were challenged by German and Japanese competitors.⁹⁴ Callinicos adds to this the unilateral move of the United States out of the dollar-gold parity system to floating exchange rates in 1971 – 73,⁹⁵ which would allow it in the coming decades to manipulate the value of the dollar to its competitive advantage – a device that would be used against Japan in the late 1980s.⁹⁶ Until now, these competitive pressures could be absorbed within the existing framework of the international order, one that was further strengthened in its scope and level of international integration by the collapse of the Soviet Union (allowing for the universalisation of American hegemony and capital internationalisation which was popularly known as ‘globalisation’). Today, however, with the pressures elicited by the financial crisis and world recession, the return of more overtly protectionist impulses and an emerging multi-polar framework in international relations, the nascent contradictions that could transform things exist.

All in all this set of historical experiences means, as Callinicos puts it, the theoretical framework adopted by a compelling Marxist theory of imperialism must treat “different aspects of the state-system – geopolitical structures, the relationships between states and capitals, and military organisation and technologies – ... as explanatory variables”. And, moreover, in this regard, “contingency plays an irreducible role” in events.⁹⁷ So it must be theoretically incorporated – in a dialectical relation to historical ‘necessity’ – in a moving and dynamic view of the evolution of the imperialist order, as shifts within periods of its development have resulted from the outcomes of struggles that were not pre-determined.

We have seen this time and again. From the astonishing errors made by the German High Command in the Second World War, to the conflict between Kennedy and the US General Staff over whether to launch a first-strike in the Cuban Missile Crisis, to, when it comes to revolution, Lenin’s role in the crucial months of 1917 and the inexcusable error made by the German Communist Party in failing to seize the opportunity to take power six years later, to numerous other examples in the historical temporalities of modern world history. All told, we see, then, the recurrent capacity of political agency, the struggles within and between the classes, to reshape the forms and character of whole decades of world development. The need

for a dialectical incorporation of the political and economic – and, at a deeper methodological level the ‘contingent’ and ‘necessary’ – is pronounced if we are to really go beneath the surface of events to reach a deeper understanding of these changes. Two issues are then posed. One is the relationships between classes and the state on the ‘domestic’ level, the other is the interaction between the nation-state system and the world market in ‘the international’.

On the first of these issues, Marxists have long argued the relationship between the state and capital is not a coincidental or accidental one, as the development of the modern bourgeois state went alongside the evolution and consolidation of the capitalist economy. The need to dislodge the feudal and absolutist systems and establish centralised state authorities that could legislate and enforce the rules and procedures necessary for capital accumulation to flourish was at the heart of the dramatic social and political changes of late 18th and 19th centuries. From the insurrectionary advance of France and America, to the apparently slow moving and piecemeal versions of the same process in Britain and Germany, the consolidation of bourgeois social and economic power required a corresponding political and institutional framework. As Harvey notes, there is a simple conclusion to be drawn here on the necessity that exists between the bourgeois state form and capitalism:

“Capital accumulation... flourishes best in the midst of certain institutional structures of law, private property, contract, and security of money form... A strong state armed with police power and a monopoly over the means of violence can guarantee such an institutional framework and back it up with definite constitutional arrangements”⁹⁸

It is not that without such a framework capital cannot function but it does so “with increased risks and liabilities”. There are many examples historically of how flexible capital can become in creating “frameworks of operation over space in innumerable ways, using kinship, diasporas, religious and ethnic bonding, and linguistic codes to produce intricate spatial networks of capitalist activity independent of frameworks of state power”. But, nevertheless, the preferred condition of capitalism plainly remains institutions that offer legally guaranteed rules for competition, can arbitrate between different sections of capital, and, crucially, are constructed in such a way as to contain class conflict.⁹⁹ As the story that Harvey tells of neoliberalism and accumulation by dispossession shows, the ‘dark side’ of the state remains its instruments of force and coercion. The fraudulence of the idea of the night watchman state of classical liberal economics, is shown not only in the moments of brutish and diabolical reaction in response to perceived threats to market interests (famously in Chile, 1973), but also the more subtle daily grind of class, racial and ethnic prejudices that imbue police forces the world over, to the violence of imperial occupation and today’s ever harsher sanctions against the labouring and popular classes who challenge the interests of capital. This is the bourgeois state in all its glory – now and until its final passing away.

On these assumptions Marxists, at least those of the more radical, and certainly those of the revolutionary, persuasion, will generally agree. But when it comes to

actually accounting for the nature of this inter-relation, Harvey adopts a much more problematic set of theoretical assumptions. He draws a distinction, which he suggests is a sharp one, between the territorial and capitalist forms of power. This is developed through an unobjectionable enough account of the different motivations of capitalist and statesmen: the former wish to accumulate more capital for individual gain, “the politician typically seeks outcomes that sustain or augment the power of their own state vis-à-vis other states.”¹⁰⁰ Whilst this is true enough – plainly the immediate, proximate interests and motivations of, for example, Rupert Murdoch are quite different to those of David Cameron – the problem is that Harvey opens up this argument outwards to give a deeper and more fundamental meaning of two competing logics of power, the territorial and the capitalist. When it comes to their relationship, he quotes Arendt to argue that a “never ending accumulation of property requires a never ending accumulation of power”.¹⁰¹ Conversely, however, he sees these two logics as separate and distinct, thus, he understands a dialectical tension to exist in their co-constitution that means they can “frequently tug against each other, sometimes to the point of outright antagonism.”¹⁰² His conclusion from Arendt’s idea is addressed to imperial hegemony: arguing that the United States needs to accumulate territorial power in order to sustain and augment its own capital accumulation. But how it does this, and whether the power actually facilitates the capitalist logic, is the subject of the contradictory relationship between these two elements.

The problem here is not in the conclusion on US imperial power: the United States plainly requires a political, diplomatic and military presence in the world in order to keep international markets open and responsive to the needs of its own accumulation. But the issue lies in how Harvey arrives at his conclusion with the invoking of these two logics of power. Indeed Robert Brenner has argued Harvey’s actual historical account shows the working of a ‘singular’ logic: namely, imperialist politics that express deeper capitalist interests and contradictions. As Brenner argues, if we take the Vietnam or the Iraq war, examples that Harvey uses, we can agree that explaining the ‘how and why’ of these colonial adventures has to refer to more than the immediate demands of capital accumulation. We might even agree they were not in the interests of US capitalism, but this does not mean they expressed a territorial as opposed to capitalist logic of power.¹⁰³ Indeed a more orthodox Marxist account of imperialism can deal with the question of how the Iraq war may have undermined US economic interests in the region, by simply recognising the multiple political forms and policies that the pursuit of capitalist interests can take. As well as the successful consolidation and entrenchment of formal or informal empires this can allow for any number of ill-conceived imperial blunders. The theoretical foundation for Harvey’s understanding of these two logics is also seriously suspect. Arendt’s argument – made it has to be said in the vague tones that are typical of liberal political theory’s detachment from the strictures of real socio-historical analysis – that economic accumulation requires a parallel accumulation of territory is either a truism or, as Brenner notes, a theoretical postulate without empirical warrant and one that, depending on what precisely is meant, could easily be considered largely confounded by the post-1945 process of decolonisation

(Callinicos notes, for example, post-war American imperialism is distinguishable by its non-territorial form.)¹⁰⁴

Moreover, this cursory discussion shows there is also a tendency in Harvey's work to elide together two issues that, arguably, are analytically distinct: one is the relationship between the state form and capital, the other is the interaction between geopolitical pressures and markets at the level of 'the international'. In a system of many states, territorial governance must refer principally to the internal political jurisdictions of individual nation states. This is not meant to discount the importance of supranational legal and political authorities like the World Trade Organisation, but to simply put forward a qualifying reminder that these are built on the foundations of the state system in which individual states each make a special claim to uphold monopolies on the legitimate use of force over their territories. Moreover, this reality is a defining feature of these institutions; as they are fulcrums for power struggles between different 'organised territories', i.e. states, in a way that 'the state' in the singular sense is not. Consequently, the power projected by the American hegemon over the international order – over the system of many states – is quite different from the kind that would be used by a single, global state. The upshot of this is that theorising any notion of territorial governance has to take into account the mutations in the form it takes across historically specific social systems. If we consider – 'where does territorial governance come from?' – then we'll find that, strictly speaking, a territorial logic of power refers to something that has a much more universal character than any specific, historical relations of the modern world: the first settled communities, for example, linked governance to notions of territorial possession, however primitively they did so. This suggests that historically specific social relations create a certain type of 'territorial logic'. Theoretically, then, it does not make sense to imply as Harvey does that the territorial logic of power can on occasion 'predominate' over the capitalist logic: a necessity of human development that has recurred across many modes of production historically, cannot 'predominate' over more specific social relations.¹⁰⁵ The former, rather, become embodied, concretely, in the latter in distinct and historically specific ways. Or, in other words, capitalism has created its own 'capitalistic' territorial logic – the bourgeois state form within a hierarchically ordered nation-state system. There is not an antagonistic territorial logic operating according to internally defined mechanisms.

Callinicos offers a reformulation that seeks to overcome this problem by dropping this notion of territoriality in favour of the 'geopolitical' and how this comes to intersect with economic logics of power. Like Harvey, he develops this analysis through an initial discussion of the relations between the state and capital, but, unlike him, Callinicos offers an explicit recognition of how the subject of the analysis shifts substantially when it moves onto 'the international' and the cross-cutting inter-state and market relations that make up this aspect of the social world. So, he argues the distinction between his theory and Harvey's is that:

"In my version, I understand geopolitics, very broadly, to refer to all conflicts among states over security, territory, resources and influence. The place it occupies within the theory of imperialism thus directs our attention towards the state-system, the

privileged theoretical object of mainstream International Relations which... is conceived of having properties irreducible to those of its constituent units, the individual states."¹⁰⁶

The compelling part of Callinicos' argument is that this approach brings to centre stage the role of world politics in the historical evolution of imperialism. His periodisation of this development in capitalism thus invokes three distinct ages: Classical Imperialism (1870 – 1945), Superpower Imperialism (1945 – 1991) and Imperialism after the Cold War (1991 –) with the distinctive elements in these phases given by the specific shape and contours of the international order, i.e. the political, military, legal and institutional frameworks instilled by the dominant sets of Great Powers of the time, intersected with the process of capital accumulation.¹⁰⁷ One way this theoretical view – of imperialism as the intersection of a dominating capitalist, economic logic with intense geopolitical competition – is 'cashed out' empirically is through a distinctive view on the origins of modern imperialism as lying in the fusion of (a) the ferocious and continuous rivalries between the European powers that was the predominate feature of the world politics since the fifteenth century, with the (b) international consolidation of industrial capitalism.¹⁰⁸ Whilst this suffers from not addressing the evolution of the capital form towards the contradiction-laden integration of banking and industrial capital, it does nonetheless usefully draw attention to how a distinctively capitalistic imperialism emerged on the hypostasis of the early modern world's fierce system of geopolitical competition between the European colonial empires. Another way Callinicos indicates the merits of this inter-weaving of the two logics, is in his discussion of the post-war settlement, as he offers an understanding of America's "Open Door" policy that integrates the contingent policy designs of its leaders into the structural necessities of the wider international political-economy, allowing him to show the continuities and discontinuities of this new world order to the British-led one that it had displaced.¹⁰⁹ Overall, then, there is a similar strength to that found in Harvey's work – even, if it offers a less strident indictment of the human costs of the imperialist system – in that it shares a historical approach to the subject: situating the theory within the tectonics of modern world history.

How, though, does Callinicos integrate the three dimensions of the analysis discussed here: the state, the nation-state-system and the logics of capital? Whereas Harvey's principle theoretical influence is Arendt, Callinicos' chosen icon is politically 'closer to home': the Marxist and revolutionary Nicolai Bukharin. Callinicos draws out two elements of Bukharin's analysis in his re-elaboration: (a) the view of the state as a universal organisation of the ruling class and (b) the fusion of state and capital contained in his idea of state-capitalism. The first element sees the state as an essential means of stewardship for the ruling class, creating the framework institutionally and within civil society for the flourishing of capital accumulation. Bukharin argues "the state absorbs itself into the whole multitude of bourgeois organisations" and – echoing Marx and Engels' formulation from *The Communist Manifesto* – that it "becomes the sole universal organisation of the ruling class."¹¹⁰ Callinicos argues that in this conception the state is not conceived of in reductionist or instrumentalist terms, e.g. as an instrument of one section of cap-

ital, but as a 'universal' body of the ruling class, for it has to establish institutions that regulate and manage competition and work in the interests of what we might call 'capital in general'.¹¹¹ But, conversely, owing to the competitive nature of the accumulation process, the state reflects in a refracted, political form the conflicts within the ruling class and wider society. As Callinicos has elsewhere put it:

"The fact that Marxism treats politics as intelligible only in the context of the 'Other Scene' of the economic doesn't make the politics a mere epiphenomenon of the accumulation process. On the contrary, precisely because it is in the political that the contradictions of the capitalist mode of production are condensed and concentrated, what happens there matters an enormous amount both intellectually and practically. Thus Lenin's famous dictum 'politics is the most concentrated expression of economics' is intended to highlight the necessity of focusing on the ways in which social conflicts are refracted in the political field in a specific and irreducible form governed by the logic of the struggle for state power."¹¹²

In this sense, the state sits at the epicentre of the wider contradictions of capital: as state power – this special means of social control backed up by the formally legitimate use of force and coercion – tends to become the focus of struggle for contested visions about the future constitution of the social order, by both exploiters and exploited alike. But the very depth of the penetration of this social structure into the capitalist system – absorbing as it does penumbras of bourgeois organisations, creating others afresh, fostering intricate networks of links and ties, and establishing social hierarchies in its own internal structures too – means the state is bound together with capital, and can never be a means of anti-capitalist change. This view of the social relations between the state and capital, then, has long formed the analytical foundation of the major political postulate of the far left: the necessity of revolution in bringing about a global socialist transformation. However, this was not the only role played by this analysis for Bukharin. It also formed part of his understanding of the nature of competition amongst state and capitals in the international system. He saw a tendency for the integration of the state with private capital – through the formation of state monopolies where politics is fused with economics, and the state becomes the direct agent of exploitation – that he anticipated would result in finance capital evolving into state-capitalism. In this way, he linked the intensification of competition between nations to the growing fusion between state and capital, as the one followed necessarily from the other.

There was and remains a powerful insight contained in Bukharin's analysis: namely, the tendency he identified for the state to play a more and more practical role in the management of the economy and how he saw this arising from capitalist contradictions. We saw in the period since the fall of Lehman Brothers the dash by governments all over the globe to save their banking sectors from collapse, driven by the recognition that to let them fall would unleash an economic armageddon – such was the scope and scale of their operations and their central importance for the wider capitalist economy. With the state opening up vast lines of credit and taking share holdings in major private financial institutions, it seems to encapsulate Bukharin's idea of the 'state capitalist trust', whereby national economies become "one gigantic trust of financial groups and the state".¹¹³ In situations of cri-

sis, as the events of autumn 2008 showed vividly, finance capital retreats from an apparently supranational phenomenon with a global reach into its national moorings as each nation state bailed out 'its own' private financial institutions. The imperative to do so was driven by global market competition – as one state began the nationalisations and bailouts, others had to follow just to keep the playing field even for their capitals. In this way, by the logic of competition in open markets, capital internationalisation had spawned 'capital nationalisation' in a manner similar to that anticipated by Bukharin's theory.

Despite these merits, the problem was that Bukharin saw this as a singular tendency, going in one direction only – towards state-capitalism conceived of as growing state ownership making the state a "direct instrument of exploitation" – and so he missed out the contingency involved in the search by governments for organisational and regulatory solutions to the intrinsic problems of capital accumulation. Certainly the state assisted private capital accumulation proactively, but it did not necessarily have to centralise structures of ownership, let alone absorb private capital entirely, in order to do so. Moreover, Bukharin drew the highly erroneous conclusion, that – despite seeing crisis tendencies as giving rise to state-capitalisation – the organisational capacity of the state once established would transcend crises that were endogenous to capital, and instead they would only take the form of competition and war between state-capitalist imperial powers on the world stage.

In reality, something akin to the reverse of this happened: it was the crisis-tendencies of capital that fostered state interventions designed to maintain advantageous circumstances for private accumulation, but these could only offset and displace them for a time, before they reappeared in a new form. Both the policies pursued in the Thatcher era of aggressive, pro-market restructuring, or the nationalisations of key industrial sectors in the preceding period, shared a concern to create favourable conditions for capital: either opening up more spheres to private accumulation in the former or helping industry by producing key inputs like coal at a subsidised price in the later. Furthermore, the change from one form to the other was a response to the economic crisis of the 1970s. In this respect, only an interpretation of one aspect of Bukharin's argument that rejected the others could see the response to the financial crisis of 2008 as illustrating a tendency he identified. Bukharin's view did not appreciate how the contradictions of capital could lead to any number of different attempts to solve them by governments through recurring regulatory innovation, even if he was right, more generally, to see the central role played by the state institutions in economic development.

Bukharin's analysis became influential in the post-war period amongst those, like Callinicos and the International Socialist/Socialist Workers Party tradition more generally, who identified the bureaucratic system of planning in the Soviet Union and the state-led economic development in the West, as both representing a general emergence of state-capitalism (a view held despite the fact the Soviet system lacked the competition between capitals, production of surplus value, circuits of capital, and so on, that are fundamental to capitalism). No doubt his place in this tradition forms part of the background to Callinicos' preference for Bukharin over the other pre-war Marxists, even if, surprisingly, his state-capitalist approach to

the Soviet question plays very little part in his account of imperialism, historically or theoretically. In his book, Callinicos does not actually fully endorse Bukharin's theory and specifically criticises the idea that the state could resolve the economic crises of capital. Appropriately, then, he adopts the sensible strategy of trying to integrate what is good in Bukharin, while excluding his more one-sided statements. On the one hand he seeks to move away from the idea, espoused openly in the post-war Marxist tradition by the 'Open Marxist' school, that the state is simply a node of the global flow of capital, and he seeks to integrate – like Harvey and others have – a theory of capitalist economic crisis, based on the problem of over-accumulation and the tendency of the rate of profit to fall, into imperialism theory. On the other hand, he holds on to the idea of the interdependence of the state and capital Bukharin had suggested in some of his formulations, as these two poles are seen as operating in a mutually reinforcing and necessary relationship.¹¹⁴

Callinicos' summarising formulation in this critical re-elaboration is that he believes the nation-state system should be re-conceptualised as a more concrete, more complex component of the capitalist mode of production. He explains:

"The thought informing this strategy is that Marx's method in *Capital* can be extended to incorporate the state system in the theory of the capitalist mode of production. This method consists in the progressive but non-deductive introduction of increasingly more complex determinations... Marx himself had initially thought of *Capital* as merely the first volume of a larger work, of which Book 4 would be developed to the state... His original intention indicates that, in principle, he considered it both appropriate and necessary to cover the state when analysing the capitalist mode of production. One way of attaching the state to Marx's existing theory would be to extend the division of surplus-value into the different forms of revenue that helps to organise *Capital*, Volume III; for, as Barker has noted, from the perspective of value theory, taxation represents a specific portion of surplus value that is appropriated by the state. But, more importantly (and also following Barker), rather than thinking in terms of 'the' state, we should conceive the state system as a set of complex determinations of the capitalist mode of production."¹¹⁵

What is attractive about this approach is that it avoids the criticism, which as we have seen Harvey leaves himself open to, that the nation-state system is theorised as external to capitalism with the implication of contingency that comes with this. Callinicos' argument in contrast sees the nation-state system as existing in a necessary relationship to capital. But what form does this necessity take? If we recall the idea that abstractions should elicit causal mechanisms – 'necessities' – then what is the necessity operating in the capitalist mode of production that results in the formation of a system of many states? Although Callinicos does not give the lengthy and theoretically far-reaching answer to this question that might have been expected, his conclusion is to identify the determinations that give capital accumulation a centrifugal character in the international-political-economy. He cites, for instance, the geographical concentrations of capitalist urbanisation and the uneven spatial transformations elicited by giving capital greater international mobility – as it searches for labour and resources that could serve up 'differential profits' – whilst also situating these centrifugal mechanisms more generally in Trotsky's idea of the 'uneven and combined development', which spoke of the co-existence of back-

ward and modern social forms develop with the expansion of the international capitalist economy.¹¹⁶

This all impacts on and reinforces the nation-state system: "The tendency of capitalist development to generate spatially concentrated economic complexes creates very powerful centrifugal forces that would strongly work to sustain the political demarcation of the world into territorial states. Capitalists in such a complex would have an interest in preserving the existing state to which they had privileged access; equally state managers would be reluctant to surrender the control they exercised over the resources of this complex."¹¹⁷ Importantly, though, Callinicos acknowledges the tendential nature of these determinations and notes how in historically specific conditions, such as EU integration, these might be overcome. And indeed this is theoretically the right move for Marxists, because necessity is not the same as 'inevitability', for each necessary mechanism cited co-exists with others, meaning that historical change represents a concrete fusion of 'many determinations.'¹¹⁸

The tendency Callinicos lists are all broadly 'economic' and there are three potential sources of critique that follow from this. The first lies in his conception of capital. Earlier in the book he had criticised Lenin for on occasion invoking a Hobson-like notion of supranational finance capital and he emphasises how capital production remains largely rooted in national territories.¹¹⁹ The suggestion being the extent and breadth of capital internationalisation is exaggerated, and capital remains largely defined by its national origins. But if we look at the current economic crisis, we see how finance capital can assume a certain 'supranational' form; with open capital markets large investment trusts can move money across borders in nanoseconds, and the structures of capital ownership in either its fictitious or productive forms can be very opaque and not easily aligned with nation states. But crucially as we observed in the crisis of 2008, when the 'crunch' comes, states intervene to defend their 'national champions' from collapse. At the same time, these very national champions continue to operate on more supranational lines. The Royal Bank of Scotland, the biggest shareholder of which is the British government, financed the takeover of the independent chocolate British-based Cadbury's by the American multinational, Kraft, earlier this year – to much protectionist consternation about the loss of a famous British brand. The point here is that by focusing on how capital creates certain centrifugal tendencies that encourage nation state divisions, true as this is, Callinicos risks missing out another important element in the story: the intrinsic contradiction between the search of 'capital as capital' for an international form and existence within a world divided on territorial and national lines. Understanding this requires us to consider the capital relation at a higher level of abstraction along with the adoption of simplifying assumptions this involves (by not for example considering nation-state divisions), in order to draw out the contradiction that develops as capital in real space and time seeks to move in transnational flows, but finds itself inhibited in doing so by states.

This leads onto the second point: to what extent is the formation of the nation state system a concrete determination of the 'capitalist mode of production'? This implies, as do the examples Callinicos gives, an economically defined relation. But

at the same time he opens this discussion by suggesting a more 'social' understanding of the issue. He writes that his approach "would explore the features of a specifically capitalist state system, shaped by class antagonisms, competitive struggles, capital accumulation, crisis tendencies and social and political movements."¹²⁰ But if this is the approach, then it might be better to conceive of capitalism as more than a mode of production. If modes of production are understood as historically specific combination of the forces of production and the social relations of production, then, we should remember that Marx did not think the analysis ended there, but rather considered modes of production to be part of a wider social totality.¹²¹

If the state then exists as part of this wider arena, why not treat capitalism as both a mode of production *and* a historical 'social formation'? Our idea of capitalism would then encompass *both* mechanisms of the mode of production, such as competition, exploitation and accumulation, and in addition, the 'social' aspects, like the struggles within and between classes, ideologies and states? Doing so opens up a more theoretically historical treatment of the issue, as the nation state system would be seen as arising from a unity of these tendencies, mechanisms and conditions. The capitalist mode of production, as Callinicos says, creates powerful centrifugal pressures reinforcing the system, but it can also be subject to other pressures. The expansion of nation states in the 1950s and '60s with decolonisation or with the fall of the Eastern bloc in the early 1990s shows how social and political pressures can also reinforce the nation state system. Calling capitalism a 'social formation' embraces these elements, and, it is not without precedent in the classical Marxist tradition. Although social formation is more commonly used to refer to specific geopolitical entities as complex wholes that encompass a number of different social orders, Marx also used it as a descriptor of successive stages of society, of which he considered "bourgeois society" to be one.¹²² There are clear merits to be found in this reformulation. Despite the term social formation being analogous to "community" or "society", it avoids the implications of singularity or homogeneity attached to these, and, in this respect, could capture the unity of differentiated elements that we find in the modern, international world order. In the 20th century, for example, there were two profoundly different social property systems operating in the broader 'capitalist social formation'; Eastern bloc states practiced a form of bureaucratic planning that largely cut off their territories from the capitalist relations of production that dominated the wider international scene. We could similarly argue at a more general level that the advance of 'bourgeois society', i.e. the 'capitalist social formation', has always involved the incorporation of other modes of production. This is what Harvey calls capitalism's need for an 'other', i.e. co-existing systems of social relations that become essential moments in its re-production, and what Trotsky called the uneven and combined development of capitalist society, as pre-existing social formations are subsumed into its orbit, creating social and geopolitical entities that amalgamate the backward and the modern. All such processes underline the social character of capitalism, its status as more than a set of economic relations, but a system of social reproduction.

Thirdly, if we conceive of capitalism and, indeed, 'capital' in more social and historical terms, then we could also break free from what could be seen as a focus on

only one side of the 'nation-state': i.e., the state. It has to be borne in mind that capital is a social force, the bourgeoisie, which has to have originated in some territory or other and that in order to develop forms of property (and, over time, its necessary social structure, that is, an exploitable proletariat), then it had to create an entirely new social formation: the nation. Of course, geopolitical entities certainly preceded capitalism, but there is arguably a distinctively modern idea of 'nationhood', that broke free from the forms of consciousness and subjectivities typical of absolutism, or, to put it more accurately, developed out of these new hybrid forms of identity that were more socially encompassing than caste, tribal or kinship predecessors. If we only talk about the modern "state" then we tend to lose sight of its moorings in the nation; that is, the historical development of the classes within a particular territory which the bourgeoisie and ruling elites, very often through disputes with their neighbours, welded into the political form of the nation. These are important considerations because the bourgeoisie remains a nationally rooted class in its consciousness and outlook, but its economic system cannot be constrained within the territory of any nation-state without becoming atrophied, and this is one of the great expressions of the fundamental contradiction of social production under private property ownership.

Conclusion

The interventions of Harvey and Callinicos represent a shift of ground in Marxist political-economy, which had been an exercise in retrenchment and the defence of core principles under the attacks of post-modernism and Globalisation theory in the 1980s and 1990s respectively. With history on the side of core Marxist assumptions – the centrality of politics and the struggle for power, of inter-state rivalries, the critique of war and imperialism, and, most of all, the understanding of capitalism as an intrinsically crisis-ridden and doomed system of social relations – the work they have done on imperialism represents a return to an 'offensive' posture, mobilising Marxism to address key global contradictions. With the potential that exists today for revolutionary and socialist ideas to resurface and crystallise amongst the millions globally fighting the effects of the current crisis, the need to inform our political struggles with cogent analyses of the changing world order is posed more than ever. Both Harvey and Callinicos make important contributions to this, whatever our disagreements. Harvey's strength lies in the story he tells of American imperialism and the indictment of the human cost of the neoliberal offensive of the last three decades, but his weakness comes when he puts this picture of contemporary imperialism together theoretically; with his concepts of territorial power and accumulation by dispossession being outright problematic or conceptually elusive respectively. Callinicos raises the theoretical level of the game for everyone by seeking to link Marx's project in *Capital* with the evolution of the modern nation state system. But he doesn't realise these intentions, because he moves the analysis of the evolution of the capitalist system away from tracing historical transformations and changes in the capital form that had occupied the classical theorists of imperialism since Hilferding. The most serious consequence of this theory is the dropping of the idea of exploiter and exploited nations in the international system, central to Lenin's idea of parasitism

and, for that matter, Harvey's idea of accumulation by dispossession. Despite the real merits in his accounts of how the capitalist world order has changed, it means Callinicos has lost part of the core of the classical theory. The subject is not just competition between big states, but the mechanisms of economic exploitation and bondage that are arguably the *differentia specifica* of modern imperialism.

Today, there are not only major questions of empirical analysis and perspective to address but also substantive issues of theory posed by the rise of new global powers. If, as seems likely, the 21st century will be marked by conflicts of growing intensity between the old imperial heartlands and new powers emerging in the periphery of the system, notably China, then we need to give a great deal of thought to how the classical theory of imperialism fits, accounts for and explains this historical evolution. One strategy for addressing this question theoretically is bringing together several distinctive theories from the classical tradition. Firstly, the Lenin and Bukharin theories and the contradictions they cite: the anarchic character of finance, the heightened forms of economic competition (the 'zero sum game') on the open world market between monopoly producers, the contradictory but ultimately stagnatory effects on innovation and development of these giants, and the recognition that the rise of new powers involves a re-organisation and re-division of the political and juridical framework of the existing world imperialist order. Secondly, Trotsky's theory of 'uneven and combined development' and the notion of the 'privilege of historic backwardness' that formed part of it – as new powers like China emerge, destabilising the very world order whose conditions partially allowed for the ascent. Lastly, Trotsky's notion, only speculatively outlined in the early 1920s, of the 'curve of capitalist development', including the longer crisis periods in the system and how they relate not merely to economic factors but the political and juridical order in the world system. If these approaches are woven together – within the broader method of historical materialism and the toolkit of concepts contained in *Capital* – then they can lay the basis for a rich and compelling account of the global contradictions of the 21st century, one that can inform a powerful argument for a revolutionary socialist challenge to the existing order.

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ENDNOTES

1 See for example the symposium on David Harvey and Ellen Meiksins Wood's theories of imperialism in *Historical Materialism* including Ashman and Callinicos (2006), Brenner (2006), Fine (2006), Sutcliffe (2006)

2 On the radical left this view point was encapsulated by Hardt and Negri (2000), on the social democratic left by Held and McGrew et al (1999) and on the centre-right by Martin Wolf (2004)

3 Harvey, D. (2003), p. 2

4 For an analysis of the world political and economic conjuncture and the structural obstacles standing in the way of a restored capitalist equilibrium, see Cooper, L. (2009)

5 Lenin's 'canon' should also include those works not written under the strictures of Tsarist censorship; such as 'Imperialism and the split in Socialism' and his notebooks.

6 Callinicos, A. (2009) pp. 25 – 27, pp. 34 – 36

7 *ibid*, p. 35

8 Harvey (2010)

9 Lenin, V. I. (1967), pp. 685 – 696

10 Bukharin, N. (1966), pp. 116 – 121

11 Lenin, V. I. (1967), pp. 710 – 721

12 Lenin, V. I. (1967)

13 Harvey, D. (2003), pp. 96 – 97

14 Harvey, D. (2003), pp. 147

15 Callinicos, A. (2009), pp. 41 – 52

16 Luxembourg, R. (1951)

17 Callinicos, A. (2009), p.40 and Harvey, D. (2003), p. 141

18 Callinicos, A. (2009), p. 42

19 Callinicos has been involved in extended discussions on uneven and combined development. See for example: Ashman, S. (2009), Allinson, J. C. and Alexander Anievas (2009), Davidson, N. (2009), Rosenberg, J. and Alex Callinicos (2008), Callinicos, A. (2007)

20 Lenin, V. I. (1967), pp. 753 – 761

21 Ashman, S. and Callinicos, A. (2006), p. 124

22 Callinicos, A. (2009), p. 48

23 Lenin, V. I. (1967), p. 754

24 Callinicos, A. and Ashman, S. (2006), p. 124

25 Strictly speaking this depends on the type of securities which can come in debt, equity and hybrid forms. These are highly speculative instruments and diverse financial instruments that allow capital to take on a number of different forms and become increasingly disconnected from the production of real value.

26 Ashman, S. and Callinicos, A. (2006), p.125

27 Calderon, C. Loyaza, N. Sérven, L. (2004)

28 Marx, K. (1974), pp. 582 - 588

29 It is interesting to note that FDI inflows into the states in the periphery of the system, there is a tendency in the opposite direction with 'greenfield' investment predominating. So, between 1989 and 2001 there was a 420 per cent growth in FDI inflows (as a proportion of GDP) into these states and of this 58 per cent was new investment with only 42 per cent being made up of mergers and acquisitions. Source: Calderon, C. Loyaza, N. Sérven, L. (2004)

30 However, to this should be added the fact that decolonised nations inherited the debts accumulated by the administrators of the colonial territories.

31 The 'Middle Income' bracket is one of the World Bank's more problematic categories because it includes the capital and commodity exporting giant China, which has huge dollar reserves and is a creditor, not a debtor, nation. This is because their calculations are based on gross national income

per head of population (per capita) income levels, and China of course has a huge, impoverished rural population. Nonetheless, notwithstanding differences like this between countries within the same income bracket, the trend shown here is clear enough.

32 Ashman, S. and Callinicos, A. (2006), p. 124

33 Luxembourg, R. (1951), cited in Harvey (2003), p.137

34 Harvey, D. (2003), p. 139

35 Harvey, D. (2003), p. 139

36 Harvey, D. (2003), p.141

37 Marx, K. (1974), pp. 667 – 670

38 Harvey, D. (2003), p. 142

39 For the view of this journal on this process see Brenner, R. (2008)

40 Harvey, D. (2003), p. 148

41 Harvey, D. (2007)

42 See for example, 'The imperialist offensive and the crisis of working class leadership', available on FifthInternational.Org at <http://www.fifthinternational.org/content/imperialist-offensive-and-crisis-working-class-leadership>

43 Harvey, D. (2003), p. 160

44 Harvey, D. (2003), p. 160

45 Fine, B. (2006), p.144

46 Harvey, D. (2003), p. 153

47 Fine (2006), p.144

48 Cited in Lenin, V. I. (1967), p. 757

49 Interestingly Lenin noted how Britain had assumed the features of imperialist development earlier than its emergence as a world system and saw how Marx and Engels had observed the impact this had on its domestic working class. He wrote: "Neither Marx nor Engels lived to see the imperialist epoch of world capitalism, which began not earlier than 1898–1900. But it has been a peculiar feature of England that even in the middle of the nineteenth century she already revealed at least two major distinguishing features of imperialism: (1) vast colonies, and (2) monopoly profit (due to her monopoly position in the world market). In both respects England at that time was an exception among capitalist countries, and Engels and Marx, analysing this exception, quite clearly and definitely indicated its connection with the (temporary) victory of opportunism in the English labour movement" in Lenin V. I. (1964)

50 Harvey, D. (2001), pp. 141 – 143

51 Harvey, D. (2001), pp. 141 – 143

52 Callinicos, A. (2009), p.50

53 Callinicos' rejection of the theory of the labour aristocracy reflects his long-standing status as a leading member of the Socialist Workers Party. For a critique see Workers Power 'The "labour aristocracy": Cliff versus Lenin', available on www.fifthinternational.org for a lengthier critique.

54 Callinicos, A. (2009), p. 10

55 Callinicos, A. (2009), p. 69

56 Callinico, A. (2009), p. 51

57 Hilferding, R. (1981), Finance Capital, chapter 14

58 Callinicos, A. (2009), p. 69

59 Hilferding, R. (1981), chapter 21

60 Lenin, V. I. (1967), pp. 697 – 709.

61 Lenin, V. I. (1967), p.721

62 Harvey, D. (2006), p.292

63 Harvey, D. (2006), p. 317

64 Harvey, D.(2006), p. 320

- 65 Trotsky, L. (1973), p.123
- 66 Lenin, V. I. (1967), p. 721
- 67 Lenin, V. I. (1967), p. 721 You could argue there are two definitions of finance capital offered in *Imperialism*. One is taken directly from Hilferding as the domination of banks over industry – i.e. the organisational form (pp 710 – 711). The other is this more abstract understanding of the evolution of capital to a rentier-like form.
- 68 Bukharin, N. (1966), p. 36
- 69 Harvey, D. (2006), p. 321
- 70 Harvey, D. (2006), p. 320
- 71 Brenner, R. (2008), pp. 117 – 122
- 72 Harvey (2006), p. 321
- 73 Callinicos, A. (2009), p. 31
- 74 Callinicos, A. (2009), pp. 81 – 82
- 75 A point made by Callinicos, A. (2009), p. 33
- 76 Callinicos, A. (2009), pp. 11 – 12
- 77 Callinicos, A. (2009), p.31
- 78 Marx, K. (1973), pp. 107 – 108
- 79 Sayer, A. (1998), p.128
- 80 Sayer, A. (1998), p.129
- 81 Callinicos, A. (2009), p. 32
- 82 Callinicos, A. (2009), p. 32
- 83 Sayer, D. (1987), p.19
- 84 Callinicos, A. (2009), pp. 12 – 13
- 85 Cited in Sayer, D. (1987), p. 21
- 86 Sayer, D. (1987), p. 128
- 87 On the other hand, Callinicos' presentation more generally is very historical. In addition, it should be noted, the issue raised here – about his analysis of the organisational form of finance capital – is as much, if not more so, an empiricist deviation as it is a structuralist one.
- 88 Callinicos, A. (2009), p. 50
- 89 Bukharin, N. (1966), pp. 106 – 107
- 90 Callinicos, A. (2009), p. 72
- 91 Callinicos, A. (2009), pp. 169 – 178
- 92 Callinicos, A. (2009), pp. 169 – 178 and Harvey, D. (2003), pp. 49 – 62
- 93 Harvey, D. (2003), pp. 49 – 55, Callinicos, A. (2009), pp. 165 – 178
- 94 Harvey, D. (2003), p. 59
- 95 Callinicos, A. (2009), p. 177
- 96 On this see the late Peter Gowan's excellent account of the 'Dollar-Wall-St-Regime' in Gowan (1999)
- 97 Callinicos, A. (2009), p. 141
- 98 Harvey, D. (2003), p. 89
- 99 Harvey, D. (2003), pp. 90 – 91
- 100 Harvey, D. (2003), p. 27
- 101 Harvey, D. (2003), p. 34
- 102 Harvey, D. (2003), p. 29
- 103 Brenner, R. (2006), pp. 80 - 86
- 104 Callinicos, A. (2009), pp. 165 – 166, p.190
- 105 Fine, B. (2006), p. 142
- 106 Callinicos, A. (2009), p. 74

- 107 Callinicos, A. (2009), p.138
- 108 Callinicos, A. (2009), p.146
- 109 Callinicos, A. (2009), pp. 165 – 169, pp. 193 – 197
- 110 Bukharin, N. cited in Callinicos, A. (2009), p. 71
- 111 Callinicos, A. (2009), pp. 83 – 86
- 112 Callinicos, A. (2005), pp. 255
- 113 Bukharin, N. (1966), p. 118
- 114 Callinicos, A. (2009), p. 80
- 102 Callinicos, A. (2005), pp. 255
- 103 Bukharin, N. (1966), p. 118
- 104 Callinicos, A. (2009), pp. 83 – 85
- 105 Callinicos, A. (2009), p. 80
- 106 Callinicos, A. (2009), p.89
- 107 Callinicos, A. (2009), p. 91
- 108 Marx, K. (1973), p.101
- 109 Callinicos, A. (2009), p.48
- 110 Callinicos, A. (2009), p. 83
- 111 Marx, K. (1971), pp. 19 – 26
- 112 Marx, K. (1971),pp. 212-213

Marx, money and modern finance capital

Prior to the collapse of the 'real estate bubble' in the USA in 2007, it appeared to many economists and commentators that the global economy had achieved the self-regulating and steady expansion described in their textbooks. People spoke of the 'Great Moderation', meaning the elimination of the wilder excesses of the business cycle, and Gordon Brown famously proclaimed the end of 'boom and bust'.

At the root of this comforting vision, in both theory and reality, lay the phenomenon of 'cheap money'. In the past, periods of low interest rates and economic growth had always led to bouts of inflation that could only be combated by rises in interest rates which then resulted in a downturn in growth. However, in the mid years of the first decade of the new century there was no sign of this. Everybody, from the man in the street, whose home was steadily increasing in value, to the corporations, whose profits were rising, could borrow money safe in the knowledge that the repayments would be markedly lower than the profits.

Financial markets themselves were mobilising ever greater volumes of money to deliver ever greater profits; one oft-quoted statistic sums up the character of the times: in the second half of 2005, the value of credit derivatives (which can be understood as a sequence of bets on the risks of providing credit) was 18 times that of all the shares traded on the New York Stock Exchange. Little wonder, then, that the managers of the biggest investment banks and hedge funds basked in their glory and were nicknamed the 'Masters of the Universe'.

Until, that is, the whole carousel of credit-based investments and profits came to a juddering, jarring, halt in the summer of 2007. Suddenly, there was no more credit to be had – at any interest rate. Although it started in the US 'sub-prime' real estate market, the credit crunch rapidly spread across the economy as it became clear that even major banks were going to be hit. Since nobody could be sure who was really creditworthy, no credit could be advanced.

For those directly involved, the crunch was a total surprise, a thunderbolt out of a clear blue sky. The fact that it was entirely unexpected not only by financiers themselves but also by virtually all major economic research institutes, public and private, is evidence enough of the inadequacy of the dominant economic models and theories. In particular, this article takes up the analysis of the role and nature of money in the capitalist economy and the relationship between 'finance' and what is commonly called the 'real economy'.¹

These are issues that have imposed themselves rather forcibly on mainstream economic analysts over the last two years but, prior to that, they appeared to have been long settled. The dominant view was that the function of money was analogous to that of a lubricant within a complex piece of machinery; essential, of course, but

both in theory and in practice an entirely separate entity from the machinery itself. Consequently, the source of money for the economy, the money markets, were essentially the same as any others in all respects, save one; while shortages would raise prices (that is, interest rates) and gluts would lower them, the supply of money was ultimately controlled by governments or central banks and could, therefore, be manipulated to ease any problems of supply.

In this economic model, even a serious disturbance in the money markets could be brought under control so that it had little impact on other sectors of the economy, other markets. Thus it was that, when the five leading economic institutes in Germany, on whose work the Federal Government bases its own forecasts, issued their projections for the national economy in July 2008, they predicted continued growth through to the end of that year with only minor effects from the financial problems in the USA. Within two months, with the collapse of Lehman Brothers and the onset of the deepest economic crisis since the Second World War, the same institutes were vying with each other to produce the most 'catastrophist' perspectives for Germany. One institute even suggested that it would be better to stop making any predictions at all and to admit that they did not understand what was happening.

When analysing their errors, the institutes later noted in a joint statement, "One of the causes of our big mistakes was rooted in the fact that the interaction between financial and commodity markets, as well as the causes and the course of the financial crisis, are not understood to the extent that we could predict situations like the current one".² This article presents a very different analysis. To the extent that any analogy can convey the functioning of an economic system, it would be more accurate to view money as the blood circulating in the capitalist 'body', supplying its cells with the necessary oxygen and carrying away the products of its metabolism. Unlike the oil in a machine, blood is an organic part of the body itself and evolved with it so its nature and functions cannot be fully understood in isolation from the body.

Equally, although the institutions of finance capital have no doubt evolved into highly specialised organs, comparable in many ways to the brain, they are not wholly independent but interconnected in millions of ways to the rest of the body. This interconnectedness in the real world was revealed dramatically by the credit crunch and shrinkage in world trade that followed immediately upon the collapse of Lehman Brothers. In the years to come it will, no doubt, be made even clearer by the attempts of governments and bosses to transfer real money from workers' wages and public services to replace that which was doled out to the banks and finance houses to prevent the complete paralysis of the global economic system. As the crisis of 2007-8 unfolded, the general direction of its progress was perceived to be 'downward'. The linkages between the highly rarefied realms of 'high finance' with their arcane acronyms and esoteric algebra and the 'real economy' became very obvious as all forms of credit dried up and first traders and then manufacturers were forced to rein in their activities. Within months of some of Wall Street's 'masters of the universe' being sent packing with their cardboard boxes of belongings, 40 million workers in the heartland of China's industrial powerhouse, the

Pearl River Delta, were left penniless, and often homeless, as world trade seized up. By contrast, Marx's analysis of the role of money and finance in the capitalist system proceeds from the 'bottom', that is the most elementary feature of capitalism, the production of commodities for the market, to the 'top' where what is traded appears to have no physical presence at all. In order, therefore, to analyse developments in the world of derivatives using Marx's categories we must first, however briefly, retrace his analysis of the genesis and evolution of money.

2.1 Money and the contradictions of capital accumulation

Despite the extraordinary complexity of the terms used to describe the various financial instruments in use at the time, at the heart of the credit crunch and the ensuing financial crisis lay what appears to be a quite simple question, 'what, exactly, is money?' This was, ultimately, the issue behind the financial institutions' inability to establish whether all their various pieces of paper were actually worth anything. Since the shift away from the 'gold standard', particularly since the floating of the US dollar in 1971, money has increasingly been seen as, in itself, worthless, simply a convenient 'token' that symbolised value or wealth but nothing more. So long as there was 'trust' in the markets, these tokens were entirely valid and, by extension, other pieces of paper could play the same role. So long as there was trust... but there's the rub! As soon as some of those pieces of paper, bundles of securities based on 'sub-prime' mortgages in the US, were shown to be essentially valueless, all trust vanished.

Suddenly, the 'Masters of the Universe' were found to be both helpless and hopeless and were only saved by the emergency action of states who replaced their pieces of paper with ... money. If the analysis of money as value-free were correct, then the sudden avalanche of new money printed by governments around the world should have restored trust in the markets and thus restored commerce to an even keel. In fact, while it quelled the panic in the short term, it then put in doubt the creditworthiness of the states themselves as the relative 'strengths' of the pound, the euro, the dollar, the yen and the yuan were tested in the bond markets. In other words, capitalist practice demanded evidence that money did indeed have a value. More recently, suspecting that the evidence is either not reliable or is not forthcoming at all, those who can have turned to a more secure measure of value and the price of gold has reached record highs.

Marx was certainly well aware of the dramatic effects of crises on capitalists as this passage from *Capital* shows:

"The bourgeois, drunk with prosperity and arrogantly certain of himself, has just declared that money is a purely imaginary creation. 'Commodities alone are money,' he said. But now the opposite cry resounds over the markets of the world: only money is a commodity. As the hart pants after fresh water, so pants his soul after money, the only wealth. ... the monetary famine remains whether payments have to be made in gold or in credit-money, such as bank-notes."³

Likewise, he recognised the intellectual turmoil that crises wrought on the bourgeoisie's theoreticians, "This sudden transformation of the credit system into a

monetary system adds theoretical dismay to the actually existing panic, and the agents of the circulation process are overawed by the impenetrable mystery surrounding their own relations.”⁴

Nonetheless, the real strength of Marx’s work results precisely from the fact that he did not limit himself to a mere description of his contemporary capitalism. His method was aimed far more at analysing and then presenting the fundamental categories of capitalist commodity production and the laws of its movement which, because they are intrinsic to its nature, hold true no matter how complex and sophisticated the forms into which it has evolved. That is why his descriptions can ring so true today, even for the apparently completely novel developments in today’s financial markets. His analysis of money is a case in point. It is inextricably rooted in his analysis of the development of commodity production and commodity exchange and, as we shall see, retains its explanatory power throughout both the development of the analytical model and the actual evolution of capitalism.

A commodity, by definition, is a product that is made not to satisfy the direct needs of the producer but to be exchanged in order to obtain what the producer wants. The Labour Theory of Value explains that different commodities exchange in varying proportions dependent on the amount of ‘socially necessary labour time’ crystallised within them – a product requiring 4 hours of such labour would exchange with 2 other commodities requiring 2 hours each or 4 requiring 1 hour each. While such ‘exchanges of equal value’, that is barter, were no doubt quite haphazard and approximate when commodity production was a peripheral activity within society, the more frequent commodity exchange becomes, the more systematic the comparison of values becomes. Moreover, as exchange of commodities becomes common and more types of commodities are involved then the increasing number of potentially equal exchanges becomes cumbersome; 1 of commodity X is equal to 2 of commodity Y but only a half of commodity Z, so 1 of Y exchanges for only a quarter of Z and so on. Worse, if some commodities have relatively low value then very large quantities need to be exchanged for high value goods and this may be physically restricting.

Clearly, in such circumstances, a convenient solution would be to use one commodity with a widely recognised value as a standard equivalent for all others and, historically, items such as iron bars, conch shells or bags of salt are known to have been used in this way. Marx described a commodity used in this way as a ‘Universal Equivalent’ and stressed that it could play the role only because it really did have a known value. Within the given society, the commodity producer could safely exchange their own product for a specific quantity of the Universal Equivalent (UE) because they could be sure they could then exchange it for the commodity they themselves wanted from a third party. Such exchanges are no longer direct barter, commodity for commodity, C – C, but rather an indirect exchange C – UE – C.

As Marx explained, over time, usage and custom identified the precious metals, particularly gold, as the ideal materials for acting as Universal Equivalent; they were durable, quantifiable and a relatively lengthy production process meant that small physical quantities could exchange for other commodities conveniently. With

the further development of exchange into regular trade, and the social changes that accompanied that, the standardisation and definition of the value of precious metals led to the introduction of coinage, money (M). With this, the exchange of commodities became $C - M - C$. This exchange is possible only because M is recognised by both parties to have a value of its own and this feature of money is crucial from the most distant times to the present day.

Yet, as soon as gold, for example, becomes currency, it is no longer quite the same as any other piece of gold, even of the same weight. What has happened is that it has acquired a new use-value, the use-value of being able to exchange with other commodities. What is now important about the gold is not its own physical properties but its ability (because it is standardised, legitimised by the state etc) to express the exchange value of other commodities, the value that is an expression not of the other commodities' physical properties, their use-values, but of the amount of socially necessary labour incorporated in them. In this way, money acts as the *measure of value*. As such, all commodity owners are ready to part with their own commodities in exchange for the appropriate number of gold coins.

As a measure of value, the first importance of money to its owner is that it can be exchanged for commodities. Looked at from the point of view of an economy, however, the use of money (rather than reliance on barter) allows for a much more fluid system of exchange of goods. The same gold coin, in our example, can pass from hand to hand on market day, each time allowing commodities to 'change hands'. From this point of view, money functions as the *means of circulation*. Theoretically, once these use values of money have become established and the particular physical properties of gold have, as it were, receded into the background, it becomes possible for the same use value to be acquired by a substitute for actual gold, a symbol or token that is recognised as playing the same role. Ultimately, that is only possible if it is guaranteed that the symbol can be turned back into the reality of a physical expression of value, can be redeemed for, in our case, actual gold.

In practice, this transition from precise weights of real precious metals to mere tokens of those weights, took place over centuries, an important factor in the transition being the debasement of coinage by governments lacking in reserves of precious metals to mint into coinage. Despite the fact that everyone knew the gold Sovereign or Mark or Escudo was not pure gold, other things being equal, such coins could still function perfectly well as money. As they passed from hand to hand, they retained their use value of expressing the exchange value of other commodities, providing always that each temporary owner of the token knew that they could, if they needed to, exchange it for actual gold.

2.2 Money and crisis

After the derivation of money from the commodity form, money has up to this point been presented in its functions as a measure of value and as a means of circulation. With the separation of exchanges over time, the exchange of goods is liberated from the need for immediate mutual exchange of money, the process $C - M - C$ can be separated out over time and placed into $C - M$ and $M - C$:

“No one can sell unless someone else purchases. But no one directly needs to purchase because he has just sold. Circulation bursts through all the temporal, spatial and personal barriers imposed by the direct exchange of products, and it does this by splitting up the direct identity present in this case between the exchange of one’s own product and the acquisition of someone else’s into the two antithetical segments of sale and purchase.”⁵

With this separation, both a new function of money and also the abstract possibility of crisis are born. Money becomes, on the one hand, an end in itself (‘money as money’) in that money obtained from a sale does not have to be spent on a new purchase but serves as a ‘store of value’ (hoarding). Equally, both $C - M$ and $M - C$ can themselves be extended over time; C may be handed over on the understanding that M will be forthcoming on a set date or M may be handed over on the understanding that C will be presented on a set date. In such cases, the delay in completing the exchange is clearly intended to benefit one party and, since this is the way of the world, the other party naturally charges a fee for the convenience. In other words, a business can be made out of such transactions. Finally, ‘money as money’ also frees itself from the local limits of the sphere of circulation in that it becomes comparable with money from beyond these limits (‘world money’).

Clearly such developments create a new contrast between the simple value symbol of money as the means of circulation and its ‘money as money’ function; the saver, the creditor, the holder of foreign currency wants to see ‘hard cash’ and not just some symbol. On the other hand, it also creates the possibility that money will fall out of circulation, whether through excessive saving, unpaid debts or transfer abroad, thereby obstructing circulation and causing a break in the transformation of commodities (stocks of commodities that cannot be sold, lack of money-backed demand). With the development of the function of ‘money as money’, therefore, the possibility of crisis as ‘a market collapse’ or the overproduction of commodities is also created.

It is precisely this possibility of crisis caused by general overproduction that was denied by both the classical and the neo-classical bourgeois economists. The essential logical reason for this is precisely the lack of understanding of money in the sense it is understood in (Marx’s) value theory. The argument is based on what is called ‘Say’s Law’ that, put simply, says that every supply creates its own demand:

“all those who have, since Adam Smith, concerned themselves with the lessons of political economy, accept that, in reality, we do not really buy what we need with the money, the means of circulation, with which we pay. We must first of all have bought the money itself through the sale of our own product. (...) because the total value that we can buy is equivalent to the value of what we can produce, so also people can buy more if they produce more. From this flows the other conclusion (...) that the reason why particular goods cannot be sold lies in the fact that others have not been produced...”⁶

Following this approach, in the debate over the possibility of a general crisis of overproduction, Ricardo argued that demand is only limited by the level of production. Certainly, there could be overproduction in particular sectors, but only as a re-

sult of incorrect distribution in the markets, which could be overcome through a process of balancing out, mediated by the movement of prices. In bourgeois economics, the possibility of a sustained lack of aggregate demand (that is, across all markets) is denied precisely on the basis of this 'balancing out' and this remains the 'main lesson' up to the present-day.

Marx dealt with Ricardo's arguments in *Theories of Surplus Value* and established once again the inability of Ricardo's value theory to understand the role of money in the capitalist economy. Ultimately, in bourgeois economics (and this is even more extreme in the neo-classical theory) capitalism is reduced to an exchange economy in which money is introduced as a supplementary, useful instrument without understanding its central role in the capitalist system: "Crises are thus reasoned out of existence here by forgetting or denying the first elements of capitalist production: the existence of the product as a commodity, the duplication of the commodity in commodity and money, the consequent separation which takes place in the exchange of commodities and finally the relation of money or commodities to wage-labour."⁷

Here it is again made clear that the functions of money derived from the analysis of the value-form can lead to the greatest separation between sale and purchase in the form $C - M - C$ and to the retention of money as 'value in itself'. More precisely: "at a particular moment, the supply of all goods can be greater than the demand for all goods in that the demand for the general commodity, money, exchange value, is greater than the demand for any particular commodity or because, at that moment, the pressure to present commodities as money, to realise their exchange value, outweighs the pressure to turn the commodities back into use values".⁸

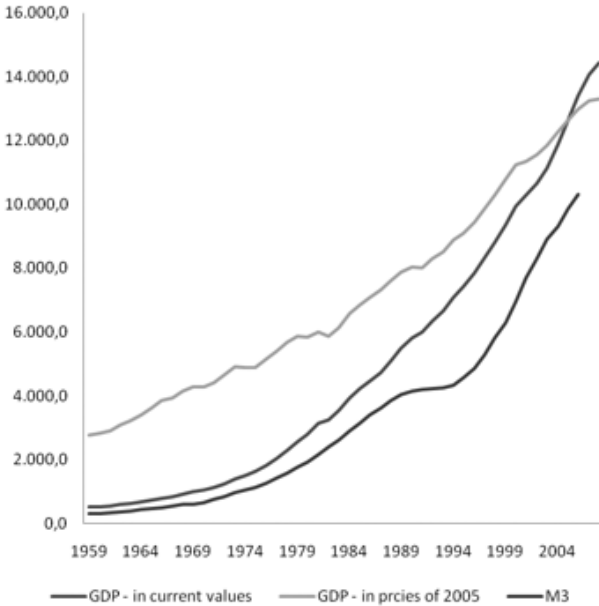
The bourgeois (neo-) classical theorists believe they can avoid what Marx described as the "abstract form of the crisis" by extending their theory of equilibrium: assuming free markets, a declining general demand would be balanced out by extra savings as a result of falling interest rates which would then lead to an increase in investments and, therefore, demand. The problem with this is that once again the 'money market' is dealt with as if it were any other commodity market and therefore its dependence on capital accumulation and its tendencies to crisis are not taken into account. Later (see Interest bearing capital), therefore, once we have established this connection, we must integrate this into the concept of the abstract possibility of crisis.

Interestingly, with regard to this question, there is one important exception in bourgeois economy: just like Marx, Keynes worked on the basis of a sharp rejection of Say's Law. For him, too, the money function in capitalism is bound up with the systematic possibility of a crisis of overproduction ('lack of effective demand'). Keynes explicitly recognised that Marx had overcome the understanding of the bourgeois economy as simply an exchange economy: "the distinction between a co-operative and an entrepreneur economy bears some relation to a pregnant observation made by Karl Marx (...). He pointed out that the nature of production in the actual world is not, as economists often do suppose, a case of $C - M - C$, that is, of exchanging commodity or effort for money in order to obtain another commodity or

effort. That may be the standpoint of the private consumer. But it is not the attitude of business, which is a case of $M - C - M+$, that is, of parting with money for commodity or effort in order to obtain more money. (...) an entrepreneur is interested, not in the amount of product, but in the amount of money which will fall to his share."⁹

This transition from exchange economy, $C - C$, or commodity circulation, $C - M - C$, to the production of capital, $M - C - M+$, is actually decisive in order to understand the determination of value for its own sake, which is developed from the analysis of money, and the abstract possibility of crisis which flows from that, in its actual, realised movement. Although Keynes certainly shared with Marx the analysis of the possibility of crisis, nonetheless he did not share the analysis of the actual movement of capital.

Figure 1. Growth of the mass of money M3 in comparison to GDP in current values and in real values



Source: Federal Reserve/Department of Commerce

Figure 1 shows the development of US GDP both in current money values and in 2005 dollars from 1959 to 2008 and sets them against the money supply M3, a measure which does not just represent physical dollar notes or short-term bank account money but also means of payment that just exist 'on the books', on which more below. The development of GDP in current values gives the impression of smooth and permanent growth. This contrasts to the GDP growth in deflated val-

ues that shows clear slowdowns in the late 1960s, the mid-1970s, the late 70s and early 80s, the mid-90s and in 2008. It is also clear that the growth in M3 closely parallels the growth of GDP in current values until the mid-80s. This shows the, at least partially, inflationary basis of growth during the period from the late 60s to the mid-80s. After that point, the impact of the Fed's monetarist politics (the 'Volcker shock') can be seen in the sharp slowdown of M3-growth, which shows the specific character of the late 80s recession in the US. It also shows the non-inflationary basis of GDP growth in the early 90s in the US. Obviously, from the mid-90s onwards, this trend goes into reverse: the growth in the money supply M3 is far ahead of the growth of real GDP.

Most spectacularly, during the financial crisis, because of the measures taken by the Fed and the US government, M3 grew by 135 per cent between the beginning of 2007 and the autumn of 2009. This can be compared to the 35 per cent increase in M3 in the Eurozone in the same period. This increase in the money supply also took place while GDP shrank as a result of the recession. This disparity points to enormous inflationary pressures. Since inflation has not yet surged, this can only mean that the money created was mainly directed into channels other than ordinary consumption; to other countries, to international financial institutions that have been accumulating dollar debts, or else into the creation of a new speculative bubble. The relative flow of funds into these different channels can be judged from the factors that will now be examined.

In an economy using gold as a currency, the money supply is directly determined by value relationships (money, goods) and so are prices. If gold is now replaced by a value token (which is covered by the gold reserve) then it can happen that the actual money supply will be greater or lesser than that which is really needed. In that situation, the relations in the above equation can only be satisfied insofar as the value of the value tokens rises or falls in inverse relation to the money supply. Prices will then rise or fall accordingly. In this way, where money tokens are used as currency, price levels become the regulator of money supply insofar as the monetary authorities are responding to rising or falling prices and these are not a consequence of changes in the value of goods.

These relations will be substantially modified as soon as the functions of 'money as money' are introduced into the analysis. As soon as credit-relations come into play then, with their help, there can be commodity circulation without money (or with money simply as a measure of value). On the other hand, it must be able to enter into circulation as the means of payment when it falls due on the settlement date. The debtor must complete sales of commodities for money with the single aim of accumulating the necessary means of payment for his debt. Credit relations and 'hoarding' (savings) appear in a developed commodity circulation in a definite relationship: "the development of money as means of payment makes it necessary to accumulate it in preparation for the days when the sums which are owing fall due. While hoarding, considered as an independent form of self-enrichment, vanishes with the advance of bourgeois society, it grows at the same time in the form of the accumulation of a reserved fund of the means of payment."¹⁰

In addition, all the other possible social relationships take on the form of debts that have to be serviced by the means of payment, for example, taxes and rents. By settling payment obligations by means of institutions such as banks, not all payments have to be made with 'real' money. The mutual obligations can be reconciled so that the actual volume of means of payment can be minimised. Here, with money as means of payment, a problem appears:

"There is a contradiction immanent in the function of money as means of payment. When the payments balance each other, money functions only nominally, as money of account, as a measure of value. But when actual payments have to be made, money does not come onto the scene as a circulating medium, in its merely transient form of an intermediary in the social metabolism, but as the individual incarnation of social labour, the independent presence of exchange-value, the universal commodity. This contradiction bursts forth in that aspect of an industrial and commercial crisis which is known as a monetary crisis."¹¹

That is, the advantage of a developed monetary system, the ability to reconcile sales and payments taking place at different times (cashless transfers) brings out the contradiction between money as a mere circulation token and money as the absolute commodity.

For the total money supply, the condition for balance is now given by:

$M = M_c + M_b + M_h$ (where M_c is the mass of circulating money, M_b is the balance of payments to be made and M_h is the mass of hoarded (saved) money (the balance on international trade is ignored for this purpose).

Now it is not just a matter of whether, with the given velocity of circulation, the sum of money tokens corresponds to the sum of values that have been exchanged but also whether, at the necessary date for settlement, enough money has been transferred from M_c to M_h to balance M_b . If not, then here is a further reason for the devaluation of money.

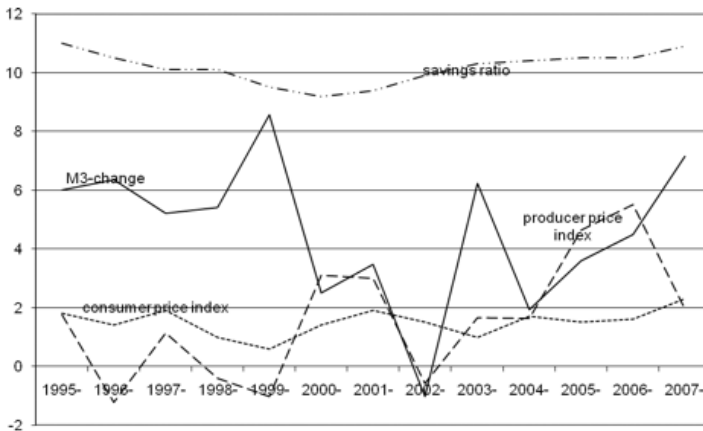
This is all the more so as the long-term settlement date of debts itself opens the possibility of using these debts as money tokens. Credit money, in its original form as bills of exchange and their discounting becomes, with the development of money circulation, the main form of appearance of money:

"On the other hand, the function of money as a means of payment undergoes expansion in proportion as the system of credit itself expands. As the means of payment, money takes on its own peculiar forms of existence, in which it inhabits the sphere of large-scale commercial transactions. Gold and silver coin, on the other hand, are mostly relegated to the retail trade."¹²

Since, in *Capital* volume three, Marx demonstrates the development of paper money out of the exchange business of issuing banks, there is a further reason for coinage to be pushed into the sphere of retail trade by credit money. These points destroy the myth that Marx had ultimately to reduce all money to gold (or a similar metallic form) because of his concept of the 'money commodity'. With the development of credit money it will later become clear that there is another commodity which is able to play the role of money as the incarnation of social labour: that is capital itself, which becomes a commodity as soon as it takes on the form of inter-

est-bearing capital. With this, money as credit money is only limited in its expansion by the limits on the expansion of capital accumulation itself. All the same, to demonstrate this requires further intermediate steps in the analysis. The immediate conclusion to be drawn is that it is not management of the money supply or some other monetary policy that can resolve the problems of capital accumulation, but on the contrary it is the fundamental contradictions of capital accumulation which lead to turbulence and crises in the sphere of money.

Figure 2: Components that influence inflation (propensity to save, M3-increase, producer price index) and consumer price index for Germany 1995-2007.



In this figure, it is obvious that inflation, as measured by the consumer price index (CPI) did not move in parallel with changes in the money supply, M3. To some extent, this can be explained by the effect of the increase in savings which began in the year 2000, a very different scenario from that in the USA. The other important factor was the low level of producer prices; cheap prices for imported goods, for example, from Eastern Europe or China, had a long-term tendency to offset the effects of a more lax monetary policy. On the other hand, at the outbreak of the crisis in 2008, when there was a sharp increase in commodity speculation, a rapid increase in input prices immediately led to fears of inflation. In 2009, this threat receded because of the deflationary impacts of a worldwide recession. However, during the second half of 2009 there has again been a massive speculative wave in commodities. In addition, one effect of the crisis was a significant increase in the saving rate, even in the US. A lot of the liquidity that the Fed pumped into the markets was not used for any real purchases but to ensure liquidity reserves and to consolidate balance sheets. Since most of the financial institutes that have survived the crisis are now beginning to invest again, we can anticipate that the saving rate will cease playing the same role in counteracting inflation.

2.3 Money as capital

With the transformation of money into capital, ('money as capital') money, and with it the contradiction of commodity and money, gains an independent form of movement: $M - C - M+$. Whilst the circulation of commodities has a purpose outside of itself (transformation of the form of use value) the circulation of capital is an end in itself: the advance of money in order to obtain more money. However, this cannot be achieved within the sphere of circulation in itself (sale above value would lead in the long-term either to redistribution of surplus value or a general raising of prices) as long as the law of the exchange of equivalents holds. Only with labour power is a commodity found in which the consumption of the use value maintains its value and moreover creates more value. Thus, the transformation of the labour process from a simple value creating process into a process of expanding the value (valorisation) of a money advance, presupposes an antagonistic social relationship in the production process: the immediate producers confront their means of labour and means of subsistence in the form of commodities in such a way that they can only make use of the means of labour, which are ultimately necessary for producing their own means of reproduction, through the sale of their labour power; that is, the owner of the means of production and the owner of nothing more than his or her own labour power confront each other and their relationship is mediated, but at the same time hidden, through commodity production. While, in the circulation process, individual commodity owners enter into a relationship, in the production process social relationships appear as the relationship of the productive 'general worker' and the surplus value appropriating 'general capital'.

From these social relationships in the capitalist production process, the fundamental value-theory determinants of the lawfulness of capital accumulation can be derived. The rate of surplus value is essentially determined by the social balance of forces between capital and labour (working day, level of wages, development of the reproduction costs of the commodity labour power in relation to labour productivity...). Equally, labour productivity and the development of the composition of capital are not only determined through technical developments but also through social conflicts, as is the scale of production (the absolute mass of productive labour time and labour power). These value determinants are the essential parameters for the development of capital accumulation (continuation of $M - C - M+$ over any number of periods through which a part of the realised surplus value from earlier periods is re-invested, that is, accumulated) which for its part then has an impact on them. One important consequence of repeated rounds of investment is that, as a rule, more and more machinery (often referred to, quite correctly, as 'labour-saving devices') are used by fewer and fewer workers. In Marx's terms this is the 'rising organic composition of capital' meaning that the proportion of the total capital invested that is devoted to machinery and raw materials ('constant capital') rises as the amount spent on wages ('variable capital') declines. There is also a constant tendency to pressurise the level of wages towards the minimum necessary in connection with the unavailability of the army of unemployed. These tendencies also include the necessarily increasing concentration of capital (with the ever higher capital costs for the essential productive sectors there are ever fewer individual

capitals in a position to accumulate) and also the increasing centralisation and acceleration of accumulation (takeover or merger of capitals).

Marx analysed these developmental tendencies at the level of capital in general, that is, on the basis of the value-theory analysis of the capitalist production process, without thereby having to go into the details of circulation. The analysis of the circulation process of capital in its unity with the production process in the second volume of *Capital* introduces only categories which allow the concrete forms of these developmental laws to be presented in volume three. Every attempt to introduce these elements of the analysis of the sphere of circulation directly (with the same value) into the Marxist theory of crisis must, therefore, as in the 'monetary value theory' or in Austro-Marxism, result in their revision. This is also true with regard to the significance of competition for individual capitals. Very far from constituting the 'essence of capitalism' competition is much more a consequence of the self movement of capital, the valorisation of capital under its own will. The accumulation of capital at higher and higher levels necessarily means that the space within which individual capitals can expand themselves becomes narrower and narrower and they are thereby forced into a life and death struggle:

"Accumulation, therefore, presents itself on the one hand as increasing concentration of the means of production, and of the command over labour; and on the other hand as repulsion of many individual capitals from one another. This fragmentation of the total social capital into many individual capitals, or the repulsion of its fractions from each other, is counteracted by their attraction. The attraction of capitals no longer means the simple concentration of the means of production and the command over labour, which is identical with accumulation. It is concentration of capitals already formed, destruction of their individual independence, expropriation of capitalist by capitalist, transformation of many small, into few large, capitals."¹³

In his writings on imperialism, Lenin correctly rooted the tendency to the formation of monopoly capital in this mutual relationship of competition and concentration of capitals in the developmental history of accumulation that Marx had already noted: "half a century ago, when Marx wrote *Capital*, it appeared to the overwhelming majority of economists that free competition was a 'natural law'.... today monopoly is a fact."¹⁴ Today Marx – the economists explain – is naturally obsolete because capitalism follows completely different laws from those in 'competitive capitalism'. As has already been established, this misunderstands that, for Marx, competition is a consequence, not the essence, of capital development. Unlike Hilferding, who saw in the new epoch of capital primarily a new organisation in the sphere of circulation, namely the formation of highly concentrated banking capital which led to an all embracing control over industrial capital, Lenin insisted "this definition is in so far incomplete in that one of its most important moments is lacking, namely the increasing concentration of production and of capital to such a high degree that the concentration leads to monopoly and has to led to monopoly."¹⁵ Moreover, the extreme concentration into monopoly capital does not lead ultimately to the transcendence of fundamental laws, accumulation leads to growing concentration and equally to an ever more sharpened competition. This applies both to the competition between monopolies (at the international level) and equally to the

sharpening of competition between the non-monopoly sectors and the spin offs of monopoly.

What is true with regard to the question of avoiding the crisis tendencies within capital accumulation that Marx discovered through the so-called rendering ineffective of competition, is also true of other elements of the analysis in the sphere of circulation. In the analysis of the circulation of capital it is not just a matter of the price struggle between capitals but essentially about the conditions under which the value produced in the capitalist production process in the form of commodities can be realised. Because the social framework of production in capitalism is only enforced subsequently, via circulation, it is only in circulation that it can be established whether the division of social labour between the different spheres of production is actually capable of reproduction. In the 'reproduction schema', Marx demonstrates the conditions under which the division of social labour between production goods and consumer goods under expanded reproduction brings with it the increased demand for the increased production. These schemas are the 'conditions of balance' which, in the unplanned social context, are generally not met but which directly generate the offsetting movements which counteract the disproportions. Thus Marx did not have a theory of an 'ultimately limited market' which created an absolute demand limitation on capital accumulation (as Rosa Luxemburg maintained). Rather, what Marx showed with the reproduction schema was that the capitalist production process repeatedly creates the necessary demand for its products so long as the expansion of production is accompanied by an increase in surplus value production. The limitation on capital accumulation is ultimately capital itself, which, with the acceleration of accumulation, simultaneously undermines the source of the production of surplus value: human labour power.

Other elements of the analysis of the circulation of capital are the distinction between fixed and circulating capital and equally the significance of the turnaround time or storage time. Whereas, for example, raw materials, energy, and other material elements transfer their value in the production cycle, machines only give up part of their value to the product during each production cycle. The varying turnaround times for fixed capital demand the creation of big amortisation funds or the provision of huge capital advances at particular times. These turnover times are therefore bound up with the cyclical payment peaks and with the business cycle. On the other hand, an acceleration in the turnover of capital, for example, through a reduction in storage times, transport costs or speedier realisation of the finished goods, also means acceleration of accumulation and of competition and concentration.

With the transformation of surplus value into profit it appears to the individual capitalists that they have gained something independent of the individual commodities, the general social framework of the amassing of the value takes on its own fetishised form. What essentially concerns the individual capitalist is how much more money (profit) he receives by the sale of his goods than he had to pay out in the form of production materials and labour power ('cost price'). Within the cost price, the labour power that actually creates value loses its separate identity and becomes just one part of the variable costs as compared to the fixed costs. That the profit rate ($m/c+v$) continues to be determined by the real value parameters of pro-

duction (rate of surplus value m/v and value composition c/v) disappears on the surface of society.

This difference becomes important as soon as individual capitals confront each other in competition within a particular branch of production or as investors in various branches. Here, the varying value composition, even where there are approximately equal rates of surplus value, leads unavoidably to different profit rates. The branches with the least technical outlay and capital investment theoretically give the better rates of profit. However, it is precisely these 'easy moneymakers' which necessarily attract more capital whereas the branches with higher organic composition will produce less supply. The resulting division of total capital creates relationships between the supply and demand of the various commodities which forces down the price of the 'easy' branches below their value while forcing those of the 'difficult' branch above their value. That is, there is a redistribution of the surplus value. This balancing out process is the formation of an 'average rate of profit' in which the price of goods ('production price') is given by the cost price plus the average profit which is the same for all capitalists. In this context, any coincidence of value and price becomes accidental even if the value based fundamentals essentially determine the transformation of value into the production price. Only from the standpoint of total capital does there continue to be an identity in which the sum of value of all the goods produced in a particular period corresponds to the total production price.

Marx also called this balancing process of the formation of an average profit rate the 'fundamental law of competition.' And so:

"This constant equalisation of ever-renewed inequalities is accomplished more quickly, firstly the more mobile capital is, that is the more easily it can be transferred from one sphere and one place to others; secondly the more rapidly labour power can be moved from one sphere to another and from one local point of production to another. The first of these conditions implies completely free trade within the society in question and the abolition of all monopolies other than natural ones, that is those arising from the capitalist mode of production itself. It also presupposes the development of the credit system, which concentrates together the inorganic mass of available social capital vis-a-vis the individual capitalist. It further implies that the various spheres of production have been subordinated to capitalists."¹⁶

The conditions indicated here also make clear that the equalisation process is only a tendency, a process of approximation which can be modified in many branches through the formation of monopolies or state restrictions. Despite this, the formation of capital into a social force (including in its ideological, fetishised form) does express itself in this tendency:

"In capitalist production it is not simply a matter of extracting, in return for the mass of value thrown into circulation in the commodity form, an equal mass of value in a different form – whether money or another commodity – but rather of extracting for the capital advanced in production the same surplus-value or profit as any other capital of the same size, or a profit proportionate to its size, no matter in what branch of production it may be applied. The problem therefore is to sell commodities, and this is a minimum requirement, at prices which deliver the average profit, that is at prices of production. This is the form in which capital becomes conscious of itself as a so-

cial power, in which every capitalist participates in proportion to his share in the total social capital."¹⁷

And the content of this 'social power' is naturally:

"That each individual capitalist, just like the totality of all capitalists in each particular sphere of production, participates in the exploitation of the entire working class by capital as a whole, and in the level of this exploitation; not just in terms of general class sympathy, but in a direct economic sense, since, taking all other circumstances as given, including the value of the total constant capital advanced, the average rate of profit depends on the level of exploitation of labour as a whole by capital as a whole."¹⁸

Thus, for all the competition between themselves, the capitalists form a 'real Freemasonry' against their main rivals, the general working class that is competition grows into monopoly, into a 'wages cartel'.

"We thus have a mathematically exact demonstration of why capitalists, no matter how little love is lost among them in their mutual competition, are nevertheless united by a real Freemasonry vis-a-vis the working class as a whole."¹⁹

2.4 The long-term tendencies of capital accumulation

The general tendencies of capitalist accumulation, which were analysed by Marx at the level of capital in general, now concretise themselves, since the concrete forms of movement have to be considered on the social surface, in the law of the tendential fall of the profit rate. This is the immediate consequence of the tendency for there to be an increase in the organic composition of capital alongside the given limits on the exploitability of the working class. "The progressive tendency of the general profit rate to fall is thus simply *the expression, unique to the capitalist mode of production*, of the progressive development of the social productivity of labour."²⁰

That the fall in the profit rate is expressed as a tendency is a result of the operation of various 'countervailing factors' that either flow from the accumulation of capital itself or are the responses of capital to the reduction in profit rate. For example, as the organic composition rises, the value content of individual commodities falls and this applies to commodities, such as machinery, which then enter into the next round of investment in means of production. This lowering of the value content of individual components can offset or reduce the rise in the organic composition and, therefore, counter the falling rate of profit. However, since the next round of investment is, in reality, virtually bound to be on a much larger scale, the decline in the value content of each component is offset by the increase in the overall number of components. A more precise analysis of such interactions is not the theme of this article but other factors that were identified by Marx, such as foreign trade and increases in share capital, we will deal with later on.

The long-term tendency to a fall in the rate of profit does not lead immediately to crisis. On the contrary, it is at first a spur to accelerated accumulation. A growing constant capital can, despite the fall in profit rate, produce an increase in the mass of profit overall. "Accumulation succeeds despite the fall in profit rate at a progressively faster tempo because the scale of accumulation does not develop in relation to the height of the rate of profit but in relation to the weight/strength that

the accumulated capital already possesses".²¹ As Grossman shows, in a standard model of accumulation, from a certain cyclical highpoint the mass of profit begins to fall and as result there is no longer enough accumulated money capital available to allow expanded capital and consumer goods production through further investment in an increase in production. "Overproduction of capital never means anything but overproduction of means of production, means of labour and means of subsistence, that can function as capital, that is, can be applied to exploiting labour at a given rate of exploitation; a given level, because a fall in the level of exploitation below a certain point produces disruption and stagnation in the capitalist production process, crisis, and the destruction of capital".²² Thus the 'overproduction' achieved at a certain point is nothing other than 'over accumulation' of capital that can no longer valorise itself at the corresponding level of exploitation.

The effects of this over accumulation present themselves on one side as abandoned capital that cannot be profitably invested, or is only barely profitable, together with masses of 'surplus' working population. On the other side, it presents itself as a 'scarcity of capital', a lack of capital that can be productively invested, alongside masses of speculatively over-invested or hoarded monetary wealth. The disruption of the chain of payment obligations, which has already been analysed, is unavoidably bound up with this and with it the culmination of the crisis into a money crisis. All these moments lead to the transition to the phase of the 'devaluation of capital' whether in the monetary form (financial crisis) the commodity form (collapse of prices) or the physical destruction of the means of production.

Thus, the tendency to the breakdown of capital accumulation, revealed by the analysis of the tendency to over accumulation, becomes a theory of crisis that shows the 'normal' cyclical crisis to be the expression of a fundamental tendency to crisis. Henryk Grossmann summarised this in the following way:

"In this way, the 'fundamental tendency' of the capitalist system breaks down into a series of apparently separate and independent cycles, where the tendency to breakdown periodically, time and again, begins anew..... the Marxian theory of breakdown is therefore the necessary basis and precondition of his theory of crisis because, according to Marx, the crisis is simply a momentarily interrupted and incompletely successful tendency to breakdown, that is, a temporary deviation from the trend line of capitalism."²³

With their devaluation processes and the acceleration of accumulation through the deployment of particular countervailing factors against the falling rate of profit, the cyclical crises constitute a necessary element in the avoidance of capitalist collapse. Every crisis results in a modernised capital that can break through the limits of the previous period and reach a higher stage of accelerated capital valorisation. The counter tendencies, which each time lead to a new round of accumulation, are also each time the accelerators for the next crisis. "However, despite all the periodical interruptions and attenuations of the tendency to collapse, with the advance of capital accumulation, the general mechanism approaches ever closer to its end because, with the absolute growth of capital accumulation, the valorisation of this increased capital becomes increasingly difficult. Once the counter tendencies are themselves weakened or brought to a halt, then the tendency to collapse

gains the upper hand and imposes itself absolutely as the 'last crisis'.²⁴

The cyclical sequence of accelerated accumulation, crisis, devaluation, implementation of counter tendencies thus has limits imposed on it, it cannot continue indefinitely. At particular points, a crisis sets in which puts in question the continued existence of capitalism altogether.

2.5 The long-term tendencies of capital accumulation and imperialism

With his inclusion of increase in share capital and foreign trade among the factors that counteract the fall in the rate of profit, Marx had already established the essential elements of the theory of imperialism. The appearance of share capital made possible a "tremendous expansion in the scale of production, and enterprises which would be impossible for individual capitals. At the same time, enterprises that were previously government ones become social."²⁵ Because, in joint stock companies, the immediate owner of capital is content with a share in the profits close to the interest rate (dividends) this has the effect of raising the equalisation of the profit rate to a higher level, "since these enterprises, where the constant capital stands in such a tremendous ratio to the variable, do not necessarily go into the equalisation of the general rate of profit."²⁶

As Hilferding later showed, this moderation, the limitation of dividends with regard to profit, is only apparent and temporary. The difference is brought back in by the big finance capitals who mediate the provision of capital in the form of underwriting profits. This extra profit formed, and forms, an important source of the speedy enrichment of finance capital (see the chapter on finance and monopoly capital). In fact, this countervailing tendency is, above all, a means to the acceleration of the concentration of capital, the formation of monopoly and ever stronger control of social production by a small number of big capitals. The modification to the equalisation of the general profit rate thus becomes systematised: the monopolised sectors abide by the other laws regarding capital inflows and outflows, barriers to entry investment, price competition and the negotiating position in respect of the working class. The monopoly profit rate thus distinguishes itself from the general profit rate. Equally, the tendential fall in the rate of profit and the tendency to crisis also modify themselves.

However, although monopolies can organise a much steadier process of accumulation, they cannot free themselves from the lawfulness of the underlying tendencies. Their consolidation is bought at the cost of increasing the tendencies to crisis in the non-monopoly sectors. This is particularly true in countries in which the formation of monopoly and finance capital lags behind the capitalist Great Powers. These become a central source of monopoly extra profits which can offset the disadvantages of a higher organic composition of capital in the equalisation of the profit rates of the metropolises. This means that over accumulated capital can find a profitable outlet through capital export.

The fundamental tendencies of capitalist accumulation, its crisis ridden nature and the resulting attempts to reduce these through monopoly, therefore, lead, necessarily, to imperialism: the violent division of the world between groups of monop-

oly capitalists whose political business is carried out through the corresponding Great Power politics. "Imperialism is capitalism in that stage of development in which the dominance of monopolies and finance capital has established itself; in which the export of capital has acquired pronounced importance; in which the division of the world among the international trusts has begun; in which the division of all territories of the globe among the biggest capitalist powers has been completed."²⁷ This stage embraces an already achieved high level of socialisation in particular in monopoly production. On the other hand, the scale of the capital to be valorised also raises the tendencies to crisis, just as monopoly capital also drives forward the 'deceleration' of accumulation, the limitation of the raising of the productive forces (capital intensification) and parasitism. Therefore, the general tendency of the imperialist epoch is one of stagnation interrupted by powerful phases of accumulation and equally sharp crisis cycles.

2.6 The modification of the average rate of profit in the circulation of capital

The pressure of competition around the price of production, which pushes the profit rate of industrial capital towards the average profit rate, is not the end of the matter. Continuous accumulation of capital demands the realisation of the produced goods and as a result an efficient capitalist organisation of the sphere of circulation. In a developed capitalist division of labour, industrial capital does not generally concern itself with the sale of its goods to the 'final consumer' but delegates this task to commercial capital. This means that labour in the sphere of circulation, even if it does not itself create any value, can be organised as commercial wage labour. The higher the rate of exploitation of this wage labour, the higher the share of industrial profit which can be appropriated by the commercial capitalists, only the remainder of the industrial profit remains for the wages of the commercial employees. Thus, the circulation costs of capital can now enter into the equalisation process in the formation of the profit rate while the sale price is now the result of the price of production (with reduced average profit) and the 'commercial costs'.

From a definite point in the development of capitalism, the costs of 'money handling capital' appear as a particular cost in the circulation process. Operations such as receiving cash, disbursing cash, administering reserve funds, money changing, offsetting short-term liabilities, discounting, payment by instalments etc are necessary parts of the efficient organisation of the capitalist circulation process. These activities can also be organised by independent capitals which later become the starting point for bank capital. In this way, purely money handling activities enter into the equalisation of the average rate of profit and, in the same way as commercial capital, contribute to the determination of the form of appearance of prices in the total circulation process of capital. Even if prices or payments here carry additions which look like interest, the interest in this case is to be understood only in the simple sense appropriate to commodity circulation. Interest achieves its own independent form only in the case of interest-bearing capital, which forms the main function of bank and finance capital.

3 The formation of finance capital

3.1 Interest-bearing capital

With the formation of an average rate of profit, money, as a purely quantitatively determined sum of value (the embodiment of the quantity of abstract labour) approaches its ideal, independent form. A sum of money can be thrown into different concrete processes of valorisation in order at the end of the process to throw off the same average profit in relation to the initial sum. Money gains the additional function of acting as capital and can, in this function, become itself a commodity. That is, the owner of a sum of money can sell it to another capitalist who can then invest it in productive capital and increase the original sum of money with profit. The original owner can then equally receive back the initial sum as well as a portion of the profit: the interest.

In this movement of money as interest-bearing capital ($M - M+$) all of the pre-conceptions of the capitalist production of commodities appear to be annulled and hidden but, in reality, the transaction presupposes the entire process of capitalist production: that is, the genesis of the commodity and money form; the transformation of all the conditions of production into commodity capital which is valorised through wage labour; the transformation of money into money capital; the unity of the production and circulation process as the accumulation process of capital; the formation of a society-wide average rate of profit. Conversely, it now appears as if it is a property of 'money as capital' that it produces interest from itself. Capital as a commodity appears as a 'thing' that has the use value of expanding value, generating surplus value. Correspondingly, interest appears to be the exchange value of this special commodity. In this way, the fetishised form of capital is brought to completion. Whereas in the process of the circulation of capital, money and commodity capital are simply forms of capital through which the commodity can be turned into money and vice versa, in the total process, capital only becomes itself in the process of production, in the process of the exploitation of labour power. It is otherwise with interest-bearing capital:

"The owner of money, who wants to valorise this as interest-bearing capital, parts with it to someone else, puts it into circulation, makes it into a commodity *as capital*; as capital not only for himself but also for others. It is not simply capital for the person who alienates it, it is made over to the other person as capital right from the start, as value that possesses the use-value of creating surplus-value or profit; as a value that continues its movement after it has functioned and returns to the person who originally spent it, in this case the money's owner. That is, it is removed from him only for a certain interval, only temporarily stepping from the possession of its proprietor into the possession of the functioning capitalist. It is neither paid out nor sold, but simply lent; alienated only on condition that it is, first, returned to its starting-point after a definite period of time, and second, is returned as realised capital, so that it has realised its use value of producing surplus-value."²⁸

Thus, the form of movement of interest-bearing capital, of money functioning as the commodity capital, can be derived from the process of capital circulation $M - C - M+$ to give: $M - M - C - M+ - M+$. Taking these steps in turn:

M – M: the process does not begin with the sale or purchase of a commodity. The issuing of ‘money as capital’ in M – M is absolutely not an element in the metamorphosis of commodities or the reproduction of capital; it is simply a temporary transfer of ownership of a particular sum of money, the loaning of money as capital. A fictional duplication takes place: the money exists now, on the one side, in the credit note of the original owner with a claim on punctual payment; on the other side, it is now at the disposal as ‘real money’ of the functioning capitalist.

M – C – M+: as money capital it can now be valorised in order to generate (‘throw off’) at least the average profit (M+)

M+ – M+: the duplicated issuing of money as capital corresponds to the duplicated return. As well as the original sum of capital that was handed over, the functioning capitalist must now hand over to the capital owner a slice of the profit, the interest, “since he has given the money to him only as capital, that is, as value that is not just maintained in the course of its movement, but creates a surplus-value for its owner.”²⁹ Here then we have, on the one hand, the duplication of capitalists: on one side as owner of money as capital and on the other the investing capitalist (irrespective of whether they invest in productive or commercial capital). From the point of view of total capital, there is in this the same mass of profit which is to be divided: interest can only be appropriated as a part of total profit, as the ‘price’ for the handing over of money as capital to the functioning capitalist. In this, anyone who tries to apply the simple determination of the value form to the commodity capital gets into a contradiction:

“If interest is spoken of as the price of money capital, this is an irrational form of price, in complete contradiction with the concept of the price of a commodity... Here a commodity has a double value, firstly a value, and then a price that is different from this value, although price is the money expression of value. Money capital is at first nothing more than the sum of money, or the value of a certain quantity of commodities assessed as a sum of money... How then is a sum of value to have a price beside its own price, besides the price that is expressed in its own money form?”³⁰

The analogy of sale and purchase in the relationship of creditor and debtor of money capital thus does not take us very far in the understanding of interest. Interest, as a component of profit, is a measure of the valorisation of capital, and as such has the appearance of a price because the capital was indeed offered on the market for valorisation. In its form of appearance as price, interest obscures its real derivation from profit. This is all the more so because it is only in the total process that the total interest payments result from the valorisation of socially productive capital through a corresponding process of equalisation. In individual cases, it is all the same to the lender of money where the debtor obtains his interest payments, that is, via how many intermediate steps it is nibbled away from total profit (for example, state credits which are financed through taxes). For him, the entire movement is reduced to the abstract form M – M+. He himself appears as someone offering money capital on a market. The interest appears to him to be the price of his goods entirely determined by the relationship of supply and demand in the money market. Correspondingly, in bourgeois economics, especially in the neo-classicists (for example, Marshall) interest-bearing capital is understood as the real meaning of the word

'capital' and interest as the price for 'deferred consumption'. In this theory it is not only the difference between commodity and money markets that is blurred. What is also obscured is that interest-bearing capital is a particular derived type of capital which can only be understood on the basis of productive capital. Keynes did the same thing when he derived interest from the relationship between 'liquidity preference' (possession of the means of payment) as against the rate of valorisation of 'real wealth'. Even if there is here a recognition of the dependence of interest on productive capital, every capital is assumed to have its own inherent interest rate. By contrast, for Marx, interest is a specific characteristic of a definite sort of capital usage, the valorisation (that is the self expansion of value) of the mere ownership of capital in contrast to the valorisation process of functioning capital.

Nevertheless, it is clear from this why Marx and Keynes could reject the central role of the interest rate for the foundation of Say's Law by the neo-classical school. Whereas, in the neoclassical school, the money market is a commodity market just like any other and, therefore, a flow of money from the other markets into the money market via a lowering of interest (oversupply) re-establishes equilibrium, for Marx, just as much as for Keynes, this reflux tendency can be turned into its opposite by an even less healthy development in the profit rate. Precisely at the end of the cycle, an overabundance of capital, rising demand for credit and sinking profit rates, can be associated with rising interest rates just as much as with an accelerated decline in employers' profits caused by that. That is, the development of the interest rate can even act as the catalyst to the recession, in direct contradiction to liberal dogma.

Marx observed in *Theories of Surplus Value* that there had been a notable change in bourgeois economics with regard to this issue: Adam Smith had characterised profit as the 'yield' of capital; in contrast to this, in 'vulgar economy' it had become normal to use the formula 'Land – Rent, Capital – Interest, Labour – Wage'. Thus, in the classical school, the relationship of capital with profit is expressed: "The concept of profit still contains the inconvenient connection with the production process, and the real nature of surplus value and of capitalist production, in contradistinction to their *appearance*, is still more or less recognisable. This connection is severed when interest is presented as the intrinsic product of capital and the other part of surplus value, industrial profit, consequently disappears entirely and is relegated to the category of wages."³¹ This is also how it appears to the functioning capitalist who declares the necessity to generate 'capital value' (that is, interest) while the entrepreneur's profit and the manager's salary appear to be a form of wage cost.

In $M - M+$, the capitalist law of appropriation – ownership and reproduction of objectified alienated labour of others as the basis for the appropriation of still more alienated labour on an ever-growing scale – achieves its last and most extreme form. The mere entitlement to value itself becomes capital, that is, the means to the appropriation of the surplus labour of others, without the capital owner having to go through the tedious process of industrial or commercial generation of profits. This, however, takes place without this derived form of surplus value appropriation becoming independent of its foundations, the reproduction of capital through living

productive labour.³² The disappearance of the mediation, the only indirect relationship to its real source, profit, also leads to consequences for the determination of interest itself. Naturally there is not a single gram of labour involved in the appropriation of surplus value through the transfer of an entitlement to capital; nonetheless, it appears as if it is a kind of sale of a commodity. However, this is a sale and purchase that in its substance has nothing to do with any traded value (only with the entitlement to ownership of a value). But, formally, it does follow the law of the market with regard to competition and price formation. Whereas, in the formation of the market price of a commodity, supply and demand result in a fluctuation of the price around the value so that when they are balanced they produce precisely the value, interest is determined by nothing more than supply and demand: "Here competition does not determine divergences from the law, for there is no law of distribution other than that dictated by competition."³³

Thus the interest rate becomes an expression of the balance of power between functioning and financing capitals in which this relationship is determined by the formation and laws of motion of the general average profit rate. There is, therefore, no autonomous law controlling the movement of the interest rate. The upper limit is determined by the average rate of profit. The nearer the interest rate moves towards the general profit rate, so the less room for manoeuvre functioning capital has for the expansion of accumulation and the demand for interest bearing capital sinks. Conversely, when the interest rate moves towards zero (or indeed beyond that) the boost to acceleration of accumulation rises together with the demand for interest bearing capital. Between these two extremes there is every possible room for daily variations and fortuitous movements. "Where, as here, it is competition as such that decides, the determination is inherently accidental, purely empirical, and only pedantry or fantasy can seek to present this accident as something necessary."³⁴ From this it is clear that anything like a 'natural rate of interest' on capital is a theoretical nonsense for Marx.

It is also important to note that the interest rate is based on the average profit and not on particular, temporarily possible, profit rates (or super profits) of particular individual capitals. This is because the ability of the mere title to ownership of capital to expand its value, as the expression of the use value of capital for self expansion, exists absolutely irrespective of the specific application of capital:

"On the money market it is only lenders and borrowers who face one another. The commodity has the same form, money. All particular forms of capital, arising from its investment in particular spheres of production or circulation, are obliterated here. It exists in the undifferentiated, self-identical form of independent value, of money. Competition between particular spheres now ceases; they are all thrown together as borrowers of money, and capital confronts them all in a form still indifferent to the specific manner and mode of its application. Here, capital really does emerge, in the pressure of its demand and supply, as the common capital of the class, whereas industrial capital appears like this only in the movement and competition between particular spheres. Money capital on the money market, moreover, really does possess the form in which it is distributed as a common element among these various spheres, among the capitalist class, quite irrespective of its particular application, according to the production requirements of each particular sphere. On top of this,

with the development of large-scale industry, money capital emerges more and more, in so far as it appears on the market, as not represented by the individual capitalist, the property of this or that fraction of the mass of capital on the market, but rather as a concentrated and organised mass, placed under the control of the bankers as representatives of the social capital in a quite different manner to real production.³⁵

Thus, while in the process of real capital circulation total capital only appears in the total process, interest bearing capital appears not as 'total capital' but only as a particular form of capital but now, conversely, in a concentrated social form! Whereas, on the surface of society, the average profit rate hides itself behind a variety of conditions of individual spheres of investment enforcing itself through competition and equalisation only cyclically and behind the backs of the producers, in the determination of the rate of interest, the social character of capital reflects itself directly through this movement, expressed in hard numbers, in the price levels on the money market. "Average profit does not appear as a directly given fact, but rather as the end-product of an equalisation of opposing tendencies that can only be established by investigation. With the interest rate it is different. Where it is a universal governing rule, which occurs at least locally, it is a fact fixed every day, a fact that even serves industrial and commercial capital as a presupposition and postulate in their operating calculations."³⁶

With this the relationship is completely turned around and the interest rate appears on the surface as the representative of the average rate of profit. Precisely because the average rate of profit moves more slowly than the quarterly variations in profit into particular spheres of investment, so the rate of interest also appears to be a more permanent figure, that is, in a contrary manner to be the constant around which profit rates vacillate. "The general rate of profit, in fact, reappears in the average rate of interest as an empirical, given fact, even though the latter is not a pure or reliable expression of the former."³⁷

3.2 The many forms of interest

The apparent concreteness of the interest rate as a negotiated title to ownership of surplus value is qualified by the differentiation of types of interest and the types of money capital corresponding to them. At the lower end are the operations of money handling capital and commercial credit.

These are accompanied by short-term credit issued with a simple form of interest and tight limits as far as securities and the extent of credit are concerned. This kind of credit is tightly bound up with the immediate reproduction and circulation process and therefore the interest also takes the form of a constant return on the sum of money lent, rather than a compound interest. That is, on current accounts and similar forms of credit, the interest payment for the period x is not incorporated into the total capital on which interest is paid in the next period.

Thus, if n is the number of days until repayment, z is the interest rate period (for example 360 days) and i is the rate of interest then, on an initial debt of K , there is a final debt of Kn , given by:

$$Kn = K (1 + i n/z)$$

This linear form of interest payment is also mostly used for short-term (less than a year) money deposits. This is where the difference between deposit and loan rates from the banks is generally at its greatest, that is, for short-term deposits the interest rate tends towards zero.

For longer-term money deposits, over several years, the connection with an autonomous form of appropriation of a portion of profit in the form of accumulation becomes clearer. That is, the money capital that is returned in the process $M - M+$ is understood to have been delivered entirely by the next cycle; it increases by compound interest and the depositor expects a distinctly higher rate of interest than for a short-term deposit. If n is the number of years for a deposit of an initial capital K with an interest rate i , the depositor expects as the final value:

$$K_n = K(1 + I)^n$$

In this, the depositor may not wait until the end date for repayment by the debtor. As with the valorisation of fixed capital, it is also possible that lending can become a source of constant revenue in the form of a rental payment. Here, the sum to be paid, for example as an annual rent, for a capital deposit of K over a period of n years is calculated from the following equation: (let $Q = 1 + I$)

$$R_n = Kqn = R(qn - 1) / (q - 1)$$

Thus the size of the rental payments is dependent on the length of the deposit period and the interest rate agreed at the beginning. R_n gives the definitive value of the rent. Conversely, with an annuity credit, the final value is given in advance but the annual payment (or amortisation instalment) R is given precisely by the length of the deposit and the rate of interest.

In the case of the formula for compound interest or rent, the whole mystification of interest bearing capital is expressed: capital comes to be seen “without regard to the conditions of reproduction and labour, as a mere number that increases by itself”.³⁸ Its growth is limitless because it appears to be exponential. Nothing better expresses the drive of capital to unlimited growth. At the same time, this limitlessness must come into a collision with the actually limited nature of the conditions of reproduction. This is because it is abstracted from the fact that the real capital to be reproduced must periodically necessarily undergo devaluations (not only in crises but also on the basis of progress in productivity) and along with the rate of profit, the rate of interest must necessarily sink:

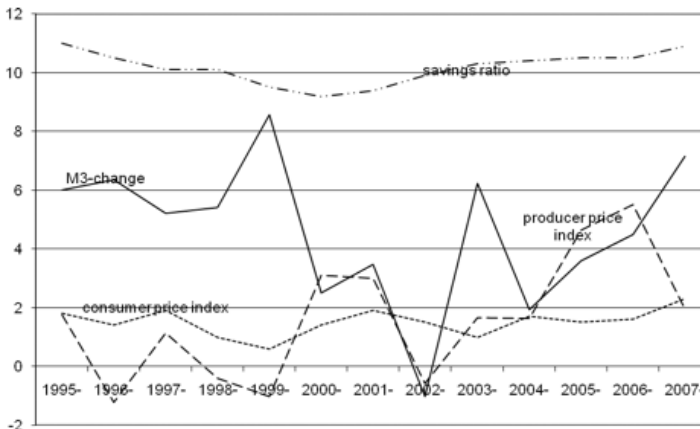
“The identity of surplus-value and surplus labour sets a qualitative limit to the accumulation of capital: the total working day, the present development of the productive forces and population, which limits the number of working days that can be simultaneously exploited. But if surplus value is conceived in the irrational form of interest, the limit is only quantitative, and beggars all fantasy... The product of past labour, and past labour itself, is seen as pregnant in and of itself with a portion of present or future living surplus labour. We know however that in actual fact the preservation and thus also the reproduction of the value of products of past labour is only the result of their contact with living labour.”³⁹

The story of the farthing which was invested at 5 per cent at the time of Christ's birth and now embraces all the wealth of the world leaves out of account the lim-

ited productive basis for finance accumulation. Nonetheless, the same fairy tales, for example, the lauding of “private pension schemes” through capital investments, are still being sold.

While the market for short-term money capital (that is, the “money market”) is determined by the turnover time of circulating capital (short-term payment obligations) the real capital market is determined above all by the turnover time of fixed capital. Therefore it is the varying time scales for the reproduction of reproductive functioning capital that are reproduced in the form of purely quantitative differences (time scales) on the money capital market. Both sectors of the market possess their own particular interest rates which continuously fan out across a range. What is decisive, however, is that out of this a hierarchy of interest rates is formed: leaving aside cyclical movements, interest rates in the capital market determine the interest rate in the money market. It therefore makes sense to concentrate on the “average interest rate” as Marx concluded: “In order to find the average rate of interest, we have to calculate 1, the average interest rate as it varies over the major industrial cycles; 2, the rate of interest in those investments where capital is lent for longer periods.”⁴⁰

Figure 3: Long-term tendency of different types of interest rates in the USA, 1954 – 2009



(source: Federal Reserve Bank of the USA)

From Figure 3 it is apparent that the Fed-rate (that is the rate for short-term lending by the Fed to the US commercial banks) is not “the interest rate”. It obviously has a determining impact on short-term primary bank loans (that tend to be 3 – 4 per cent above the Fed rate, with some time-lag). On the other hand, the corporate bond rate, which measures the interest rates corporations have to pay to lenders if they go to the money markets, remained stable above the 5 per cent level even when the Fed was pursuing a low interest policy. The graph also makes clear

the time-lag in the movement of long-term bonds, such as 10-year US Treasury bonds, in relation to changes in the Fed-rate. Nonetheless, there are clear turning points in the movement of interest rates that are marked by the Fed-rate decisions. In the crisis of the early 70s and again around 1980 (the Volker shock) one can see the dramatic increases in the Fed-rate that were introduced to counter the inflationary tendencies at those times. Around 1990, there was a phase of monetary relaxation which was followed by moderately high rates in the mid-nineties. The drop in interest rates around 2000 is now widely recognised as an important factor in creating the speculative bubble and, around 2005, it was followed by the rebound that led to the bursting of the bubble. The dramatic slashing of the Fed rate to near-zero during the crisis of September 2008 did not bring down interest rates for company loans, but it did keep them stable at 5 per cent after they tended to go beyond the 6 per cent level in the autumn of 2008. At the same time, the graph only shows interest rates for triple-A rated corporations, companies with lower credit ratings could expect interest rates 3-4 percent higher if they were not forced out of business altogether as victims of the ‘credit crunch’.

3.3 Capital value and employer's profit

Even if interest is actually a claim, via an ownership title, to a portion of the profit and the employer's gain is the rest of the profit, in developed capitalist relationships the latter appears, conversely, as an independent mass. Whereas interest payments are seen as the “normal” yield on invested capital, any yield beyond that is seen as a result of the special performance of entrepreneurial capitalists. Their ability to take advantage of market opportunities, healthy profit conditions, particular possibilities for exploitation and so on are seen as the basis for a special “payment”. What is actually a simple quantitative division of profits thereby becomes established as a qualitative distinction between interest and employer's profit.

Individual capitalists themselves include the interest rate in their reckoning even when they have borrowed absolutely no capital. The established distinction becomes normal practice: a profit greater than the interest rate becomes for the capitalist the real motivation for investment. Otherwise, so the calculation goes, they could just invest capital with the normal interest rate instead of putting themselves to all the trouble of organising production. Thus, in the normal calculation of investment for a business, the capital value K of investment I which produces a yield Y over a number of years n , is calculated on the basis of a return of q ($=1+i$):

$$K = Y(qn - 1) / (q - 1) - Iqn$$

That is, an investment is compared with the yield of a deposit at the standard interest rate. Only if there is a positive “capital value”, that is, a higher yield than would be given by annuities, is the investment seen as “worthwhile”. What is seen by the individual capitalist as meaningful grounds for rejection is naturally a complete nonsense as a general explanation:

“Concealed in this idea, moreover, is the still greater nonsense that capital could yield interest on the basis of the capitalist mode of production without functioning as productive capital, that is without creating surplus-value, of which interest is simply one

part; that the capitalist mode of production could proceed on its course without capitalist production. If an inappropriately large number of capitalists sought to transform their capital into money capital, the result would be a tremendous devaluation of money capital and a tremendous fall in the rate of interest; many people would immediately find themselves in the position of being unable to live on the interest and thus compelled to turn themselves back into industrial capitalists.”⁴¹

Once the qualitative distinction between “standard interest” and the performance of the entrepreneur has become established, the contrast between capital and wage labour transforms itself ideologically into the contrast between capital ownership and productive activity. Thereby, the entrepreneur themselves now appears as the “labourer” or even the “exploited”. “The exploitation of productive labour takes effort, whether he does this himself or has it done in his name by others. In opposition to interest, therefore, his profit on enterprise presents itself to him as independent of his property in capital and rather as the result of his functions as a non-owner, as a worker.”⁴²

This is the basis for the ideological confusions over “productive”, “creative” industrial capitalists in contrast to the “unproductive”, “greedy” finance capitalists in the way these terms are used not only in fascist-inclined “critiques of capitalism”. In reality, the analysis clearly shows that we are dealing here only with two different appearances of the same exploitative relationship. Since the function of finance capital is clearly derived from the needs of reproduction of total capital, the question whether one of these types of capital is morally better or worse does not arise in the capitalist mode of production:

“The justice of transactions between agents of production consists in the fact that these transactions arise from the relations of production as a natural consequence. The legal forms in which these economic transactions appear as voluntary actions of the participants, as the expressions of their common will and as contracts that can be enforced on the parties concerned by the power of the state, are mere forms that cannot themselves determine this content.”⁴³

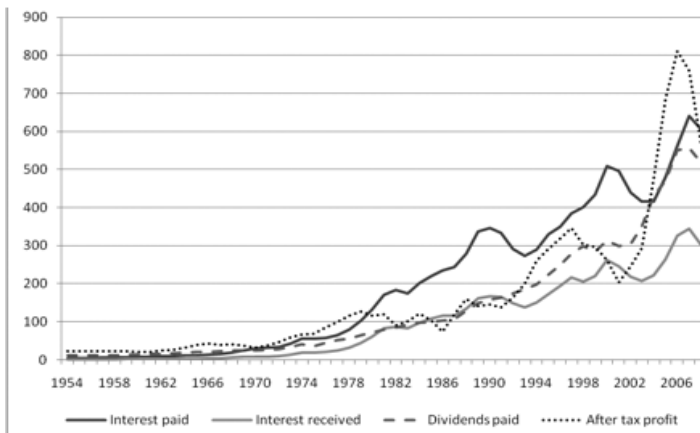
Therefore, corporate profits must necessarily also be broken down into various forms. On the one side, the activities of immediate leadership of productive capital increasingly take on the form of wage labour itself, for example, “administration salaries”, “managerial salaries” etc. On the other, the functions of the supervisory bodies of the owner are also supported (for example, supervisory board bonuses). Even if a part of managerial activity does have a productive element in terms of coordination, this of course only accounts for a part of their actual substantial participation in corporate profits. The actual corporate profit, however, now appears (after the withdrawal of these “salaries” for the post holders) only as the “annual surplus” which is, for example, revealed in dividends or is reinvested in the capital stock. As Marx put it:

“Since, on the one hand, the functioning capitalist confronts the mere owner of capital, the money-capitalist, and with the development of credit this money capital itself assumes a social character, being concentrated in banks and loaned out by these, no longer by its direct proprietors; and since, on the other hand, the mere manager, who does not possess capital under any title, neither by loan nor in any other way, takes

care of all real functions that fall to the functioning capitalist as such, there remains only the functionary, and the capitalist vanishes from the production process as someone superfluous.”⁴⁴

Clearly, the Marx of 140 years ago was very clear sighted with regard to the developmental tendencies within capitalism. All the same, it is as daft to suggest that Marx had an understanding of capitalism as a competitive capitalism of “cigar smoking” private capitalists as to suggest that the emergence of a “finance market-driven capitalism”, in which financial markets dominate, is something totally new in capitalism.

Figure 4: Comparison of profit after tax and interest payments with interest paid/received and dividends paid for US non-financial corporations 1954 – 2008 (in billions of dollars)



(source: BOC)

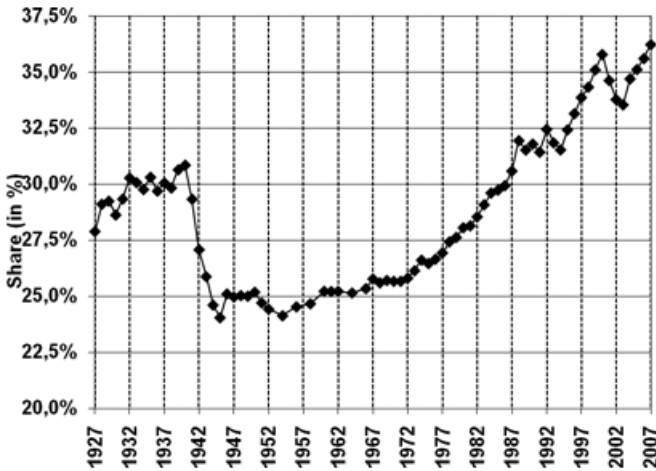
Figure 4 shows the relation of interest payments made by non-financial corporations to their net profits. It is obvious that, after the late 1970s, profits lagged behind interest obligations although this was partially compensated for by interest received by the corporations themselves. The burden of interest payments during the 1980s is clear, as is the reduction of this problem during the early 1990s. The problem then reappeared until it appeared to be resolved by the steep increase in corporate profits from around 2004. The sharp decline in the profit curve after 2006 makes clear the bubble-related character of this “solution”.

Figure 4 also makes clear that the constant shareholder expectation of a continuously growing volume of dividend payments produced a squeeze on corporate profits. This is related to the fact that there is less and less basis for the self-financing of new investment by US non-financial corporations, a quite different situation from, for example, non-financial corporations in Germany.

Figure 5 shows that the actual profit appropriated by the bourgeoisie is consid-

erably higher than is shown in the balance sheets: the proportion of the top earners among the “waged” category has increased enormously, especially since the 1990s. The top 10 per cent of these “wage earners”, averaging some \$250,000 a year, work in management, supervisory or financial positions. To a large extent, these reward their activities as “functionaries of capital” by means of bonuses, share options or other profit-sharing deals. The increase in the proportion of total “wage income” going to these people does not only mean that the absolute rate of surplus value has increased much more since the early 1990s than is indicated by the decline of the wage share (just about 3 per cent). It also means that these members of the bourgeoisie and the dependent middle layers are gaining more and more influence, not only because they occupy commanding positions but because of the increase in their own financial investment power. This includes, no doubt, “investment” in political influence.

Figure 5: Share of the top 10 per cent wage earners in regard to the total wage income in the US (1927-2007)



Source: Piketty, T and Saez, E, IRS-based Series, www.nakedcapitalism.com/2007/03

Recent data also show that the “rewards” flowing to these representatives of capital have not decreased significantly in the aftermath of the financial crisis. Just one year after the crash, Goldman Sachs is planning to pay out no less than \$17 billion in bonuses and top salaries and the balance sheets of the rest of the investment banking and fund management corporations show that they will pay more than \$100 billion in 2009 to these masters of disaster.

3.4 The accumulation of interest-bearing capital and the formation of fictitious capital

The transformation of capital into a commodity through interest bearing capital and the accumulation of interest bearing capital as it is expressed in the rent for-

mula, logically leads to the next step: the transformation of credit and investment into commodities that are traded through “securities”.

The earliest form of this transformation is to be found in transactions involving bills of exchange, the sale of a commodity without equivalent, with an agreement on later payment. This agreement can be securitised as “commercial paper” (drawing bills of exchange). This commercial paper can be traded further as a money equivalent, or changed into money (higher liquidity) in advance of the payment date (discounting of bills of exchange). With this, a future payment becomes a source of money capital (a loan) that itself takes on the form of money. “Drawing bills of exchange is transforming commodities into a form of credit money, just as discounting bills is transforming this credit money into a different money, that is, banknotes.”⁴⁵

Especially in crisis situations, the tendency to change bills of exchange into money in advance of their expiry date increases because of the fear that it will be impossible to sell the commodity. The discounting of paper is the first example in which an actually unreal “fictitious” income becomes comparable to the interest on fictitious capital in order to establish a “price” for the sale of this source of income. “The formation of fictitious capital is known as capitalisation. Any regular periodic income can be capitalised by reckoning it up, on the basis of the average rate of interest, as the sum that a capital lent out at this interest rate would yield.”⁴⁶

Thus it is normal banking practice for the value of discounted paper to be calculated by reference to the capital that, with the discount rate, would give the same exchange value by the time the paper expires.

If K is the exchange value (the price of the original commodity) i is the discount rate and n the number of days in advance of the expiry date that the paper is to be honoured, then the bank reckons a discount value D as follows:

$$D = K(1 - i n/365)$$

If, for example, commercial paper of €8 000 is to be honoured two months in advance of its expiry date at a discount of 9 per cent then the bank pays €7,880, that is it takes €120 as interest.

This becomes still clearer with regard to the capitalisation of long-term commercial paper, for example, bond trading. The price of commercial paper to a particular date is generally calculated through the cash value of the still outstanding interest payments to be made on it before its expiry date (based on market interest rates). In contrast to the trade in bills of exchange, this is calculated on compound interest because of the long-term nature of the investment. Then, for example, fixed interest securities (such as government bonds) that bring an annual “coupon payment” (this is what it is called even when no more coupons can be cut from the security) of R and a repayment of C when it falls due will have a price C_t at a date t (in advance of the due date) with a given market interest rate of i , calculated by:

$$C_t = R((qt - 1)/(q - 1))1/qt + C/qt$$

So, if, for example, a bond with a nominal value of 100 that is issued with a price of 98.5 with an annual interest payment of 7.8 over 15 years, is sold 10 years early

at a market interest rate of 8.2 per cent, then its “fair price” would be 97.34. With a higher interest rate, the price of securities is correspondingly lower, for example, at 12 per cent the price would be 76.27 (a corresponding capital invested at this higher interest rate would generate the same bonus as the security) by contrast, the price would rise with a falling interest rate: for example, at 5 per cent it would actually go up to 121.62. The above price formula clearly demonstrates the old “stock exchange truism”:

Rising interest rate – falling price

Falling interest rate – rising price

This becomes clearer if the pension R or the yield of securities is capitalised as “perpetuity”. Here, the “capital value” is so calculated that the purchase price of the paper corresponds to a “perpetual”, for example, annual, pension payment that can be invested at the current interest rate, i . Then the capitalisation of the money investment is given by:

$$C_{\infty} = R/i$$

Thus, a joint stock company that pays out annually at least €1 million in dividends on the basis of its profitability or reserves would be capitalised as having a “capital value” of €20 million if the prevailing interest rate is 5 per cent ($i = 0.05$). This would be the anticipated sale price of shares in the undertaking. Brokers regard a “price-earnings ratio” (PER) as appropriate if it corresponds approximately to the ratio $1/i$ (that is the inverse of the interest rate). “Perpetual” for share speculators is ultimately a horizon of a couple of years on the stock exchange.

Obviously, the fiction of a “correct” price for securities goes round in a circle like a cat chasing its tail. As with the fiction of capital value, for individual capitalists there may be a real content to the calculation. Viewed from the overall perspective, the alternative of transferring to investment at the normal interest rate would continuously influence the market interest rate and so the criterion for valuation is ruined.

Clearly, trading in securities is not trading in real values but in claims to a portion of the surplus value. However, the paper actually appears to represent an independent value, apparently duplicating the underlying payment obligation itself and the tradable, capitalised title to it.

“Even when the promissory note – the security – does not represent a purely illusory capital, as it does in the case of national debts, the capital value of the security is still pure illusion. . . Shares in railway, mining, shipping companies, etc represent real capital, that is capital invested and functioning in these enterprises, or the sum of money that was advanced by the shareholders to be spent in these enterprises as capital. . . but the capital does not exist twice over, once as the capital value of the ownership titles, the shares, and then again as the capital actually invested or to be invested in the enterprises in question, it exists only in the latter form, and the share is nothing but the ownership title, pro rata, to surplus-value which this capital is to realise. A may sell this title to B, and B to C. . . . A or B has then transformed his title into capital, but C has transformed his capital into a mere ownership title to the surplus-value expected from the share capital.”⁴⁷

That means that, for the trader in securities, the yield or losses, taken as a whole, add up to a zero sum game; the gains of one speculator are the losses of another, until it reaches the last in the trading chain who must realise the original advance. With him it becomes evident whether the expected total yield, already capitalised in advance, actually corresponds to expectations. Even if these papers are, ultimately, dependent on the long-term yield of the underlying capital, there are short-term vacillations in the price which are related to other factors. "In times of pressure on the money market, therefore, these securities fall in price for two reasons: first, because the interest rate rises, and second, because they are put up for sale in massive quantities, to be converted into money. This fall in price occurs irrespective of whether the yield these securities ensure for their owner is constant, as in the case of government bonds, or whether the valorisation of the real capital that they represent may be affected by the disturbance in the reproduction process, as in the case of industrial undertakings."⁴⁸

The fall in the price on the exchanges does not necessarily imply actual problems in the process of reproduction. However, it can very well be an indicator of that. On the one hand, it constitutes a destruction of fictitious capital while, on the other, it may or may not correspond to the destruction of actual capital. In any event, by means of the redistribution effect of the zero sum game of fictitious capital, financial crises act as a "powerful means for the centralisation of money capital".⁴⁹

The yields from the temporary independence of capital value (that is the price) from the underlying payment obligations or those achieved from the need for early capitalisation, may be marginal for small sums of money and characterised by high risk. For large-scale, centralised money capital they are a constant source of growing accumulation of claims on surplus value. "In all the countries of capitalist production, there is a tremendous amount of so-called interest-bearing capital or 'moneyed capital' in this form. And then accumulation of money capital means for the most part nothing more than an accumulation of these claims to production, and then accumulation of the market price of these claims, of their illusory capital value."⁵⁰

Marx correctly observes in this connection that the greater part of the reserves in the banks have this character: "The greater part of bankers' capital is therefore purely fictitious and consists of claims (bills of exchange) and shares (drafts on future revenues)." ⁵¹

The fictitious character of this capital does not result from the fact that it has no connection to real yields but from the apparently independent, autonomous regulation of its price which can hugely inflate its value.

3.5 Derivatives

Unlike in Marx's day, bills of exchange play only a very subordinate role in the modern system of credit. At times when bills of exchange still served as the most important means of mediating payments between undertakings of varying dates in circulation of commodities, C – M – C, crises expressed themselves in combined payment and discounting problems in respect of the bills of exchange. The breakdown of the circulation C – M – C was expressed above all in the lack of the means of cir-

ulation in the form of bills of exchange or the inability to turn bills of exchange into acceptable means of circulation on demand.

With the developed banking system of the imperialist epoch, these functions of commercial credit have generally been overtaken by bank credit. As far as short-term balancing of payments is concerned, this function has been replaced through the overdraft agreements of the relevant accounts or the function of bills of exchange as credit money by the securitisation of debts or the simple book money of the banks in their mutual discounting of payments.

A secondary function of the bills of exchange business has, however, taken on a very different form from bank credit. Even in the traditional business of bills of exchange it was normal for payment to be based on a price related not to that precise time but to the date when the payment was due. At the time of production, $C - M$ may be subject to the risk of unforeseeable changes in price. Because of this, in order to minimise the risk for capital, the price of the goods at the time of sale is already settled at the time when money is invested in production. This way of securing the price is called a "forward transaction". This may take the form of "futures", a firm agreement on the sale or purchase of goods at a future date, or the form of an "option" to buy or sell. Today, such forward transactions are highly concentrated on a small number of very specialised exchanges (for example, the CBOT in Chicago or the EUREX in Zurich). Precisely because of the increased risk of variations in the price of currencies or raw materials, such forward transactions gain an ever more important role in worldwide capital reproduction.

Like bills of exchange, these options and futures can themselves now turn into tradeable goods. Accurate speculation on developments in prices, interest rates or currencies can achieve big differences between sale and purchase prices for relatively small sums of money.

If, for example, a German firm must make a payment in the USA of \$4 million in three months' time, they can secure themselves against the risk of a change in the exchange rate through a forward contract with a hedge fund which offers a three-month rate of \$1.6 to the euro. That means that, in three months, the firm must pay the fund €2.5 million in order to receive \$4 million. If, in reality, the dollar falls to \$1.7 to the euro then, actually, only €2.35 million would have been needed. In this way, the hedge fund makes a profit of some €160,000 for almost no outlay. On the other hand, if the exchange rate for the dollar rose to \$1.5 to the euro it would make a loss on a similar scale. Of course, in advance of this, if it suspected an unhealthy development in the exchange rate, it could sell the forward contract on to another fund which is still expecting a healthier exchange rate. In this way, it would realise a price which corresponded to expectations of future profits at the time of sale.

In fact, with both futures and options, their transformation into commodities is bound up with the illusion of a "capital value". Here, too, a "fair" option or future price can be calculated by reference to the anticipated profit (a sum based on probability theory) and the yield on capital invested at the given market interest rate. Thus, for example, the Black-Scholes Option Valuation Model uses the expected

value and the variation of a normally distributed price-function of the commodity on which the option is based to calculate a “fair option price”.

What gives pause for thought in all this is that Melvyn Scholes, who won the Nobel prize for this model, was, several years later, the chief adviser to the hedge fund LCTM that, in 1998, during the Russian crisis, almost brought about the collapse of the entire international financial system with its options transactions. The threat of a Russian state bankruptcy made all value calculations on the basis of the assumed movements in the interest rate obsolete. This illustrates the basic problem that no mathematical finance model can overcome: calculations of the value of fictitious capital can only retain their limited meaningfulness (that is to be the means by which redistribution takes place within money capital) so long as the underlying debts can, in general, be repaid by the due date. If this is not the case, then that does not only mean that the creditor loses out but also that all the fictitious capital based on the debts is devalued. As with the trade in bills of exchange, what must generally happen is that the capitalists who trade in derivatives (sales/purchase options, futures or combinations of the two) do not really buy or sell by the due date. The futures markets act much more as clearinghouses which balance out the credit notes one against another (as once the banks did with bills of exchange). For example, a sales-future (put) can be coupled with a purchase-future (call) so that the seller and the purchaser of the commodity can be brought together at a predetermined date, naturally for an appropriate fee to the broker.

In this way, commodity futures markets fulfil several purposes. On the one hand, they are important agencies of the global circulation of goods. As far as wholesaling is concerned, particular raw materials and agricultural products are principally traded on these markets while the spot markets deal with distribution at a lower level. In this respect, a small part of the profits from the trading derivatives can be traced back to commercial profit. However, derivatives based on real commodities form only a small part of the derivatives market (in single figures in percentage terms). Because the main function is the negotiation and securing of trade with money capital (interest, currencies, securities) we are dealing here with a function that is analogous to commercial profit lowering the average profit rate and here again the average interest rate is lowered. That is, interest-bearing capital is prepared, in advance, to accept a lower interest rate in order not to be taken by surprise by a still lower interest rate in the future. It is very much the same as futures trading with real goods: there is a relationship between the movement of the price of the goods and the equalising process of the average profit rate. Capital is prepared to accept a price which corresponds to a lower average rate of profit in order to guarantee at least this rate.

So far we have developed an overview of the differing forms of appearance of interest-bearing capital. We have seen that, in a society of generalised commodity production, such as characterises capitalism, every good takes on the form of a commodity and ultimately also receives a value form, whether or not any value is actually “embodied” in it. Ultimately, value is only embodied in the total product of productive capital that must, however, first take on the social expression of abstract labour, that is, the money form. Because this process is mediated through

capital reproduction, value is distributed in such a way across the products that every capital receives a proportionate part of the average profit, that is, prices and values of goods systematically deviate from the norm.

It is not only the different valorisation conditions of productive capital that contribute to this price formation but also the specific “costs” for trade and commercial transactions. The average profit that is so formed becomes the source of interest-bearing capital that receives a portion of the average profit in the form of interest income. Within this is expressed the duplication of capital as capital-property and as functioning capital. However, both capital credit and also commercial credit can equally well take on the form of a commodity, that is, they can become tradeable titles to the payments of the debtor and, mediated in this form, share out the surplus value claimed by the original creditors across the money capital, bringing it into an unlimited form in which it can be accumulated. In this form the difference between commercial credit and capital credit is finally resolved and appears only as the quantitative difference between short-term money market interest and long-term capital market interest.

In neo-classical theory, the identification of the two types of interest leads to the “Law of equilibrium” as the basis of Say’s theorem: markets characterised by overproduction will be cleared by rising interest rates while too great a tendency towards saving will be stopped by falling interest rates. However, because interest rates on the money markets follow completely different laws of motion as compared to interest rates on the capital market it is entirely possible that the combination of low rates for commercial operations (with no countervailing effect against overproduction) can occur with high interest rates on the capital market (slowing down long-term investment). The difference between these two forms of credit and their laws of movement will be developed in the following passage in order to then present the operation of the credit system within the total reproduction process of capital, in the industrial cycle and finally in the crisis of over accumulation.

3.6 Commercial credit

The original form of commercial credit was the combination described earlier as “postponed payment” with the transformation of the creditor into an interest-bearing capitalist. That is, there is agreement not simply for later payment for the delivered goods but also a rate of interest on the money advanced: “loan capital and industrial capital are identical here; the capitals loaned are commodity capitals designed either for final individual consumption or to replace constant elements of productive capital.”⁵² This form of credit corresponds directly to the necessity for the quickest possible realisation of value ($C - M$) precisely because money is needed as quickly as possible in order to make a further purchase ($M - C$). In other words, it corresponds to the necessity of commodity metamorphosis under the conditions of accelerated accumulation.

The “naturalness” of commercial interest can be seen in the way in which it is included within the normal price which takes account of a precise monetary payment with its own interest rate, discount. From this also flows the necessity for cap-

ital to always include a certain reserve (for example in the balance sheets) in order to be able to balance out payments that fall due or overdraft interest in the course of its regular circulation. It is clearly also the origin of the need for bills of exchange and their discounting. Trading in bills of exchange demands still higher reserves of cash by the operating capitalists themselves. Lastly, from this flows the need for forms of trading credit and futures transactions without the use of money via banks and exchanges. The instruments of credit-based payments already discussed allow capital a largely moneyless trade in commodities which mediates both their own liquidity and the risks of variations in price with the need for permanently accelerated reproduction of capital. In this way, the financial system makes an important contribution to the expanded reproduction of capital:

"Acceleration, through credit, of the individual phases of circulation or commodity metamorphosis, then an acceleration of the metamorphosis of capital and hence an acceleration of the reproduction process in general... Contraction of the reserve fund, which can be viewed in two ways: on the one hand is a reduction in the circulating medium; on the other hand is a restriction of the part of capital that must always be in existence in the money form."⁵³

In this way, the financial system removes from capital reproduction the burden of needing ever-greater volumes of cash for the development of its business. On the other hand, capital can also minimise phases during which money capital lies dormant without any opportunity for investment. Nonetheless, this is paid for by the transformation of the greater part of circulating money into credit money. That is, it becomes credit notes which can be circulated but have fixed life spans and interest rates. With this, the need for frictionless money transactions and for growing reproduction together form the basis for an ever more developed system of credit that increasingly becomes an independent interest-bearing capital: "A reciprocal effect takes place here. The development of the production process expands credit, while credit in turn leads to an expansion of industrial and commercial operations."⁵⁴

The expansion of credit-money based circulation expresses nothing other than the fundamental need of capital for expanded reproduction independent of all inconvenient limitations. In particular this comes to expression in the way that reproductive accumulation on the basis of credit becomes autonomous, ultimately independent even of such limitations as the final demand in the sphere of consumption. "A violent assertion of the opposed independent forms of the circulation process of the total capital of society is thereby simply postponed, however the clash is not in principle prevented."⁵⁵ The clash must first find expression in the independent forms of the finance system in order that the previously hidden problems within the actual process of reproduction can come all the more strongly to the fore.

The bases of commercial and trading credit are the needs of the constant circulation of commodities, in particular the reproduction of circulating capital. Ultimately, therefore, this credit feeds on the reserves formed from the sales of goods during a turnover period. The laws governing its movement, particularly movement of the interest rate, are therefore determined by the short-term sale/purchase problems within the trading period of circulating capital. When it comes to dealing with anything more than short-term problems, this form of credit reaches its own limitations.

3.7 Bank capital and capital credit

The development of commercial credit already tends towards a concentration of reserve funds in the banks to deal with current payments. In addition to this, money, including that which is not immediately needed for current payments, can be deposited in banks in order to earn interest. This can be the source of income for the non-productive classes or it can be the small savings of the working class. This allows an expansion of the reserve funds that the banks use for their loans. What is decisive, however, is that the really big operations of productive capital, the longer term necessary investments in the renewal of constant capital and also the expansion of the capital stock, require money capital on a huge scale and, with expanded reproduction, also bring rising volumes of interest payments for investment capital.

Here, of course, the money accumulation funds of productive capital itself are the decisive source of additional loan capital. This concerns both the reserve capital for future replacement investment, formed from the depreciation of existing assets, and the formation of profit reserves for the financing of future new investments. In this way, investments can also be brought forward so that capital credit in effect mobilises the otherwise dormant reserve capital of other capitalists for investment. Then the recovery of the loaned capital is guaranteed through the recovery of the said investment itself, through the recovery of earlier credit or in other cases through the reserve capital of the bank. Without a credit system, the expanded reproduction of any particular capital has limits set to it by the scale of its own accumulated cash fund available for additional investment. These limits result from the portion of profit available for accumulation as well as the scale necessary for investment to be meaningful.

Through the concentration of accumulated funds, a mass of capital that overcomes these limits is made available to society. The timescale for big investments can be substantially decreased just as the mobility of capital between different spheres of investment can be increased. It is precisely in this function as capital credit, freed from the immediate links to commodity capital of trading credit, that capital can appear as a commodity that can be bought via the securities and interest rates of the capital dealer. Capital credit gives the "individual capitalists..., within certain limits, an absolute command over the capital and property of others and, through this, command over other people's labour. Control over social capital, rather than his own, gives him control over social labour."⁵⁶

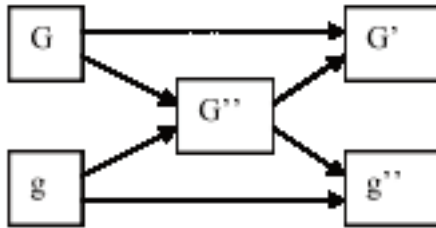
The bank functions first of all as the agent between the owners of money and functioning capitalists. The bank's profit results from the difference between the rate of interest on deposits and that on loans. Ultimately, as soon as it has accumulated or concentrated sufficient money capital, bank capital itself appears as the owner of capital. Finally, in a developed credit system it takes shape in the form of social capital, just like productive capital. Marx summarised the role of credit in capitalist production as follows:

- Mediating the equalisation of profit rates to produce the average profit rate, also the basis of the average rate of interest;
- Reduction in circulation costs (saving on coinage, acceleration of turnover, in-

crease of the means of circulation through “money symbols”);

- Acceleration and centralisation of accumulating capital; ultimately the formation of social capital (for example, share capital) and with that the expansion of production; socialisation of functioning capital by maintaining the privacy of capital ownership; transformation of functioning capitalists into capitals separate from function.⁵⁷

On the basis of its mediation of credit banking, capital can appropriate a considerable part of total profit. This takes place in the sphere of circulation and is achieved through the mechanism of “leverage”. In essence, the business of banking is similar to short selling: banks borrow money (that is, receive deposits) on a short-term basis with low interest rates in order to make loans on a longer term basis with higher interest rates. Because of the volume of such deals, and their distribution over time, there is normally enough money flowing into the bank to fulfil its short-term liabilities. Thus, a relatively small equity capital, in comparison to the volume of loans, is used as security to guarantee the liquidity of the bank in respect of depositors. So the formula for the circulation of banking capital is:



Here, G represents the money invested by depositors in the bank while g represents the equity capital of the bank itself. The operation of the bank consists in combining the normal processing of interest-bearing capital ($G - G'$) with a valorisation of its own equity capital [$g - (G'' - g'')$]. This “valorisation” is made possible by the important role of capital credit in the acceleration of accumulation, already described. That is, the amount of credit (G plus g) to be lent for capital-valorisation achieves the higher profit and, therefore, also a higher interest rate, G'' , than small-scale, short-term lending ($G - G'$). The extra money, G , from the bank-depositors, becomes a leverage for appropriating ($G'' - G'$) which will be much higher than the normal interest yield on g .

So, for example, if bank X takes in deposits to the value of \$100,000 at an interest rate of 5 per cent and then invests this together with \$10,000 of its own equity capital in a business that achieves a 10 per cent yield, then the resulting profit of \$11,000 will be distributed thus: \$5,000 will go to the original depositors (at their 5 per cent interest rate) \$1000 will be direct interest yield on the bank's capital but an extra \$5,000 will be the result of leverage, making a total profit of \$6,000 for the bank. In this example, the effect of leveraging with non-bank-owned capital is an increase in the interest yield from 10 per cent to 60 per cent.

If L (for “Leverage”) stands for the relationship between non-bank-owned capital (that is, the deposits held by the bank) to the bank’s equity capital, NIM (for “Net Interest Margin”) stands for the difference between the rates of G’ and G’ and FIM (for “Financial Interest Margin”) stands for the rates achieved in financial business (that will be effective immediately for bank-owned capital) then the return on equity (RoE) for banking capital will be:

$$\text{RoE} = \text{FIM} + \text{LxNIM}$$

In the example above, 60 per cent (RoE) = 10 per cent (FIM) + 10 (L)x 5 per cent (NIM)

This means that, as long as there is a considerable spread of interest rates favourable for financial investment, the Return on Equity will be higher, the higher the leverage is, that is, the more non-bank-owned capital is used as against bank-owned capital. As a result, the natural speculative drive of banking capital is to force this leverage higher and higher, thereby diminishing the capital ratios (for example, the relationship between the credit capital and the assets of the bank consisting of the sum of debts and its own capital).

When these capital ratios tend towards single figure percentages, serious questions are raised about the bank’s liquidity. If, for example, a number of the outstanding long-term loans made by the bank have to be written off, the bank may have to use its equity capital to pay its short-term liabilities. This can lead to a collapse of confidence on the part of the bank’s creditors that their deposits in the bank are safe and, thus, to a sudden sharp increase in the withdrawal of deposits, in other words, a “run on the bank”. In such a situation, it is entirely possible that a bank will cease to be solvent within a matter of hours or days.

Indeed, such speculative, leverage-based booms, with their dangerously low capital ratios, have been followed by bank runs on many occasions in capitalism’s history. Following the banking failures of the 1930s, a series of banking regulations, such as the Glass-Steagall Act of 1933 in the US, were introduced in an attempt to stop any repetitions of such events. These regulations set minimum requirements for cash reserves (expressed in terms of M1 money) capital ratios and leverage ratios (for the ordinary types of capital credit) in which the deposits held by banks are weighted according to different types of risk.

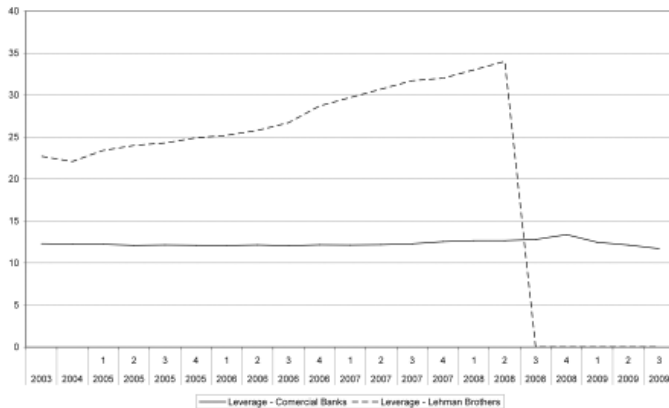
Institutions, such as the Federal Deposit Insurance Corporation (FDIC) in the US, were given the task of supervising the balance sheets of the banks with regard to such criteria and were intended to insure deposits to some extent so that, should they decide that a bank had gone into default, they could take over its operation to ensure that the depositors did not lose all of their money. In addition, agencies were established to rate the creditworthiness of businesses and banks so that there could be a differentiation of rates for prime (AAA) and non-prime/sub-prime loans. A comprehensive set of such rules was adopted internationally via the Basle Accords with the Bank of International Settlements (BIS) acting as the central agency for overseeing their implementation.

While these regulations did help to shield the core commercial banks in the imperialist world from big speculative waves, they did not regulate a whole range of

new types of financial facilities that were not foreseen in the Basle Accords. Thus, a whole system of “non-bank banks” or “shadow banks” emerged as a result of the liberalisation of the international financial markets in the early 1990s. These shadow banks, mostly operating via “investment banks”, often lacked any traditional deposit base but transformed short-term deposits into highly profitable big business loans by means of enormous leverage effects.

For example, Lehman Brothers were famous for inventing “auction rate securities”: they offered cheap long-term credits to big institutions such as the New York Port Authority, securitised those loans and then traded them in weekly auctions. In this way, short term lenders could achieve higher interests than putting their money into short-term bank deposits but their interest rates were still less than the long-term rates achieved by Lehmans themselves. In 2007, such Asset Based Securities (ABS) were already a \$400 billion business but there was no FDIC or BIS to check liquidity criteria or to insure people who bought such securities. Moreover, ABS was just a small facility in a whole range of “new, innovative” financial products that were traded in this shadow banking system. In 2007, the five big investment banks in the US that traded in this shadow banking system had a valorisation of their assets that amounted to two-thirds of that of the whole commercial banking system of the USA.

Figure 6: Lehmans’ Leverage (borrowed capital in relation to own capital) 2003-2009⁵⁸



(Source: FDIC)

Figure 6 presents a comparison between the levels of leverage in the commercial banking sector during 2004 – 2008 and those achieved by Lehman Brothers, taken here as an example of the shadow banking system. It can be seen that Lehmans, operating with a capital that was more than 30 times its own capital base, achieved fabulous profits until about 2007. For comparison, the standard figure for commercial banks was a multiple of 12. Put another way, Lehman’s own cap-

Table 1: Key data of US commercial and saving banks 2004-2009

	2009 (2)	2008 (1)	2008	2007	2006	2005	2004
Return on assets (%)	0,10	0,32	0,04	0,81	1,28	1,28	1,28
Return on equity (%)	0,93	3,26	0,36	7,75	12,30	12,43	13,20
Core capital ratio (%)	8,54	7,81	7,47	7,97	8,22	8,25	8,11
Charge-offs to loans (%)	2,38	1,18	1,29	0,59	0,39	0,49	0,56
Asset growth rate (%)	-2,40	6,82	6,20	9,89	9,04	7,63	11,37
Problem institutions	552	171	252	76	50	52	80
Failed institutions	95	13	25	3	0	0	4

(Source: FDIC) (1: up to end of September 2008; 2: only first 3 quarters)

ital represented little more than 3 per cent of its liabilities while for the commercial banks the figure was 8 per cent, firmly above the lower limit of 6 per cent allowed by banking regulations. The figure shows that the multiple for commercial banks rises a little in the fourth quarter of 2008 when the financial turbulence resulting from the Lehman Brothers' default cut into their equity capital base. Without government action to guarantee the liquidity of banks in the fourth quarter of 2008, this curve would have gone up steeply, signalling a run on the whole banking system.

In fact, the shadow banking system did experience a bank run, mainly in an electronic form, on their "innovative financial products". For example, the ABS market collapsed in 2008 in just a few weeks. Because there were fewer and fewer buyers of ABS-paper, their interest rates went up sharply and, as a result, Lehman Brothers lost one of their sources of funding for their big liabilities. The market for ABS has disappeared today, as have a lot of the other "innovative products". This was a secondary effect of the "sub prime crisis". The big profits gained from high leveraging were based on there being a wide spread between the normal, low interest rates and the high interest rates to be achieved in especially profitable businesses. As it turned out, a lot of these rates were achieved from a speculative bubble in the market for sub-prime loans. As the name implies, these are high-risk loans and, when they failed, leveraging turned into its opposite; deleveraging multiplied losses.

In table 1, the effects of the crisis on the US banking system after the 2008 crash and the subsequent rescue operation by the US government can be clearly seen. While both the profits of the banks and the security levels of capital ratios in general have been restored, it is important to note that there has been a decline in assets, that is, in the volume of loans, and that there is a very high level of write-offs

of bad debts. So, while the US government and the Fed have thrown billions of dollars into the banking system, this money has been used mainly to rescue the equity base of the banks' assets and has had little effect on interest rates and the volume of loans, especially as far as non-financial companies and consumers are concerned. Behind the 2.4 per cent decrease in bank assets, lie double-digit decreases in loans to industry and construction. In addition, at 2.38 per cent, the burden of bad debts is twice as big as in 2008. It is, therefore, no wonder that, in the first three quarters of 2009, 95 banks failed, as compared to 25 in 2008. Even now, there are 552 banks (more than 6 per cent of the total) facing problems meeting capital ratio requirements.

As the governments of the imperialist world stepped in to rescue and bailout their banking systems, following the collapse of the "shadow banking" system, there were many radical speeches about the need for new banking regulations. Negotiations within the Basle Accord system did result in rules covering new "financial products" but, as in Basle Two, the financial industry has some 10 years in which to introduce these measures. This will be more than enough time for shadow systems to develop outside the framework of the new regulations, indeed this will happen almost spontaneously.

3.8 State debt, issuing banks and credit money

With the transformation of capital into a commodity via the credit system and the credit-based acceleration of the circulation of commodities, there is also a change in the form of appearance of money. As the social expression of abstract labour and, as such, as the measure of value, money must be, as the means of circulation, a commodity itself or a symbol of a particular commodity. A new possibility for funding money, one that goes beyond the limitation of money as the commodity gold, results from the securitisation of debts. Even if the price of credit commodity is a derived and illusory form, it nonetheless corresponds to a claim on the appropriation of a certain portion of surplus value in the form of interest payment. In developed capitalism, therefore, credit money becomes a dominant form of money without thereby setting aside the fundamental basis of money.

"A banknote is nothing more than a bill on the bank, payable at any time to its possessor... This last form of credit seems especially striking and important to the layman, firstly because this kind of credit money emerges from commercial circulation into general circulation and functions here as money; also, because in most countries the major banks that issue notes are a peculiar mishmash between national banks and private banks and actually have the government's credit behind them, their notes being more or less legal tender, and because it is evident here that what the banker is dealing in is credit itself, since the banknote merely represents a circulating token of credit... In actual fact, bank notes are simply the small change of wholesale trade, and the deposit is always the main thing as far as the banks are concerned."⁵⁹

Despite this, the rumour still circulates that Marx had a "gold standard theory" of money (that is that all money symbols, cash or paper, must ultimately be exchangeable at any time for gold) although Marx in the chapters dealing with interest-bearing capital explicitly criticised the "currency theory" that also had political

influence in the middle of the 19th century (in contrast to the “banking” theory).

As Marx made clear in the above quote, the state debt is an essential source of credit money. As already mentioned, the capitalisation of this debt falls under the category of fictitious capital. Through the state, the bourgeoisie organises social tasks which, while they are essential for the general reproduction of capital, would not be profitable as investments by individual capitalists. This function as the “ideal general capitalist” is made possible by financing state undertakings through taxation on corporate profit, interest payments, wages and other forms of revenue, a premium on production prices (lowering the average profit) and charges (for example, the centralisation of particular elements of the reproduction process of labour power through social insurance).

State income is therefore an appropriation of part of the social surplus value as well as of a part of the reproduction fund for the commodity labour power. As a result, where there is expanded reproduction of capital it can be assumed that there is a constant increase in the function of the state and its income. This growth can be accelerated through the taking on of debt with the safeguard that the accelerated accumulation in general capital (also with this state “safeguard”) will result in an increased income for the state budget which then allows repayment of the debt together with interest.

To a certain extent, the state debt is taken on by the central bank, mainly through the issuing of government bonds. The central bank can then pass these credit notes on to commercial banks in the form of banknotes in that they are exchanged against, for example, securities or the raising of their deposits in the central bank. On the other hand, the central bank can withdraw the means of circulation by selling loans or securities in its possession against banknotes. In this way, the state debt is the almost exclusive cover for circulating cash. In 2004, the \$800 billion either in circulation or deposited by commercial banks in the US central bank were “covered” by \$760 billion of US State bonds in the possession of the Fed, \$40 billion through other securities (for example debts to other states) and only by \$15 billion of gold, precious metals and other currencies (the difference constitutes the bank’s own capital or profit). The dollar is backed by gold only to the extent of 1.8 per cent (with the euro it is something under 10 per cent).

Banknotes are only a small part of the total means of circulation necessary for the circulation of goods (the cash for wholesale trade). The calculation of the money supply M1 includes all readily available means of circulation as well as current accounts held by non-banks (such as Giro accounts) as well as banks. Because, in effect, transactions do not require any real payments in and out of the accounts and are settled by discounting between the accounts (book money) it is convenient to include this within the means of circulation. In 2004, in the USA, this accounted for an M1 of \$1,350 billion.

Money supply M2 adds to this all deposits of less than two years’ duration or withdrawal notice periods of up to three months. Because of their higher availability, these monies can also be drawn on to balance payments. Using this M2 reckoning, the US money supply in 2004 rises dramatically to \$6,340 billion.

Money supply M3 adds to this, above all, the traditionally quickly discountable trading in bills of exchange. Today, however, this has been substantially replaced by the price evaluations of money market funds. That is, the “price” of mutual fund shares held by non-banks and invested in short-term investments. Because these funds are directly bound up with liquidity, they can be used to settle bigger payments cost-effectively (short-term credit is turned directly into money here in the form of share certificates).

Using this calculation of M3, money supply in the USA in 2004 rises to \$9,400 billion, almost 12 times the volume of cash.

One example of means of circulation outside the money market funds is “asset backed commercial paper” (ABCP). Here, specialist funds bundle together short-term credit notes (up to 90 days) in securities of particular denominations at interest rates corresponding to the “capital value formula”. Blocks of these ABCP’s can then be passed on as means of circulation from debtor to debtor. If there were large-scale failure to make the repayments on the underlying short-term debts this would naturally result in a classic monetary crisis, as in the collapse of the trade in bills of exchange. Therefore, the banks, which ultimately manage these ABCP funds, have to guarantee them through their reserve funds.

In the current financial crisis it is not only securities based on long-term real estate credits (asset backed securities) but also ABCP’s based on short-term credits that have been massively hit by payment difficulties. The near-collapse of the German IKB bank was essentially caused by the need for this bank to stand in for the payment problems of an ABCP. In such a crisis, the financial system is drawn into the conflict between two monsters, a monetary crisis and a banking crisis.

If in the past it was the discounting of bills of exchange (the discount rate) or the extension of credit based on them (the Lombard rate) that were the principal means by which the central banks, through their business with the commercial banks, determined the interest rate, then, today, securities transactions are to the fore. Thus, the European Central Bank determines the “prime lending rate” by means of a weekly tender in which the commercial banks offer securities (particular prewritten securities) for sale to the central bank.

As explained above, the price for securities is determined by reference to the assumed market rate. In this “main refinancing operation”, the central bank and the commercial banks haggle directly over the interest rate which then determines the price for securities. This interest rate then becomes the reference point for all other interest rates such as those for overnight deposits or credits, loans based on securities, the interest rate on minimum reserves (at present, commercial banks must hold at least 2 per cent of their deposits in the central bank).

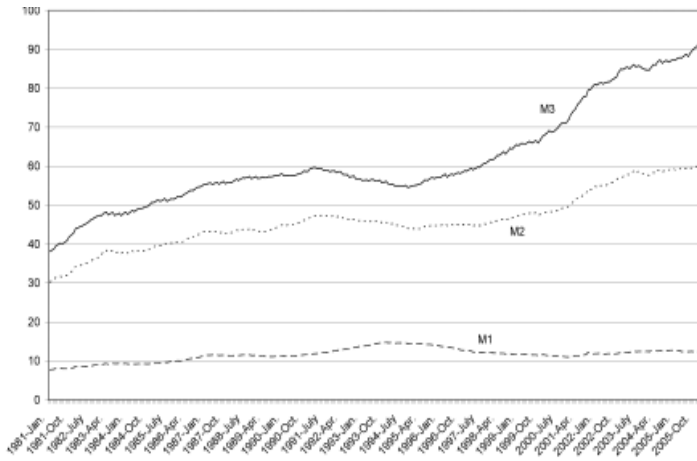
From this it becomes clear that the room for manoeuvre of central banks is considerably more restricted than is widely believed. Ultimately, the market rate for interest is determined by the relationship of supply and demand for money capital in relation to the available mass of profits. In the last analysis, this also affects the settling of the key rate; under such a regime, no central bank could force through movements in the interest rate against the market.

A variation is possible under certain circumstances at particular moments in the cycle if there is a corresponding agreement between central bank and private banks. The idea that the level of interest rates can be influenced through state-political decisions in a capitalist economy with a well-developed financial system is therefore, in the best case, naive. The central bank is essentially an organ of finance capital and it is effective when the main fractions of capital are pulling in the same direction.

From this it is clear that the determination of the interest rate has an essential effect on the money supply in whatever form it might be measured. As a result of the higher returns on discounting securities, as well as the higher valuation of money market paper, a lower interest rate will lead to an expansion in the money supply, higher interest rates, by contrast, lead to a reduction in money supply. Therefore, if the velocity of circulation remains constant, the level of prices can be determined through these changes in interest rates on the money market. This is, of course, irrespective of real movements in value (for example, cheapening of goods through improvements in productivity or cheaper imports) or the increase or reduction of long-term capital investments. Therefore, it is not the absolute scale of the money supply which matters but rather its development in relationship to the development of total accumulation. Thus, the long-term statistics provided by the Fed for the development of money supply M2 show a clear parallel to the long-term trend in accumulation. Roughly speaking, there was a sharply increasing money supply during the boom years of the 1950s and 1960s. By contrast, in the 1970s and 1980s, there was a sharp reduction in money supply.

In contrast to this, the development of the money supply since 1990 presents a very contradictory picture. With the recovery from the recession at the beginning of the 1990s, there was once again an increase in money supply. Nonetheless, the effects were very different on the various forms of money supply. If money supply

Figure 8. Development of the money supply in relation to real GDP in the USA, 1981-2006

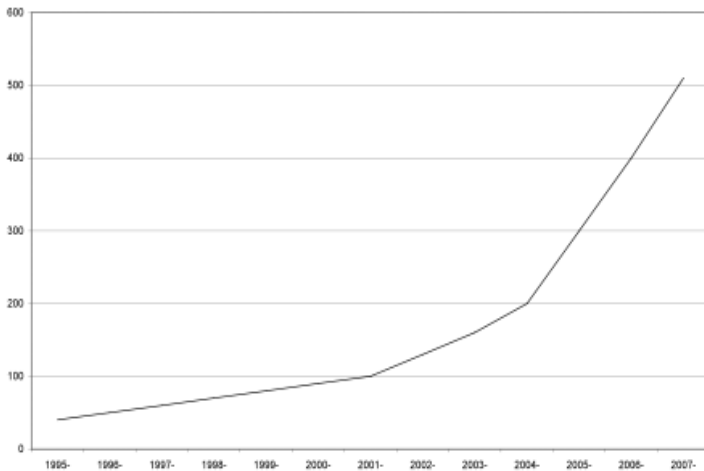


is viewed in relation to growth in price-adjusted GDP then M1 remains constant to the present-day at approximately 10 per cent of GDP. By contrast, since about 1997, M2 and M3 have exploded. Since 1980, the relationship of M2 to GDP has risen by 100 per cent and that of M3 by 145 per cent (and the years 1997 – 2003 accounted for half of this increase).

In particular, the increase in M3 accompanied an enormous expansion in short-term commercial credit which became the basis for a self-reinforcing monetary speculation. Naturally this was bound up essentially with historically low bank rate and market interest rates for short-term credits and deposits which were maintained over several cycles. The expansion in the money supply here is clearly a function of the speculative bubble. The US central bank (unlike the Bundesbank and the European Central Bank) had no interest in applying monetarist dogma to the control of the money supply. US finance capital and, following it, the Fed, clearly had no interest in combating the expanding speculative bubble.

This expansion of monetarised commercial credit was accompanied by a corresponding increase in the volume of trade on futures exchanges. The measure of this is provided by the sum of outstanding claims that were traded in derivatives. In 2007, this broke through the \$500 trillion limit and can be compared to \$50 trillion in 1995 and \$100 trillion in 2001. (See Figure 8) The 2007 figure is almost five times world GDP. This is obviously explained by the fact that a greater part of these derivatives was calculated on values representing fictitious capital, in particular “gambles” or “insurance” based on movements in interest rates, currencies and bond prices. The actual value, that is, debt, appears here to have grown by a factor of two or even more on new securities upon which other securities are then based.

Figure 9. Development of the value of outstanding contracts on the Derivatives Markets (\$ trillions) 1995-2007



While this expansion of derivatives is, on the one hand, a real insurance against movements in the market, that is, an appropriation of an average rate of interest or profits against payment for an 'insurance premium', these instruments (like all money market paper) became the object of speculation. By means of futures transactions, a relatively small investment can yield very big profits in a short space of time (the leverage effect) or very big losses. On the basis of the expectation of big profits, the leverage business was mainly financed via credit, through the sale of debts. The interest to be paid on these was expected to be lower than the anticipated speculative profit. Compared to normal banking operations, the reserves of funds that trade in this way are generally very limited, often only 1/10 of the huge sums which can be moved through the "lever". The funds are therefore vulnerable from two sides: unexpected losses with the derivative papers could lead to problems with the settling of the secured underlying business or the securities used by the fund to settle its transactions could be found to be no longer sufficient for the corresponding credit financing of the business.

Problems with payment, or incapacity to maintain the business of a greater number of such funds, however, leads to a difficulty in insuring their own businesses. Thus the industrial and mercantile capitals directly involved must either write off businesses they believed to be insured or they must get insurance and capital for the new business problems that have to be settled. In this way, the crisis in the money markets and the collapse of hedge funds has a direct impact on "real capital".

The problem that faced the global economy in the financial crisis of September 2008 was that the monetary bubble built up by the shadow banking system had itself become one of the main sources of finance for all kinds of business. The liabilities of this shadow system were only very partially secured by the equity capital of the financial capital involved itself. The spreading of these risks via hedge funds or special securitisation devices, such as CDO's, was revealed to be an entirely illusory substitute for cover based on equity. In the end, a large part of the circulating "money" turned out to be worthless and this expressed itself in the fact that most businesses had once again to turn to "traditional" sources of credit for financing. When they did, they found much tougher and more constrained conditions for accessing new money. For example, the interest rates for non-prime-rated companies shot up into double digits.

Recognition of the dangers facing the whole accumulation process, as well as the chain reaction resulting from the write-off of important pillars of highly leveraged global financial markets, was the reason for the rapid and astonishingly coordinated intervention by the imperialist states and some of the more developed semi-colonies in the last quarter of 2008. Once again, the bourgeois state acted as the lender of last resort. Having looked over the precipice after the breakdown of Lehman Brothers and the near collapse of AIG, the imperialist states had to act to prevent a depression such as that which followed 1929. Unlike at the time of the gold standard, and because of the situation of state finances, in 2008 there was still some scope for counter acting measures.

The first priority, particularly for the state banks, was to secure the liquidity of

the banking system. This was done by using low interest rates to pump cheap money into the credit system, by the invention of new facilities to give banks not only short-term funding but, by acting as “normal” creditors, to provide monetary funding for as long as an entire year, by taking over bad loans or other valueless “money” from finance institutions as “security” for their liquidity (in the US, the Fed used \$1 trillion to back valueless mortgage obligations). In addition, central banks bought back state securities themselves as a new way of “printing money”. In the US, the Fed bought Treasuries to the value of some \$300 billion by means of this “quantitative easing”. As a result of such measures, the dollar money supply was increased by 138 per cent as compared to 2007. In the EU, similar measures taken by the European Central Bank (ECB) increased the Euro money supply by 35 per cent.

Secondly, a massive increase in state debt was used to counter the effects of the crisis. Measures ranged from direct state intervention, taking over bankrupt banks or corporations, through state guarantees on subsidies to indirect measures like tax cuts and consumer credits and state investment programmes. It is estimated that by the second quarter of 2009 these measures had already accounted for a 0.5 – 0.8 per cent increase in the US GDP (or, rather, a lessening of the decrease in GDP) and this trend will survive at least until the second half of 2010. The cost of such policies has been to increase the public debt of the USA to 90.4 per cent of GDP at the end of 2009, compared to less than 70 per cent before the crisis. Overall, within one year of the crash, the G20 states invested \$1.5 trillion in their rescue programmes, this figure is some 3.5 times the size of the entire German state budget.

Central banks and states have achieved only very moderate effects on GDP growth by pumping these mountains of money into their economies. This makes it obvious that most of it was used to enable financial businesses to return to something close to the “business as usual” they had known before the crash. This means that the developing financial bubble is now based on international state debts (or “sovereign debt”) instead of sub-prime mortgages. Since, with the exception of China, most of these state debts have been raised on the financial markets themselves, the states will face difficulties as soon as interest rates begin to rise again. At some point, the question “Who will give credit to already indebted states like the US?” will be raised. This problem is already facing states like Greece, Spain and Hungary.⁶⁰ For the US, in particular, there will remain the option of devaluing state debt by allowing massive inflation, with all the consequences that would have.

3.9 Speculative bubbles

Normally, the money supply develops in step with the long-term tendency of accumulation. If it does not, negative effects on the development of prices are to be expected, either inflation or deflation. These can be postponed if the surplus money that cannot find any profitable investment in reproductive accumulation is able to find other forms of investment which appear to offer a certain valorisation. Fictitious capital provides just such possibilities. With the lowering of profits and the accompanying fall in interest rates, there is the possibility of an increase in the value of

securities (as the capital value fiction showed) if the expectations on the yield of the underlying debt obligations can be maintained. That is, if the investors of “surplus” money that could be invested even at a lower interest rate believe that a certain undertaking will once again make bigger profits in the foreseeable future, then the demand for investment in shares or deposits in this undertaking will grow (the discounted value of the expected yield on the capital is greater than the investment possibilities at low market rates). That, however, requires a fast rising price for the security which then creates further demand. Thus, the first to buy the securities makes a profit which confirms the original expectations. This can result in a credit-based financial bubble which will last until the expectations in the undertaking are seen not to have been fulfilled.

Figure 10 Price/Earning Ratios for Standard and Poor's 500

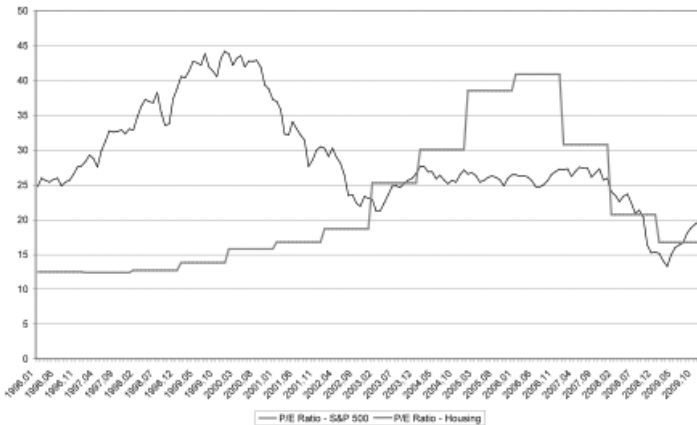


Figure 10 shows the development of the price/earning ratio of shares on the S and P 500. What is clear from this is that, at the time of the New Economy bubble, prices had separated strongly from the real profit situation of the undertakings. A “normal” p/e ratio of 15 corresponds to an interest rate of 6 per cent. The values achieved during the bubble, by contrast, correspond to an interest rate closer to 1 per cent!

Today, with regard to shares, a further appearance is important. Through the buying back of their own shares, big firms can decisively “improve” their profit situation. Because the increase in the prices of securities leads to a positive “valuation adjustment” in the assets of the corporation, the share of its equity capital on the balance sheet (and the retention of part of the profit dividend) is raised and the profit of the corporation will be presented as correspondingly “expanded”. In this way, and usually by means of low-interest credit, the p/e ratio can be maintained even when profits are already crumbling. This then continues to maintain the increase in share prices. This central strategy of corporate policy for raising the price of their own shares is also strengthened by the transformation of a portion of cor-

porate profit in the form of share options as “performance payments” for managers.

The next example of the development of a speculative bubble concerns real estate. Marx explained the possibility of a revenue form of ground rent arising where a limited supply of goods based on the capital exploitation of the soil confronts rising demand to make possible a price which does not enter into the equalisation of profit rates. The difference between the average profit and the actual profit can therefore be appropriated by the landlord as rent. As with capital value, the interest rate can be used to calculate the “capital value”, that is, the basic price.

That is, with a sinking average profit and sinking interest rates, through the corresponding demand for real estate by “surplus money”, there will be a tendency to an increase in the price of real estate. As with shares, speculation now feeds on itself because rising real estate prices stoke up demand, further sales realise speculative profits and set in motion what is, in effect, a “pyramid selling” scheme. That is, the losers are those who at the end of the bubble can no longer sell what they have bought when the price of the object of speculation collapses. The overall effect on wealth is zero, only that the wealth is now very differently divided between winners and losers. With real estate bubbles, the break in the chain comes either when interest rates begin to rise again or, equally, when the yield on the use of land clearly does not generate the average profit because of the high price of land.

Clearly, in the present credit system, soft mortgage credits have played an essential role. The rising price of real estate appeared to guarantee soft credit which then encouraged credit with higher interest rates. A “wealth effect” set in which allowed the indebted householder to suddenly appear creditworthy. With the expectation of secure yields from these mortgages, the “debt obligations” based on this credit became securities with “high-value”. Thus, in the real estate bubble after 2003, these debts were for the most part placed on the capital markets as “asset backed securities” (ABS) by the credit-giving banks who presented them as long-term investments. In this way, this real estate bubble was not only characterised by exploding business in real estate but by the fact that it also created a further investment possibility for rootless capital on the capital markets.

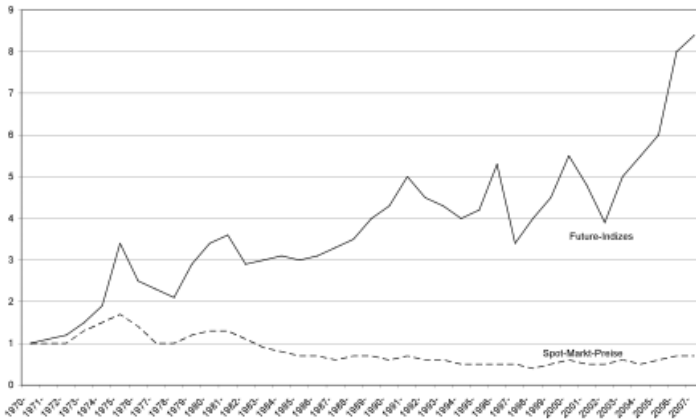
Graph 8 also shows the P/E ratio of housing prices (calculated on the basis of the Case-Schiller Index). It is obvious that housing prices began to rise to irrational heights in 2002, a short time after the stock market bubble burst. It can also be seen that the end of the price boom in 2006 marked the beginning of the financial crisis pushing down the stock market after a certain time-lag. What is interesting is that the P/E ratio of the S&P 500 stocks increased sharply again after the first quarter of 2009. Since the 60 per cent increase in stock prices after March 2009 is not backed by any corresponding increase in the earnings of the rated corporations, it is clear that the state rescue plans have fuelled a new stock market bubble.

With the formation of a global, all-embracing market in derivatives with huge volumes of trade, there is a further field for speculative bubbles. In “normal” times, the futures trade is an insurance against unexpected variations; it creates liquidity promptly or sends early demand signals to production. However, this defensive instrument can, in the face of the irrationality of the market, become self sustaining

and turn into an instrument for sharpening crises.

Surplus capital searching for investment opportunities can wind up on this market. Once the expectation of higher prices to be achieved in the future feeds back into the actual determination of prices (for example, through hoarding, holding back existing goods in order to achieve a better price later) this can lead to a rising spiral of prices, particularly if there is already a tendency for prices to rise. This was clearly visible in recent months with the price of oil, some metals and particular agricultural products. As a result of this, the futures and options on these goods became securities themselves whose price was forced up through huge volumes of trade (short-term arbitrage profits on the basis of constantly rising prices). Unlike share and real estate bubbles, which lead to an expansion of credit on a broader basis (which affects capital and those with middle incomes) this form of speculation leads to rapid increases in costs for the greater part of productive capital (with the exception of those who deal in these raw materials) and the mass of consumers and heats up inflation.

Figure 11: development of commodity futures in comparison to spot markets.



shows that, in the long-term, the prices for raw materials on the spot markets sink. Only in the last two years (2006-8) has there been a slight change in the trend. By contrast, the indices for commodities futures rise continually. The balancing out of market risks, of extreme variations in price, through insurance based on derivatives, thus leads to a speculative increase in prices which runs directly contrary to a lowering in value. This stokes up the speculation further. In the last two years the volume of trade in commodity-futures has practically doubled.

While commodity speculation surged in 2008, it could not prevent the crash in the autumn of that year. With the sharpening of the global recession, commodity prices fell and it appeared that this option for speculation was over. However, with the state rescue plans came the prospect of some future growth and therefore commodity market speculation resumed on an enormous scale. A few examples will suffice to

illustrate the price increases of important global commodities during 2009: copper up 133 per cent, oil up 112 per cent and sugar up 79 per cent. These price increases are not backed by any real increase in demand or production, they are an expression of expectations for future demand and profit increases. In fact, they may even be a brake on future productive growth because of the negative effects of such high prices.

4. Finance and monopoly capital

Marx saw in the formation of joint stock companies a countervailing factor to the fall in the rate of profit, because the shareholders were happy with a form of interest (dividends). However, in the age of concentrated bank capital and speculation-driven finance markets, this has turned into its opposite. Rudolf Hilferding was the first to develop this insight in the seventh chapter of his book on "Finance Capital". Here he showed that, for modern finance capital, what is decisive is not the sluggish cashing in on dividends but, rather, the battle over the sale price of fictitious share capital. This becomes possible for the banks or other similar financial institutions through the negotiation of the raising of capital for establishing firms, expanding capital, takeovers, fusions etc. The transformation of profit bearing capital into interest-bearing (that is the apparent relaxation of the profit rate) is paid for by the negotiator who raises the capital being able to capitalise the difference between profit and interest.

Take, for example, a firm previously run as a partnership with a capital of €1 million producing an annual profit of €150,000 corresponding to the average profit rate of 15 per cent which is then turned into a joint stock company. If the interest rate is 5 per cent then an annual dividend of at least €50,000 must be paid out to the shareholders (depending on how great the competition is between fixed interest investments and the market in shares). If one adds to the dividends the fictitious corporate profit, however, then, for example, up to €100,000 profit on the investment could be generated. All the same, the "capital value" of the company (as shown by the formula for "perpetual rent") would be set at 150,000 divided by 0.05, that is, 2 million (the fictitious sale price or initial value of all shares). This surpasses the actual capital requirements of the company by one million.

Whoever actually succeeds in realising the capital value on the stock market, whether by the formation of the joint stock company, by its sale or by takeover etc, succeeds in realising in advance the not-yet-realised corporate profit. Whoever pockets this difference, for productive capital it means that it has to pay the 5 per cent interest rate not on its real capital but on the fictitious capital value which has been forced up by the raising of capital. It is productive capital that ultimately has to pay off the "underwriting profit" to the shareholders. In this way a form is found in which, over the long-term, finance capital can appropriate a large part of the mass of profit above and beyond the interest rate.

In developed finance markets, stock exchanges are the quickest way of raising large sums of money for founding new companies, takeovers etc. The investors are promised a return on their capital through dividends that are somewhat higher than the market rate but characterised by more risk. Through the overvaluation of the

functioning capital, as is given by the capital value, there is for productive capital a de facto higher price which finances the “founder’s profit” of those who raise the capital. That is, productive capital has to pay a kind of extra rent to finance capital.

This “financing profit” for raising capital is still an important source of profits for finance capital as in the speculative bubble of the “New Economy” where the “founder’s profit” came at the cost of the mistaken expectations of the deceived investors. This is strengthened by the activities of hedge funds which buy companies in order to force up their “capital value”. This can also lead to financing profits, this time, above all, at the cost of productive capital (or of the workers affected by restructuring).

Let us illustrate the role of “founders’ profits”, that were characteristic in the finance industry in the build-up to 2008, by looking at two hypothetical banks. The two banks, X and Y, are both founded with a start-up capital of \$5 billion. They are founded as stock companies, with a \$1 price for each share. Bank X provides credit of \$10 billion to Bank Y at an interest rate of 10 per cent for 20 years and Bank Y does the same for Bank X. Let us assume that the general interest rate in the economy declines to, say, 5 per cent, as a result of recessionary tendencies. The securitised credits of X and Y now become extremely valuable because the capital value of their assets, at 10 per cent, is \$30 billion each (see the capital value formula). Compared to the value of bonds yielding 5 per cent, the two banks have made a gain on their lending of 50 per cent. In their books they can show a gain of \$5 billion, without having made a single productive deal.

Let us suppose they pay half of this “gain” (that is, \$2.5 billion) as dividends to shareholders. In comparison to the recessionary environment, with its decrease in interest rates, this enormous return on equity (100 per cent) has a quite profound effect on the stock market. The original owners of X and Y now sell perhaps 1.5 billion of their shares on the stock market at a price of, say, \$2 (a “fair” price in the light of the latest returns on equity). Together with their already “earned” dividends, the original owners have now taken \$5.5 billion each out of the banks, that is, they have made \$1 billion out of nothing. Even if the banks turn into losses, they themselves will have lost nothing. The risk of losses will be borne by those capitals that follow the lead of the founders and believe they can repeat their spectacular founding profits.

In real life, this would be the big pension funds or public banks looking desperately for profitable investment opportunities for their deposits. In this scenario, \$5.5 billion was unproductively wasted by each of the banks to provide the founding profits before the banks could begin any productive operations with a real capital that remains \$5.5 billion (\$2.5 billion of which is left from the original owners). As the share price was based on the expectation of exceptional gains, the non-founding shareholders are in danger of losing their investments as soon as it is clear that such exceptional growth rates cannot be maintained. In the end, then, these are the capitals that will pay the cost of the founders’ profits of \$1 billion with corresponding losses in their own share values.

Finance charges become, alongside the business with speculative bubbles, one

of the main sources of the increasing power of modern finance capital. Both accelerate concentration, as much in the financial sphere as with productive capital. This is achieved through actually increased appropriation of profit as well as through the financial ruin of potential or actual rivals. Finally, and above all, as a result of the market dominant position of particular industrial capitals (the monopolies), monopoly profits create a greater source of appropriation of surplus value for interest bearing capital. As a result of the lack of equalisation of the profit rate, which is a given with monopoly profits, there are increased possibilities for gains through financial engineering in the expectation of extra profits through trust or cartel formation. The latter are, therefore, encouraged by finance capital. As a result, the struggle for control over total accumulation between finance capital and productive capital grows. "The more powerful the banks become, the more successful they are in reducing dividends to the level of interest and in appropriating the promoter's profit. Conversely, powerful and well-established enterprises may also succeed in acquiring part of the promoter's profit for themselves when they increase their capital. Thus there emerges a kind of competitive struggle between the banks and corporations over the division of the promoter's profit, and hence a further motive for the bank to ensure its domination over the enterprise."⁶¹

Hilferding assumed that the struggle over financing profit and the securing of monopoly profits through division of the market must necessarily result in the fusion of bank and industry capital in the form of control by particular banks over particular industrial groups. In fact, huge funds operating on unregulated international financial markets are in an even stronger position to use the threats of sale and takeover to ensure that industrial capital directs its accumulation and financing decisions in accordance with the interests of finance capital.

Thus, even if the "German" model of finance capital, the fusion of banking and industrial capital under the hegemony of the banks, was relinquished in favour of the "US model", indirect control of industrial capital through the financing power of funds, the fundamental truth remains: "Finance capital, concentrated in a few hands and exercising a virtual monopoly, exacts enormous and ever-increasing profits from the floating of companies, issue of stock, state loans, etc., strengthens the domination of the financial oligarchy and levies tribute upon the whole of society for the benefit of monopolists..... Capitalism, which began its development with petty usury capital, is ending its development with gigantic usury capital."⁶²

No wonder that these great investment funds and investment banks today form an elite circle and have been nicknamed the "masters of the universe". With its daily turnover of billions, this concentrated usurers' capital can, with a few key-strokes, determine the destiny of millions of people. Therefore, the impact on the whole financial system if one of these big investment banking institutions crashes, as was the case in 2008 with Bear Stearns and Lehman Brothers, is absolutely staggering. It was immediately clear that the whole financial system could collapse like a house of cards.

Since then, such banks have come to be called “system relevant”, that is, they are so big they cannot be allowed to fail and so the state has to intervene to save them, whatever the cost. Immediately after the crash there was a lot of talk about regulating, or even forbidding, investment banking. A year later, investment banking is once again operating in a kind of golden age: not only have the central banks provided cheap money for speculation but there is no serious state regulation and such banks now have the reassurance that they are “system relevant” so any risk will in the end be taken over by the state.

4.1 International capital flows

The formation of capital relationships was initially successful within the context of the formation of a national sphere of circulation within whose framework the formation of value production, like the equalisation process of the profit and interest rates, took place. On the other hand, capital relations from the very beginning were oriented towards the world market and struggled always to overcome the limitations of local and national markets. On the world market, commodities that result from very different value forming labour processes (for example, the length of the national working day) confront each other. Even if, within certain frameworks, there are equalisation processes at work, there are limitations in particular with regard to the labour market but also concerning the structure of qualifications, infrastructure, the formation of monopolies and financial capital and state organisation which only ever allow a tendency in the direction of equalisation. This also affects the formation of value, average profit rates and also the interest and rent structure. On the world market, therefore, commodities which originate from different processes of price formation and price levels, confront one another.

Nonetheless, on the world market there is only one price for any particular commodity, a price which must be expressed in one currency, “world money”. This can only take place to the extent that there is a definite exchange relationship controlling the exchange of money from one sphere of circulation to another. This exchange relationship therefore expresses the varying value relationships of the national working days, it is the measure for different levels of prices: “It is otherwise on the world market, whose integral parts are the individual countries. The average intensity of labour changes from country to country; here it is greater, there less. These national averages form a scale whose unit of measurement is the average unit of universal labour. The more intense national labour, therefore, as compared with the less intense, produces in the same time more value, which expresses itself in more money.”⁶³

These different weightings of the national amounts of labour must work themselves out in the tendencies to movement in the flow of value between the spheres of circulation. This can result in trading surpluses and also in the transfer of value through the retention of extra profits (not passing on lower prices).

The extent to which this results in varying exchange rates is certainly related to that but is essentially determined by the price of the money commodity itself. The flows of value in the trafficking of goods and capital play an essential role in this as they set the supply and demand for the various currencies. In addition to that, however, there are also movements on the international money market. The value of a national currency is determined by the reserves in the central bank and the creditors on the money market. An increase or decrease in these reserves can therefore serve to equalise discrepancies in the balance of payments and have a direct influence on the value of the national currency. At the time of the gold standard this meant entirely concretely the movement of gold between the central banks in accordance with the balance of payments. However, the more money presents itself as capital commodity, in the various appearances of interest bearing capital, so the more the dynamic of the development of the value of money is determined through the interest rate. As a result, the interest rate that is valid for the means of circulation within the country is also essentially valid for the money flows on the foreign exchange markets.

While, therefore, today, the formation of currency reserves through exchanges between the central banks takes place by means of trade in government bonds, short-term currency variations are strongly influenced by movements on the money markets. The international trade in foreign exchange, which is no longer settled through exchanges but by the unregulated network of interbank trade, is today one of the areas of business with the highest turnover (\$3 billion per day, see graph 10). The foreign currency reserves of central banks are scarcely enough to counteract major waves of speculation against particular currencies.

Figure 12: Volumes of daily turnover on foreign exchanges (\$bn) 1992-2007

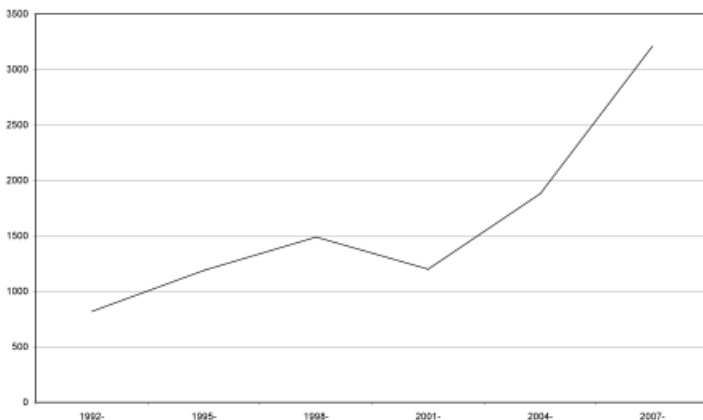


Figure 13. Share of major financial institutions in foreign exchange trade, 2007

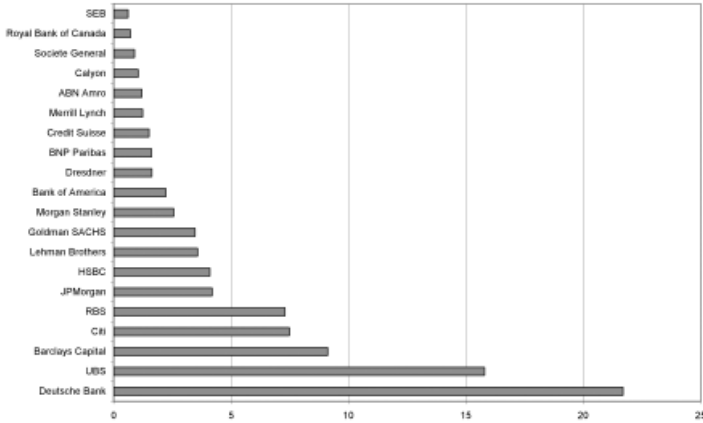


Figure 13 also shows that the imperialist major banks generally dominate trade on the deregulated foreign currency markets (indeed it is a “Who’s Who” of international high finance) within which particular financial institutions (such as the Deutsche Bank) have specialised.

Naturally, credit relations are also decisive for the international process of circulation and its improvement and acceleration. The export business demands even stronger credit guarantees and risk cover. This leads naturally to the expansion of financial markets to a supra-national level. With the abolition of the gold standard (effectively after the end of the Bretton Woods agreement at the beginning of the 1970’s) the dollar became world money not only as money deposited in US accounts or central banks but increasingly also in reserves hoarded in “offshore” accounts by internationally active financial companies as a basis for bigger credit operations.

An export surplus in country A with regard to country B generally means that in country B there is a surplus of payment obligations with regard to country A. Sooner or later this must express itself in the flow of money from B to A. The usual balance of payment statistics therefore assume that the current-account balance (the balance of trade in goods, services and the transfer of wealth) and capital account balance (the balance of capital exports and imports) will balance each other in so far as they are not influenced by the foreign currency balance (that is there is a drain on reserves or changes in the foreign exchange rate). Generally, it follows that:

$$\text{Current account balance} = \text{capital account balance} + \text{foreign currency account balance}$$

Thus the growing current account deficit of the USA was for a long time balanced by the positive capital account. US investments abroad brought considerably higher profits than the increasingly puny US bonds which, however, for example, China and Japan continued to hoard in order to maintain their own export based growth. From approximately 2005, this equalisation mechanism was not strong

enough to hold back the continued decline of the dollar. While changes in productivity, labour intensity and, in general, the relationship between capital and labour can be important for changes in the current-account balance and, likewise, the fundamental relationship in price levels (or purchasing power parities) between the countries may move, for the capital and foreign currency accounts in general the question of profit and interest expectations is decisive. Naturally, fundamental changes in the conditions of capital valorisation and the general trend of capital accumulation are also expressed in this. The difference in interest rate levels is important both with regard to which country longer-term capital tends to prefer to invest in (for example in foreign government bonds) and also for the direction of speculation in foreign exchange. Again, the different average rates of profit are important for the direction of productive capital investment whether that is as portfolio investment (for example purchase of shares in countries abroad) or as direct investment abroad.

With falling profit and interest rates in the imperialist centres, in particular phases of over accumulation, there will be a tendency to increase capital export while the transfer of wealth back to the centre (as increasing items in the current account balance) will become increasingly important. Equally, big firms can, with the help of monopoly prices, realise extra profits on the world market which also lead to a transfer of value into the home countries of these concerns. The latter appears as a balance of trade surplus through the higher monetary expression (price) of the corresponding goods.

The structure of the capital streams (the international credit, investment and distribution system) together with the corresponding exchange and interest rates, establishes a corresponding international division of labour. Ultimately, it is the laws of motion of international capital accumulation that determine the circulation of goods and money on the world market. With the establishment of giant monopolies and their domination by finance capital concentrated in the Northern metropolises bound up with the corresponding state apparatuses, an international regime is created that can rightly be called "imperialist". Capital export and the issuing of credit become instruments for domination of the overwhelming majority of the states and their economies which make up the world market. The established international division of labour serves to secure the highest possible monopoly profit rates for the corporations, the corresponding interest rates for finance capital and the other additional rents which are thereby made possible in the imperialist states.

In this, the capital flow between the imperialist centres and the periphery should not in any way be seen as steady and long-lasting. In reality, there are particular periods of time which determine whole phases of the epoch, in which a huge wave of capital exports flows into quite definite, more or less imperialised regions, usually bound up with speculative bubbles. They are followed by a more or less massive financial crisis (for example the debt crisis) which introduces an entire period characterised above all by a flood of capital back into the imperialist centres.

4.2 Periods of imperialism

Classical imperialism

In the last decade of the 19th century, the industrial centres of the world economy emerged from long years of stagnation. During this period of stagnation there had been widespread development of monopolisation and the concentration of banking. With the technological renewal of heavy industry, chemicals, and means of transport and communication, the field was wide open for rapid accumulation. At the same time, there was sufficient investment capital available at healthy interest rates. With the rise of monopoly industries there was an “explosion” of capital exports. As Lenin showed in the first chapter of his pamphlet on Imperialism, this capital export was concentrated in the years between 1900 and 1914.

Before the First World War, a level of capital export was achieved in England, France and Germany that was more than 100 times greater than that of the middle 19th century. This capital export was organised in the form of government bonds and credits administered via governments and banking consortia. This flow of capital had conditions attached, for example, infrastructure contracts had to be given to the big industrial monopolies of the imperialist states. To secure these capital relations in particular regions, direct colonialism was used on an unprecedented scale whilst elsewhere “independence” was formerly retained although, de facto, the relationship of “semi colonies” was established.

The division of the world under this imperialist regime was bound to lead to sharpened competition and ultimately to military confrontation. The crisis of this regime was by no means resolved by the First World War because the old hegemonic power, Great Britain, could no longer achieve the capital accumulation required for its political role. The colonial regimes of Britain and France revealed themselves increasingly as brakes on the accumulation of world capital.

The world economic crisis and the era of Bretton Woods

Particularly in the USA, the 1920s saw an enormous increase in private investments in loans to Latin American and East European states and to Germany which were bundled together and administered by US investment banks. These investments served as cover for an extension of credit on the basis of low interest rates. With the increase in US interest rates towards the end of the 20s, and the growing problems with repayments from the debtor countries, the speculative bubble burst in the expanded financial crisis after 1929. The following year saw a massive flood of repayments, the liquidation of reserves, falling exchange rates and highly disadvantageous terms of trade from the point of view of the countries concerned. Particularly in Latin America, “import substitution” was a logical answer to these problems. With this there was a change in the dominant form of capital exports towards direct investment, in particular in the locally-based affiliates of US corporations in Latin America.

However, it was only after the Second World War, and its survival in the revolutionary situations it produced, that imperialism was once again able to establish a stable global regime. The USA was the obvious hegemon and the dollar established

itself as world money. With the agreement at Bretton Woods, a system of fixed exchange rates against the dollar together with its rate against gold and a mechanism for correcting currency imbalances (the International Monetary Fund, IMF) was created. The structure of capital exports in the post war boom was characterised above all by an enormous increase in capital exports between the imperialist centres USA, Germany and Japan and the simultaneous construction of a huge network of affiliated companies in the semi colonies.

The collapse of Bretton Woods, petro-dollars and the debt crisis

By the beginning of the 1970s, the fixed rate of the dollar against gold had long become a fiction and likewise the system of fixed exchange rates. With the collapse of Bretton Woods, the US central bank lost control over a part of the global dollar reserves. Through the establishment of large offshore dollar reserves (known as petro-dollars because their source was often the oil exporting countries) in the 1970s and the end of the postwar boom, a new period was introduced that was characterised by large-scale credit transfers to Latin American and Asian states. This time the wave of credit was maintained above all by the commercial banks in the imperialist centres that had control of these dollar reserves. Once again, it was a change in the direction of US interest rates that unleashed a massive “debt crisis” at the beginning of the 80s. The result is well known; the interests of the creditor states were combined and represented by the IMF which unleashed a decade of harsh “debt relief regimes” in Latin America and Asia. As a result of the ending of Bretton Woods and the debt crisis, the semi colonial countries now had, on the one hand, to maintain huge currency reserves of dollars, yen or euros and, on the other, to pursue a restrictive budget policy in order to avoid becoming victims of massive speculative moves against their currencies or their bond markets. According to Stieglitz, precisely the poorest developing countries had to spend around 2 per cent of their GDP financing their currency reserves. That is approximately four times the “development aid” – and these reserves are laid out in useless US government bonds etc. With the weakening dollar, moreover, this meant that their own currencies fell even faster than the dollar.

The era of deregulated financial markets

Lastly, with the upturn in the US cycle at the beginning of 1990s, a wave of very high portfolio and direct investments, particularly in Asia but also, for example, in Mexico, developed and opened the period of “globalisation”. Once again, it was mainly private or institutional investors from the international finance centres that invested in the semi colonial countries by means of shares, securities and derivatives. Therefore, the repeatedly implemented measures of the IMF period could not stop the bursting of the speculative bubbles in Mexico (the “Tequila Crisis”) of 1995 or that in Thailand in 1997 (that unleashed the “Asian Crisis”). While capital was flooding in between 1990 and 1994, at only 11 per cent of the capital inflow “official” debt, such as government loans, no longer played a great role. Even the commercial banks played a far smaller role than in the period 1978 – 81. What was

decisive was, on the one hand, deregulation in the semi colonies (for example, privatisations) which stimulated a rapid increase in direct investments. On the other hand, there was the growing securitisation of international capital debts, that is, the deregulation of the international financial markets, which made possible offshore investments even without state guarantees against risk, for example, the expansion of the derivative and foreign currency markets.

As the phase of low interest rates and the low dollar exchange rate came to an end in the mid-1990s, so the flood of capital began to ebb and at the same time the export-oriented growth, for example in Asia, ran into difficulties because their currencies were tied to the dollar. No restrictive budgetary policy or high interest rates could help with this. Offshore banks, investment banks, hedge funds, and dealers in derivatives and foreign exchange created a massive speculative bubble which ultimately brought the currencies concerned to their knees and left behind deeply indebted private corporations in the semi colonies. The flood of capital now began to move massively in the direction of the USA whilst in the countries hit by the financial crisis there was a new wave of takeovers or capital destruction by imperialist finance capital.

Like a mirror image of the Asian crisis and the development of the credit bubble in the USA, there began the Chinese “export miracle”. The precondition for this was the limited and controlled opening for direct investment alongside a still closely regulated Chinese financial market. For a long time, this could prevent a revaluation (that is, an increase in the value) of the Chinese currency even though a trade surplus resulted in huge reserves of dollars being held in China. The bursting of the real estate bubble in the USA, a massive devaluation of the dollar and an increase in prices for raw materials then turned these conditions, which had been healthy for China, into their opposites.

4.3 The business cycle and interest-bearing capital

Capital accumulation takes place under conditions where the social evaluation of the results of production is established only in hindsight, in circulation. The varying capital investment periods, the fortuitousness of fulfilling the conditions for reproduction, wages increasing with the overheating of accumulation and, finally, the tendential fall in the rate of profit (as soon as the profit mass itself no longer grows) lead to regular, cyclical interruptions in the movement of accumulation. As we have shown, through its various credit instruments, the money economy makes possible not only temporal disproportions but also a general overproduction. These “medium-term business cycles” of between five and 10 years play a necessary cleansing role for capital accumulation by which the law of value imposes itself even to the extent of destroying obstacles to the equalisation of the profit rate. The renewal of the capital stock, the centralisation of capital and likewise the destruction of surplus, less profitable, capital, is essentially carried out by the sequence of recessions and booms. In this way, cyclical crises counteract the general tendency to collapse in the movement of accumulation.

The role of credit is decisive for the way in which the business cycle unfolds (even if it is not its actual origin). Only through it can unbalanced growth, despite falling profits, be expanded to the point where this leads to a general payment problem. The crisis first becomes visible in the money and capital markets and this leads to a corresponding impact in the productive sector through the contraction of credit. With the destruction of capital, pressure on wages and the cheapening of credit during the downturn, the conditions are once again established in which investment is profitable and financeable. This not only creates demand in the investment goods sector but also in consumption. Accumulation gets back into full swing while the preconditions for profitability are only slowly eroded. With the increase in wages, the growing demand for capital for renewal, the overflowing of the markets etc, the business cycle then begins to weaken until this culminates once again in overproduction and a squeeze on credit.

Before the banking and financial system was fully developed, the payment crisis at the end of the cycle always brought with it a threatening monetary crisis. Bills of exchange were massively devalued or could only be discounted at great loss. This resulted in a serious lack of means of circulation and to a panicky run on "hard cash". With the developed banking and financial system liquidity problems are noticeable at an earlier point through movements in interest rates and price movements in securities or derivatives. Bank reserves allow a monetary crisis to be avoided and bring the situation more quickly to the phase of the credit crunch.

In this way, interest rate movements in the money and capital markets become important moments in the business cycle. The normal business cycle ends with a crisis of oversupply of investment capital in relation to the demand (the savings overhang) and the interest rate, in comparison to a revived profit rate, is low. It is therefore first of all demand for capital credit which is strengthened with the renewal of investment. Therefore, long-term interest rates both, as credit and as investment, are normally the first to increase again. Where financing is undertaken more by raising capital on the stock exchange (see "the underwriting profit") this may express itself, instead, in fast rising share prices and less in interest rates on the capital market.

With the revival of the cycle, demand grows for both commercial credit and money market credit. This continuously accelerates the speed of investment of circulating capital and has a stimulating effect on accumulation. At the same time, growing accumulation washes ever more capital into the money markets in order to develop reserves. Only when the cycle stalls and there is an increased flow of capital away from replacement investment and, finally, demand is maintained, or the ability to pay is secured, by short-term credit, is there necessarily a growth in pressure on short-term interest rates.

The interest rate movement, therefore, is not the cause of the cyclical downturn. This rather lies in the fundamental limits on capital accumulation in search of a rise of investment goods and consumption funds of the wage dependent. This limitation now imposes itself in a different way: in the increasing costs of capital and consumer credit.

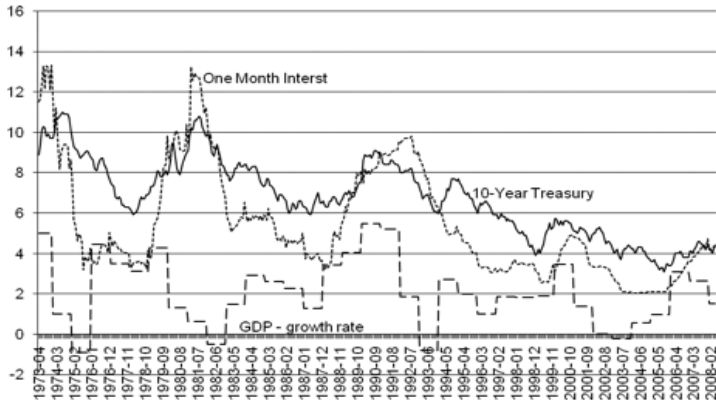
It is clear that the collapse of the cycle expresses itself first and sharply in short-term credit where it takes the form of spectacular collapses or a squeeze on liquidity. This leads on the one hand to pressure to borrow money “at any price” in order to fulfil payment obligations and this pushes short-term interest rates sky high. That, however, intensifies the crisis still further. In the face of falling profits, rising interest rates restrict investment and also force the sale of stored goods at any price. Through the purging of the crisis, collapses, devaluation of capital, collapse of prices etc, the demand for credit also dries up, particularly with regard to commercial credit. Short-term interest rates, so recently risen, will fall again even faster. This is also the only point at which central bank intervention (with regard to money market policy) and an increase in state spending can have an exhilarating effect on the cyclical recovery. As has already been shown, however, central banks are essentially reinforcers of interest rate movements on the capital markets. This is analogous to the way that it is the burden of interest payments for the state debt (and with it finance capital) which decisively determines the “trade cycle policy” of the bourgeois state.

This progression of the business cycle and the movement of interest rates can be empirically followed for the cycles in the period of the post war boom. This only changed with the crisis of 1973/74 and the beginning of the period of general over-accumulation.

Figure 14 demonstrates the relationship between industrial cycles and short and long-term interest rates, using the example of (West) Germany. Until the beginning of the 1980s, movements in interest rates corresponded to the classical time-lag scheme described above. With the onset of the new era of structural over-accumulation, it becomes obvious that interest rates gained a considerable degree of independence from the industrial cycle.

Speculative bubbles in big imperialist countries, as well as on global financial markets, allowed the development of financial cycles, as it were, “above” the industrial cycle. Comparison with the movement of interest rates in the US (see Figure 3 above, p???) shows that the rise and fall of the Fed-rate did to some degree influence the movement of German interest rates more directly than Germany’s own industrial cycle and, if this is true for Germany, then it will be true for a lot of other countries. This also indicates that, as an expression of the interest of finance capital, inter-imperialist politics have become a more important factor in influencing interest rates than was the case in the era of the long boom. In other words, even on questions of finance and banking, international agreements and summits are increasingly determined by the competition between competing imperialist powers and their finance capitals.

Figure 14 The relationship of the cycle and interest rate movements



4.4 Finance capital and the long-term tendencies of capital accumulation

It is not only through the cyclical enforcement of the conditions for valorisation and the average profit rate that the credit system plays an essential role. The general lawfulness of capital accumulation is effective above and beyond the cycles and is strengthened by its combination with the accumulation of interest-bearing money capital. The rising value composition of productive capital, such as the methods of increasing relative surplus value, lead to the tendential fall of the average profit rate at the same time as there is an enormous increase in the absolute mass of profit. This dual lawfulness ensures, first of all, a period of increasingly accelerating accumulation over several cycles. Cyclical collapses each make possible the effective impact of countervailing tendencies on the falling rate of profit.

In the period of long-term accelerating accumulation there is also an acceleration of capital investments at an ever higher level. This includes the shortening of the phase of circulation, for example, by expanding the corresponding money market credit. However, there is also an activation of dormant reserve capital for expansion or replacement investment with help from the capital market credits.

The period of accelerating accumulation is also always a period of expansion of the credit and banking systems and, ultimately, an enormous transformation of disposable reserves into interest-bearing money capital. Along with this, and the more so as blockages or pauses in growth occur, the proportion of interest-bearing capital continually grows as an input into the movement of reproductive capital. Even these periods of growth of capital are periods in which the transformation of independently functioning capital into capital under the control of interest-bearing capital (capital as property title) is further enforced. This is clearly shown in the accounts of the companies through the growth of “borrowed capital” as compared to “equity capital” or, in relation to assets, to the growth of “passive income” as compared to tangible assets. That means that interest-bearing capital continually increases as against functioning capital. The clearest consequence of this is that the

proportion of their profits that reproductive companies have to pay as interest (the interest quota) continually grows.

Alongside the tendential fall in the rate of profit, the tendency to an increase in the interest quota can be established as a further law of combined real- and money-capital accumulation. As already noted, this does not have to lead to a tendency to an increase in interest rates (as we have seen, Marx rejected any such lawfulness for interest bearing capital); it does mean, however, that the interest burden, relative to the mass of profits, becomes ever heavier.

This is how the contradictory significance of interest-bearing capital in accelerated accumulation develops. On the one hand, it strengthens accumulation by shortening turnover time, accelerating circulation, strengthening the purgative effects of the cycle etc while, on the other, it sharpens the problem of the development of the profit rate through the increasing burden of the interest quota and thus a more rapid lowering of the rate of company profits in relation to the development of profit rates. This contradictory form of movement must raise to new heights the fundamental contradiction of real capital accumulation, that the development of the forces of production through the acceleration of capital accumulation is limited by capital itself and its ability to valorise itself. With the increasing limitations on real accumulation and the immensely increased social expansion of interest bearing capital that goes with it, capital necessarily tries to free money capital accumulation from the restrictions on real accumulation.

The fact that the finance market is ultimately derived from the total reproduction process of productive capital does not prevent capital from also using fictitious capital as a starting point for accelerated accumulation. It only means that in the end productive capital has to pay the bill. Thus, the various forms of speculative bubbles already described can all become starting points for real accumulation which has otherwise come to a halt: speculative capital export, speculation in foreign currencies, real estate bubbles, stock exchange bubbles, waves of speculation on the futures markets etc, are all consequences of over-accumulation.

The structural over-accumulation of capital brings the contradiction between the productive forces and the relations of production into a collision which is unique to capitalism. The development of the productive forces has grown too big for capital valorisation, increased production can no longer be realised in such a way as to lead to a profitable expansion of further production, accumulation declines because there is a superfluity of productive capital which, at the same time, appears as a lack of money capital for investment. The onset of the period of structural over-accumulation means that, as well as the fall in the rate of profit, the growth in the mass of profit also begins to stagnate and the rate of accumulation over and above the cycles becomes lower and lower.

On the finance markets, this situation appears to be contradictory; on the one hand, with the decline in productive investment, the demand for long-term credit must also reduce, on the other hand, there is an increase in the need for means of payment, credit or bail outs. Preparedness to provide long-term investment credit also goes down while the criteria for credit on the money markets become more re-

strictive. Ultimately, a mass of surplus capital is established that is searching for profitable investment outside the blocked sphere of accumulation. The result of this is paradoxical; on the one hand, the supply of loan capital, in particular for productive capital, decreases and difficulties with payment increase, on the other, this lack of money capital is combined with a simultaneous surplus of money capital appropriate for other forms of investment.

The solution of this contradiction has both a processing and a structural component. With regard to the structure of surplus capital, a difference has already developed in accelerated accumulation in the wake of interest-bearing capital for various forms of productive capital and this gains greatly in significance with the onset of over-accumulation. While the external financing of small and medium-sized corporations becomes more difficult, the big capitalist companies can, relatively speaking, fall back on larger reserves of their own capital. They are therefore less affected by the scarcity of loan capital. On the contrary, they can cover their capital needs by issuing securities which can relieve the pressure on their profit rates. By contrast, the indebtedness of small and medium corporations increases and their opportunities for accumulation are reduced. The destruction of capital in these sectors, or their takeover by other companies, frees up money capital that flows into the great mass of speculative investments, for example, into securities issues by capitalist companies. "The so-called plethora of capital is always basically reducible to a plethora of that capital for which the fall in the profit rate is not outweighed by its mass... Or to the plethora in which these capitals, which are incapable of acting by themselves, are available to leaders of great branches of business in the form of credit."⁶⁴

This trend is strengthened by the fact that these companies increasingly turn themselves into purely holding companies with a high equity position which transfer their most risky sectors or those with the highest stocks of fixed capital, to small or medium-sized operations. These not only have high pressures to provide profits to the mother company, but most also carry the interest burden of higher external financing. In this way, the general development of the profit rate is completely concealed by the fairytale-like returns on equity of the "blue chips" while the pressure of exploitation on those employed in the satellite companies increases sharply.

Lastly, it is also clear that the big monopolies of finance and industry continue to be concentrated in the imperialist metropolises. With regard to external financing, structural inequality shows itself in the increased indebtedness, or dependence, of undertakings in the semi-colonial world with regard to the metropolitan firms in the same way that large masses of surplus capital are established which are available for investment in particular in the metropolises. As far as the form of movement is concerned, with the onset of structural over-accumulation, the significance of the business cycle is reduced. Cyclical crises certainly continue, but the recovery is by no means so pronounced. Thus the role of credit and the movement of interest in the upswings and downswings are also substantially modified. Recessions do not necessarily mean sharply rising interest rates and upturns do not produce big reductions in interest rates. It is rather the case that the finance market establishes

its own cycles in the face of the movement of surplus capital and these are connected in specific ways to the business cycle.

The onset of the period of over-accumulation is generally bound up with the scarcity of loan capital, the failure of interest rates to fall during the upturns although they do rise in the downturns, increased investment in securities of the big monopolies and strengthened export of capital. This phase is associated with increased destruction of capital, decline in demand and higher (state) budgetary constraints. With the development of large-scale speculative bubbles, however, lower interest rates can be maintained over a longer period despite a weaker economy. After the collapse of a speculative bubble, new fields for investment must necessarily be found if these rates are to be maintained. Otherwise, there is the threat of collapsing into a period of high interest rates and a credit squeeze to which the alternative would be economic stagnation combined with a wealth devouring inflation.

If, in the long-term, the problem of over accumulation cannot be overcome and investment-seeking capital remains trapped in speculative cycles and productive capital has no prospect of accelerated accumulation, then the financial market cycle threatens to culminate in a crash and the business cycle to dissolve itself in Depression. As the 1930's showed, this is not the collapse of capitalism but a form of its crisis which can only be overcome at fearful cost to humanity.

4.5 Current developments and the structure of real and money capital accumulation

The period of accelerated accumulation after 1948 ended with the worldwide synchronised recession of 1973/74. At about the same time, heralded by the collapse of the global currency system established at Bretton Woods, increasingly deregulated and more and more extensive international finance markets emerged. For several decades, the accumulation of finance capital appeared to allow a prolongation of the long boom in some "new form" (or a new "regulation model"). However, this was an illusion because the exceptional characteristics of the long boom after the Second World War were a consequence of dramatic historic preconditions and nothing on the same scale occurred during the decades following 1973/74.

The precondition for the "long boom" (itself exceptional for the imperialist epoch) was the historic defeat of the world revolutionary upswing following the October Revolution and ending with the counterrevolutionary resolution of the revolutionary situations after the Second World War. This period included not only the consequences of working-class defeat at the hands of fascism (both in political and economic terms and in terms of the destruction of vanguard parties). It also included the effects of the degeneration of the revolutionary workers' state in the Soviet Union under the Stalinist bureaucracy, which were themselves prolonged by the establishment of degenerate bureaucratic workers' states following the Second World War.

The survival of Stalinism for such a long time was a major factor in the stabilisation of world imperialist capital, along with the integration of the reformist Labour bureaucracies into the imperialist state apparatuses. These were important factors in ensuring that workers' resistance was contained within the limits of the imperi-

alist world order and that the transition to socialism in the post-capitalist societies was blocked. Therefore, the breakdown of Stalinism around 1990 was not so much a new kind of historic defeat but rather a continuation of the defeats of the post-war period. In fact, the crisis of the degenerate workers' states was an effect of the economic crisis period since 1973/74 that shattered one of the pillars of the post-war world order. Although, for some time, the downfall of Stalinism allowed some softening of the crisis of capital accumulation (through an increase in available cheap labour and large markets) in the longer term it added to the volume of already over-accumulated capital on a global scale and intensified inter-imperialist competition, not least by adding a new potential challenger to US hegemony as a result of capitalist restoration in China.

These developments have undermined the second historic precondition for the long boom: the resolution of all the problems resulting from the lack of a single hegemonic superpower that had dogged imperialism for the long period before and between the two world wars. After 1945, with the establishment of the USA as the economic, political and military hegemon, there was now a clear framework for accelerated accumulation and the necessary financial superstructure. Even during the long boom this led to increasing US state deficits that stretched the limits of the gold-standard-based US dollar. The breakdown of Bretton Woods in 1971, therefore, also revealed the increasing economic costs to the USA of its own hegemony and opened a period in which that hegemony was based on increasingly fictitious dollar-capital.

The third important basis of the long boom was the massive destruction of capital during the Depression, followed by the destructive effects of the war itself and the early post-war years. This was the basis for a big US-financed investment boom in the recovery period in the imperialist heartlands themselves. The massive destruction of capital, together with an enormously increased rate of exploitation of the working-class and the establishment of a clear imperialist world order, was the absolute pre-requisite for the sustainable resolution of the preceding crisis period and the establishment of a long boom period in capitalism. None of these preconditions have been met on a global scale since the beginning of the period of structural over accumulation, and neither have they been met as a result of the finance market crisis of 2007-2009.

4.6 Finance market cycles since 1973/74

With the onset of structural over-accumulation, there was first of all an increase in public debt in the imperialist centres and this was combined with the first speculative wave of capital export ("petrodollars"). Far from resolving the fundamental problems of this period, these measures sharpened them into stagflation and into a further globally synchronised recession at the beginning of the 1980s.

Unlike during the boom periods, US imperialism kept interest rates high throughout that recession and even during the recovery (the "Volcker shock"). This was a deliberate policy on the part of US finance capital that redistributed profit in its favour. On the one hand, this resulted in the "debt crisis" of the semi-colonial world and, on the other, the strong dollar and the resulting destruction of large parts of

US industry led to a further recovery phase for German and Japanese industry. In the mid-1980s, the decision not to increase interest rates even at the high point of the cycle, again contrary to the classical pattern, fuelled the first big speculative wave on the international stock markets and was followed by the crash of 1987. This crisis proved to be the final blow for financial market regulation as well as marking the obvious return of financial market cycles and their crises, apparently independent of the industrial cycle. The measures taken to overcome this first post-war financial crisis led to the collapse of firms and banks on a massive scale, combined with a sharp purgative recession in the USA at the end of the decade.

By the beginning of the 1990s, the USA emerged strengthened from this phase. Nonetheless, the recovery of the profit rate did not last long and the upturn in the USA was accompanied by a strong decline in Japan (the decade of Depression) and development also stagnated in Germany and continental Europe. At the same time, however, deregulation within the framework of the debt regime of the 1980s now opened up the markets in important Asian and Latin American countries for an enormous increase in financial investment. The US recovery bubble was therefore bound up with a new wave of capital export to ASEAN states and Latin America, mediated through the US financial markets.

When this first great “globalisation” speculative bubble collapsed in the “Asian crisis” of 1997, the USA was able to attract to itself the greater part of the means of investment that were set free and these fuelled the next speculative bubble, the stock exchange boom of the “new economy” or the “dot com boom”. Thus, despite global cyclical weaknesses, interest rates in the USA could be held down without fear of a flight of capital. As can be seen in Figure 3, the Fed rate was increased only slightly above the 5 per cent level in the middle of the 1990s (an important factor in later igniting the Asian crisis) and was kept at that level even during the phase of declining output in the real US economy in the late 1990s, all in all this fuelled the speculative bubble.

From the end of the 1990s, China, in particular, was able to take over from the weakening ‘Asian Tigers’ and Latin American ‘emerging countries’ the role of the source of cheap imports for a US market increasingly financed by credit. Even the collapse of the new economy bubble in 2000, and the recession of 2001, could not undermine this new world economic axis between the USA and China. There was no other financial market, apart from the USA, into which the speculative investment capital could have flowed; to varying degrees, corresponding to ‘local’ circumstances, Japanese, Chinese and EU capital strengthened the US finance market. Interest rates remained low and this combination led to the next speculative bubble, this time in real estate. In addition to this, increased state spending, particularly in the context of the ‘war on terror’ was also used to accelerate the cycle. Inflationary tendencies remained limited because of the continuing flow of cheap Chinese goods.

There was, however, another side to these 15 years of apparent prosperity in the USA. This was the enormous increase in indebtedness of private households, the state, corporations etc, which created an enormously inflated mass of credit money based on the gigantic reserves held in China and Japan and the further de-

struction of the productive basis of US capital. Greenspan's hope that low interest rates and 'asset inflation', combined with cheap Chinese labour power, would generate an increase in investment in the productive US sphere, that is, to profitable conditions for accelerated growth, was not fulfilled.

With the collapse of the real estate bubble in 2007, the problem of the under-capitalisation of real accumulation and the over-capitalisation of money capital accumulation could not be resolved as easily as in 2001. All the mechanisms that had been used before, such as the Fed proclaiming lower and lower interest rates, the provision of special credit facilities or even the US government distributing tax donations, turned out to be ineffective. The total volume of write-offs by international finance institutions, the breakdown of credit chains and the panic-driven run for liquidity meant that real interest rates (that is those charged to commercial institutions, inter-bank loans etc) kept rising while one shadow banking device after another was the subject of a bank run. As a result, in the third quarter of 2008 all the important investment banks were facing collapse as were the major international finance markets connected to them. At the same time, the dollar and stock markets were in freefall and a new speculative bubble in commodity markets, for example, oil, added an extra recessionary impact on the industrial cycles of the world. The financial crash was paralleled by a world wide, synchronised collapse of the industrial cycles into recession at the latest at the end of 2008.

At this point it became clear that the world hegemon, the USA, could not unilaterally provide any solution via the policies of the US government, the Fed or its financial institutions. Unlike on previous occasions, when the US could dictate interest rate and trade agreements, there now had to be an internationally coordinated action by all the imperialist states and even some of the advanced semi-colonies. Only internationally coordinated state action on a massive scale by the EU states and, most notably, China, in combination with US action, ranging from flooding the money and credit markets through to state investment programmes, was sufficient to stop the world capitalist economy from sliding immediately into a crash followed by a Depression comparable to that of 1929 – 1932.

Nonetheless, as already noted, this is only a temporary solution and the situation remains pregnant with fundamental problems. In particular, although there was some writing-off of financial and industrial capital, the fundamental purpose of state intervention was to prevent massive capital destruction of over-accumulated capital in the various sectors and regions. In fact, it is clear that the different imperialist actors are intent on securing their own capital at the cost of the destruction of their competitors' capital. This can be seen most clearly in the international car industry. On the other hand, little more than one year after the shadow-banking crash, the remaining investment banks and their deregulated international finance markets were back at full strength and new speculative bubbles were generating fabulous profits for finance capital once again.

This time, these were mainly based on the unprecedented mass of state debt from the rescue packages. While these have generated a shallow recovery of real accumulation alongside the feverishly growing finance markets, this recovery is

heavily dependent on state money. Because there are clear limits to such state intervention, the major actors are already discussing possible 'exit strategies'. They recognise that any harsh reduction in the supply of money or credit, any reduction in state securitisation, would carry the danger of a massive bubble burst and a wave of crashes. Dependent on how this 'exit' can be managed, there is the prospect of either a double-dip recession or a continuation of the present shallow recovery. Either way, the fundamental problem of the need for massive capital destruction, as the only sustainable 'exit strategy' for capitalist crisis management, will remain.

In summary, the period of shallow prolongations of the long post war boom, based on largely illusory forms of financial capital, has finally come to an end. There are no magic tricks with which finance capital can portray its destructive and parasitic world rule as a growth-driven development that can promise at least some profits for everyone while, in reality, impoverishing more and more people for the profits of a tiny minority. With regard to all the essential global problems: environment, nutrition, over-population, social tensions etc, global finance capital is clearly not even a part of their solution but the very heart of the problem. At the same time, at the very latest with the international rescue operation at the end of 2008, the role of the USA as the finance capital hegemon has been put in question. Maintaining the role of the dollar as the central world currency and the US finance markets as the main regulators of financial flows, together with the costs of the US political and military roles, is increasingly undermining the strength of the US economy. Thus, all the pillars of the post-1945 order are essentially cracked without having achieved the historic preconditions for another exceptional boom. This can only mean that we are entering a period in which the future of capitalism and the globe is at stake and requires fundamental answers. Since the destructive, crisis-driven character of imperialist finance capital has no answer other than an even more destructive crisis, there is, for us, no alternative to socialism.

4.7 Finance capital and socialism

The always limited possibilities for state intervention with regard to the financial markets are now even more reduced: currency movements, interest rates, capital flows, money supply, inflationary tendencies etc are today essentially decided by the international financial markets. In this respect, the term 'international financial markets' should be understood as a reified description of decision makers all of whom are actually real people with real names and addresses. Precisely because of the strong concentration of finance and monopoly capital, it is the big investment banks, together with the closely connected funds (which aggregate the interests of financial investors) and the big corporations, which increasingly act as financial holding companies, which determine the fundamental scale of real and money accumulation.

The role of central banks, or of institutions such as the IMF or the World Bank, is limited to articulating and coordinating the interests of these real actors, to being, as far as possible, the ideal general finance capitalist. Where there is no agreement between the financial centres, the policies of these institutions are unworkable. To

that extent, all demands for the reform of these institutions are illusory. Political control of central banks would be no more able to enforce a different interest and currency policy than the IMF can act effectively as an instrument for limiting capital transfers. In the face of the interests of the financial centres, the demand (for example from Stieglitz) for a new global financial regime, comparable to Bretton Woods, to deal with the current dollar crisis, is equally utopian. The demand that particular goods be removed from the speculative grip of the exchanges (which had already been raised by Keynes) comes to grief on the internationalisation and computerisation of today's stock exchanges; in any event, it could not be introduced in any individual country. The same thing can be said about the many other demands for the re-regulation of financial markets and their ties to the reproductive and state sectors.

In his *Imperialism*, Lenin had already warned against "petty bourgeois-democratic opposition" against imperialism which promised its own working class a reformed, pacified imperialism, disregarding whatever effects this might have, particularly in the imperialised regions. This is ultimately a disguised defence of imperialism, "they obscure its complete domination and its deep-going roots, strive to push specific and secondary details into the forefront and do their very best to distract attention from essentials by means of absolutely ridiculous schemes for reform such as police supervision of the trusts or banks etc"⁶⁵

What is essential is not the question of central bank interest rates, the regulation of stock exchanges or the introduction of taxes on capital transfers etc. The contemporary framework for the struggles over wages and social policy are not the result of a lack of political 'curbs' on the financial markets. We are not, by any stretch of the imagination, in a new 'finance market-driven regime of accumulation' that is to say a phase of accelerated accumulation which is prevented from an 'increased' or 'fairer distribution' by the parasitic attitude of finance capital. We continue to be in the epoch of finance and monopoly capital in which periods of accelerated accumulation, such as the boom after the Second World War, are the exception.

The situation today continues to be determined by the fundamental problem of the structural over-accumulation of capital which leads to tendential stagnation and sharpening of competition on the world markets. The role of finance capital in this situation is one of capitalist crisis management. It undertakes reorganisations, centralisations and occasional investments for short-term apparent gains that allow capital to survive over a particular timescale, at whatever cost to the workers of the world. This becomes more precarious from cycle to cycle but does not exclude the possibility of revival after a really serious crash, as can be seen from the 30s and 40s.

Finance capital, therefore, is not simply a parasitic growth on an otherwise 'healthy' real economy. As one of the countervailing factors to the tendency towards capitalist collapse it is, rather, a means of crisis management that, however, at important points becomes itself a driver of crises. As a crisis manager, finance capital develops the forces of international socialisation within capital itself to ever higher levels. Both Lenin and Hilferding emphasised the progressive role of advancing socialisation in finance and monopoly capital as a moment in the transition to socialism.

The social *raison d'être* of wealth in the capitalist mode of production appears as

an object, a thing, a commodity outside the real productive elements of social wealth. This first manifests itself in money and later in various forms of credit. "Credit, being similarly a social form of wealth, displaces money and usurps its position. It is confidence in the social character of production that makes the money form of products appear as something merely evanescent and ideal, as a mere notion."⁶⁶

In a crisis it is equally unavoidable that the material form, the money form of social wealth, is once again manifested. This, "... shows strikingly by its effects that production is not really subjected to social control, as social production, and that the social form of wealth exists alongside wealth itself as a *thing*."⁶⁷

With the developed financial system that incorporates a global information and planning system that can take millions of economic decisions in seconds, socialisation of control of production has been achieved on an enormous scale. The fact that, at the same time, this is still controlled through the form of private property has to mean that this socialisation is bound up with the private appropriation of controlled wealth in material form, which must express itself in periods of crisis in the financial system in a massive de-socialisation. This shows that "with the development of the credit system, capitalist production constantly strives to overcome this metallic barrier, which is both a material and an imaginary barrier to wealth and its movement, while time and again breaking its head on it."⁶⁸

Only the actual socialisation of the financial system can free it from these objective limitations and its ties to the money form. Its functions of analysing economic information, allocating economic resources centrally, social accounting etc must be taken forward by a self-organised association of direct producers, with at least the same degree of socialisation, in a system of conscious social planning. In the face of today's ever more integrated and complex production and circulation systems, the idea of 'socialism in one country' is as much a reactionary utopia as evangelising for small communal networks with interest-free credit. Socialism will be international and have the all-embracing scale of socialisation achieved under modern finance capital – or it will not be at all.

Therefore, it remains a core element of any programme of socialist revolution that securing state power and preparing for a turn to a planned economy presupposes the immediate expropriation of all the different types of financial institutions and markets and their concentration into a centralised state bank. As long as the monetary form of economic relations cannot be superseded by higher forms of self organisation of the producers, this is the only way in which the distortions, the crisis-creating and alienating effects of money and credit can be brought under control. Such a centrally controlled, transparent, finance and credit institution will be indispensable in the first phases of introducing a democratically planned economy. In a federation of socialist states there will not only be free trade and 'cooperation' but as much monetary union as possible.

During the coming crisis, it will be essential to fight for the nationalisation of all financial institutions under workers' control. Combined with the fight to open the books of the crisis-ridden corporations, to reveal the networks and deals that finance capital keeps hidden, this fight will prepare the workers for the establishment

of a state bank during the revolutionary process. Thus, the struggles of the coming years will teach the workers how to take over the tasks that are currently undertaken by parasitic finance institutions and fulfil them in a way that is fruitful and progressive for the whole of humanity.

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ENDNOTES

- 1 This article was first published in our German language journal, *Revolutionärer Marxismus (RM)* 39 in June 2008, some months before the collapse of Lehman Brothers. For this publication it has been edited to allow updating with materials published in *RM* 41, February 2010, and from English language sources. It was translated and edited for publication by Peter Main.
- 2 See Neuhaus, L. (2009)
- 3 Marx, K. (1976), p.236
- 4 Marx, K. (1976), *ibid*
- 5 Marx, K. (1976), p.209
- 6 Letter from Say to Malthus, cited by Hein, E. (1997)
- 7 Marx, K. (1969) p.502
- 8 *ibid*
- 9 Keynes, J. M. (1980), p.81
- 10 Marx, K. (1976) p.240
- 11 *ibid* p.235-6
- 12 *ibid*, p.238
- 13 *ibid* p.777
- 14 Lenin (1967), p.204
- 15 *ibid* p.230
- 16 Marx, K. (1981), p.298
- 17 Marx, K. (1981) p.297
- 18 Marx, K. (1981), p.298
- 19 Marx, K. (1981), p.300
- 20 Marx, K. (1981), p.319, emphasis in original
- 21 Grossmann, H. (1970), p.119 (extract newly translated for this article).
- 22 Marx, K. (1981), p.364

- 23 Grossmann, H. (1970), p.140
- 24 Grossmann, H. (1970), p.140
- 25 Marx, K. (1981), p.567
- 26 Marx, K. (1981), p.568
- 27 Lenin, V I, (1967) p.233
- 28 Marx, K. (1981), p.464
- 29 Marx, K. (1981), p.462
- 30 Marx, K. (1981), p.475
- 31 Marx, K (1972), p.500 , emphasis in original
- 32 On this see Krueger, S, (1986), p. 581
- 33 Marx, K. (1981), p.478
- 34 Marx, K. (1981), p.485
- 35 Marx, K. (1981), p.490
- 36 Marx, K. (1981), ibid
- 37 Marx, K. (1981), p.487
- 38 Marx, K. (1981), p.520
- 39 (Marx, K. 1981), p.523
- 40 Marx, K. (1981), p.484
- 41 Marx, K. (1981), p.501
- 42 Marx, K. (1981), p.503
- 43 Marx, K. (1981), p.460
- 44 Marx, K. (1981), p.512
- 45 Marx, K. (1981), p.557
- 46 Marx, K. (1981), p.597
- 47 Marx, K. (1981), ibid
- 48 Marx, K. (1981), p.598
- 49 Marx, K. (1981), ibid
- 50 Marx, K. (1981), p.599
- 51 Marx, K. (1981), p.600
- 52 Marx, K. (1981), p.612
- 53 Marx, K. (1981), p.567
- 54 Marx, K. (1981), p.612
- 55 Kruger, (1986). p.608, translated for this article
- 56 Marc, K. (1981), p.570
- 57 For Marx's own summary see Marx, K. (1981), p.566
- 58 FDIC website
- 59 Marx, K. (1981), p.529
- 60 Clearly, since the original drafting of this article, the scale of the problem has become evident in a dramatic manner, particularly for Greece.
- 61 Hilferding, R. (1981), p.128
- 62 Lenin, V. I. (1967), p.717
- 63 Marx, K. (1976), p.702
- 64 Marx, K. (1981), p.359
- 65 Lenin, V. I. (1967), p.716
- 66 Marx, K. (1981), p.707
- 67 Marx, K. (1981), p.708, emphasis in original
- 68 Marx, K. (1981), ibid

Finance capital unleashed: British imperialism today

Keith Spencer

The British Conservative Party is openly saying that the cuts programme its government will carry out will touch everyone's way of life for a generation, while blaming the poor condition of the public finances on Labour's profligacy in office. The British bourgeoisie have backed this call and the retrospective criticism of the Labour years it involves. But they have very short memories. Business groups and analysts had almost universally bought into the idea that Labour had realised an economic miracle, bringing an end to 'boom and bust'. At the time, the Tories were speechless, not least because Labour had borrowed many of their clothes. But in the global financial crash of 2008 the idea of a crisis-free paradigm was exposed as an illusion. Indeed, on the eve of becoming Prime Minister in 2007, Gordon Brown proclaimed that the UK had experienced 15 years of uninterrupted growth, a decade of which was with him as chancellor. That, he said, was a better record than any of the leading world economies and was the longest period of growth in the UK since 1701. By January 2010, things had changed dramatically. The British economy had only just crawled out of its longest recession since records began – a year and half – and even then recorded just 0.3 per cent growth. The UK, along with the rest of the global economy, suffered its worst crisis since the 1930s including the biggest year-on-year fall in GDP since 1921. Today, unemployment is still rising, inflation is a threatening possibility and there is a very large public deficit.

This article explains how this dramatic turnaround in economic fortunes came about; looking at New Labour's economic model, the role the state played in it, the changes in the structure of the British economy it brought about, and how it changed Britain's relationship with global markets. It does not offer a theory of what caused the crisis' as such, but focuses instead on how the policies of the British government shaped the evolution of the country's capitalism in the years before it, how these related to longer-term trends, and the impact these had on the form that the crisis took.

5.1 1979-97: Tory onslaught on the working class

From its election in 1979, and over the course of the next 18 years in power, the Conservative Party carried out a radical shake-up of the economy, aiming to increase the productivity and profitability of British capitalism. The Tories argued that British industry was uncompetitive and unproductive; dominated by large, money-wasting nationalised industries and at the mercy of trade unions and their "restrictive practices", while entrepreneurs suffered from punitive levels of taxation and controls on capital flows. There was a naked bourgeois class interest at the core

of Thatcherite policy and ideology. Their aim was nothing less than a change in the balance of class forces in the bosses' favour. The 1970s had seen major class struggles. The high point were the strikes of 1972 in support of jailed dockers and the miners' strike in 1974 – occasions on which the British working class came closest to a general strike in the post-war years. Heath called a general election in March 1974 on the slogan of “Who runs the country: the government or miners?” and was defeated. As these defeats hit home, the conclusion the ruling class increasingly drew was that workers had too much power, and some amongst them were plotting how to settle their scores with the organised working class. Tory MP Sir Keith Joseph published a pamphlet in the early 1970s whose title revealed the Tories' target: “Solving the union problem is the key to Britain's recovery.” Joseph became the mentor to Margaret Thatcher after the 1979 election.

The new Tory government set about cutting government spending on services, reducing taxation for the rich (down from a top rate of 83 per cent to 40 per cent over a few years), de-regulating the City of London and money markets and sharply raising interest rates in their own version of Reagan's ‘Volcker Shock’, with the aim of forcing a recession they could use to reorganise the economy. By increasing the interest rate to 17 per cent and slashing public sector spending, Thatcher succeeded in forcing the recession of the early to mid 1980s. This saw whole swathes of British manufacturing close and unemployment climb to a post-war high of over 3 million people (to disguise this structural increase in unemployment, the Tories changed the definition of unemployment 31 times and moved hundreds of thousands of the long-term unemployed onto incapacity benefit). Successive Tory governments until 1997 also introduced laws that undermined effective trade unionism and which contributed to the defeat of key sections of the working class such as the steel workers, the miners and printers. The Tories also carried out wholesale privatisation of nationalised industries and ended subsidised prices for electricity, gas and water. Thatcher was able to alter the balance of class forces in Britain fundamentally, inflicting an historic defeat on the working class that would set it back many years. This was by no means inevitable, successive great class battles challenged the Thatcher offensive. But the class remained under the hegemony of reformist bureaucrats and Labour Party leaders, who either accepted the offensive as ‘inevitable’ and ended up collaborating with it through ‘New Unionism’ or refused to lead the struggles by using the kind of militant tactics and methods that could have defeated them.

The Thatcher offensive was successful in making the working class pay for the longer-term troubles of British capitalism – it managed to secure a significant redistribution of wealth from the working class to the rich. British capitalism had suffered low investment levels for much of the post-war period and it was the first country “to witness a long-term decline in productivity relative to its competitors”.²

Thatcher claimed to have transformed productivity levels (the “productivity miracle”), but this was always a fraudulent claim. Increases in productivity under the Tories were achieved by increasing the rate at which labour works (what Marx calls the absolute surplus value)³. Britain recovered without the significant introduction of new technologies into industry and by increasing long-term, structural levels of

unemployment.⁴ The increase in levels of unemployment resulted from the defeat of the unions, public sector cuts and selling-off of nationalised industries. But the other aspect of Thatcher's policy, de-regulating capital markets, was just as important because it made it easier for foreign investors to take advantage of Britain's new, flexible and super-exploited workforce, whilst it also allowed British investors greater access to global markets and more freedom to diversify its capital investment into financial, higher-yield instruments. From the early 1990s, for example, there was growing investment in Britain from Japan and Korea, particularly in the auto and related industries.⁵ These changes were intended to give capital greater freedom to exploit and search out profits from global markets.

A permanent increase in productivity would have required investment in new technology, plant, raw materials and so on in order to increase output per a worker (this is the main driver of productivity in capitalism) or what Marx describes as workers putting into motion an ever greater amount of machinery.⁶ The so-called productivity miracle was in reality an increase in the rate of exploitation of the workforce, which had been disciplined by mass unemployment. An example of this was the car industry, often portrayed by the political right as the epitome of a failing British industry, but the evidence points to other problems: lack of investment and of government direction. The car industry had suffered low levels of investment and static productivity for much of the 1960s and 70s. Nationalisations had taken place to build bigger conglomerates but the result was just putting together various car producers with little thought given to integration of production lines or economies of scale. For example, in the 1970s British Leyland (BL, a nationalised company) was hit by strikes and stoppages. The Tories used it as an example of all that was bad about Britain: militant trade unions and nationalised industries. But a third to one-half of all stoppages were caused by management failures to co-ordinate production.⁷ Car production stopped when part finished goods or raw materials did not arrive, so there were frequent delays that resulted in productivity hovering for decades around six cars per worker a year.⁸

In 1974 there was a collapse in the world market caused by the global oil price hike and recession, demand for cars crashed leaving plants idle and workers redundant. The car industry recovered as the business cycle picked up and more than 1.3 million cars and trucks were produced in 1980 in the industry (compared with 2 million at its 1970 height). The press praised a Tory inspired productivity miracle at BL and elsewhere, but it was more to do with the workforce being cut by half down to 43,000 and the upturn in the world market. Actual productivity was at 5.1 cars per worker in 1982, lower than the average attained in the period before the mid-1970s crisis.⁹ What did prove able to boost productivity was investment in machinery, especially computer-based systems and robots. By the time New Labour came to power there were far fewer British-owned car manufacturers, but productivity had increased twentyfold. In 2000, Nissan's Sunderland plant and Toyota's at Burnaston topped the list of the most productive European car plants with Nissan workers making on average 101 cars a year each. Honda's Swindon plant produced 83 a year in 1999 (it was closed for refurbishment for part of the year in 2000). Other plants such as Ford's Ellesmere Port and Dagenham did less well, but were still

above the European average of 58.3 cars per worker a year.¹⁰

This improvement in productivity was supported by a Department of Trade and Industry report in 2000 that said the industry was going through a “renaissance”.¹¹ But this did not stop Ford ending car production at Dagenham with the loss of 3,000 jobs in 2000 or Vauxhall cars in Luton in 2002 with the loss of another 2,000 jobs.¹² The Labour government’s refusal to intervene, coupled with UK labour laws that made redundancies far cheaper in Britain than in other European countries, made it far easier for companies to close UK plants than it was to shut their continental counterparts.

Over the next 10 years, more of the UK car firms such as Land Rover, Aston Martin, LDV vans and Jaguar were sold off or closed. When Labour did intervene, in the case of MG Rover, it was a fiasco. A four-man consortium called Phoenix bought the brand and its debts for £10 and then ran up even greater debts of more than a billion pounds while walking away from the company in 2005 with very healthy personal gains. A government report eventually published in 2009 revealed that the executives involved took £42 million in pay and pensions before the company went bust.¹³

None of this deterred the bosses from continuing to blame low productivity rather than poor management. A Mackinsey report in 1998 found that, “in the UK car industry labour productivity is 50 per cent lower than Japan’s...UK total factor productivity in telecoms is about 60 per cent that of the US.”¹⁴ But, with investment, UK car companies could compete with European competitors. Mackinsey’s claimed the problem was over-regulation and lack of competition, but the British economy had been one of the most de-regulated in Europe since the Tories were in power in terms of labour flexibility and easy movement of capital – that is why foreign companies were attracted to the UK in the first place, that and as a stepping stone into the EU. But beneath the headlines the report did reveal the real cause: “Capital investment per hour worked in the UK is around 25 per cent lower than in the US.” This finding was supported by a DTI report in 2000, which found that business investment per worker was \$6,000 a year between 1990 and 2002 in the UK and \$8,000 in France, Japan, US and Canada for the same period. A report from the Institute for Fiscal Studies put the blame on UK management: “Foreign-owned firms invest more in physical capital and use more intermediate goods. They also pay their workers higher wages.”¹⁵ This, then, was the reality of the Tories’ ‘productivity miracle’: the workforce had been slashed in the 1980s, mass manufacturing closed, and the economy de-regulated. Foreign capital began to invest in UK industry and the wider economy such as services and finance. Non-EU firms especially could use Britain as a way into Europe without the added legislation. In some sectors there was also increased investment, which helped parts of the car industry reach record-breaking levels of productivity. Overall, however, this was not generalised, growth depended on low wages and long hours to squeeze extra ‘productivity’ out of the workforce.

5.2 Labour embraces the market: 1987 to 97

After losing two elections in the 1980s, Labour launched a policy review. It concluded in 1989 with the publication of *Meet The Challenge, Make the Change*. The party now favoured markets and sought partnerships with business, some of the Tory trade union reforms were accepted within a new framework of workers' rights while old style planning and nationalisation were abandoned.¹⁶ Labour "had embraced the market".¹⁷ Neil Kinnock, the Leader of the party, wrote in the introduction to the document about "maximising the self-reliance which flourished on opportunity and security". At the Labour NEC, Tony Benn called it "by far the most right-wing policy during my time in the party" – only six years earlier Labour had stood on the most left-wing manifesto in its history.¹⁸ But Labour still lost the 1992 election. Kinnock gave way to John Smith who died in 1994, leading to the rise of Tony Blair and Gordon Brown. Together, they began moulding the party's economic policy into what we recognise today as 'New Labour'. They were helped in this by two global phenomena: the collapse of Stalinism and the consequent rise of 'globalisation'. More open global markets, opportunities for international investment, coupled with the discrediting of state control of the economy and the idea of 'socialism' more generally, allowed the fostering of a neoliberal consensus across the West.

To crown New Labour's ascendancy over the party, Blair carried out an ideological offensive on the central myth of Labour: Clause Four. The clause, printed on every membership card, announced that the goal of the party was:

"To secure for the workers by hand or by brain the full fruits of their industry and the most equitable distribution thereof that may be possible upon the basis of the common ownership of the means of production, distribution and exchange, and the best obtainable system of popular administration and control of each industry or service."

Blair campaigned in 1995 to replace it. A previous right-wing leader, Hugh Gaitskell, had tried to replace the clause after Labour's third election defeat in a row in 1959, but he was defeated and the clause was then printed on membership cards. Blair, however, was successful and the new words are:

"The Labour Party is a democratic socialist party. It believes that by the strength of our common endeavour we achieve more than we achieve alone, so as to create for each of us the means to realise our true potential and for all of us a community in which power, wealth and opportunity are in the hands of the many, not the few, where the rights we enjoy reflect the duties we owe, and where we live together, freely, in a spirit of solidarity, tolerance and respect."

The victory over Clause Four was not important practically. The clause never committed the party to a socialist transformation and democratic planning – even on its most radical interpretation it proposed a mixed economy of state and market. Moreover, it had been little more than an empty phrase for decades, having little if any impact on Labour's policy. The significance of its abolition, however, was symbolic, emblematic as it was of the party's move rightwards. It sealed the victory of 'New' Labour over the party (and affiliated labour movement) as a whole. Brown now started developing New Labour's economic policies. He accepted the mone-

tarists' doctrine of the importance of controlling the money supply and keeping inflation low. But he believed that governmental political decisions about the money supply had often worsened the economic situation, such as the decisions over joining the European Exchange Rate Mechanism (the ERM – European currencies were fixed in a band of values, which was a precursor to the single currency) and Britain's forced exit in October 1992 when the money markets moved against the pound.¹⁹ He also claimed to have found fault with the 'lack of transparency' about policy and decision-making.²⁰ Brown and his ally Ed Balls favoured floating exchange rates and handing the fight against inflation over to the Bank of England on the basis that 'politics' had to be taken out of money-management – or, in other words, that democratically elected representatives should have no control over it, and instead an unelected committee of bourgeois economists should hold sway completely.

After New Labour won the election in 1997, Brown moved quickly to enact this policy – even though it never appeared in their election manifesto.²¹ On the Monday following Labour's victory, he announced the setting up of the Monetary Policy Committee (MPC), which the Bank of England would lead, to determine interest rate policy with the aim of controlling inflation.²² The setting up of the MPC was welcomed by the City of London and praised by international institutions; even former chancellors such as Nigel Lawson and Norman Lamont supported the move. Brown had handed to the MPC the operation of interest rate policy but he still set the target rate for inflation. Brown also brought in two fiscal objectives – the "Golden rule" and the "Sustainable Investment rule" – in order to provide transparency of government and a stable basis on which business could operate. The Golden rule was that, over the economic cycle (whose start and end were to be determined by the Treasury), the government would operate a surplus on its current spending. The second rule was that government net debt would be kept below 40 per cent of GDP. To enforce these rules, government departments operated with a framework of three-year spending plans and 10-yearly comprehensive spending reviews, which gave the Treasury enormous powers to intervene into departmental spending and policy, a source of much friction under successive New Labour cabinets.

5.3 'Supply side socialism'

Where New Labour differed from the monetarists was its emphasis on the role of the state in boosting business productivity. Brown said: "The new international economy requires, in New Labour's opinion, to adapt macro-economic policies akin to those of the new right together with very different policies towards the supply-side."²³ These policies, however, also differed from previous Labour administrations – there was to be no department of industrial planning or tripartite approach of unions, government and business. Instead, there would be an emphasis on what Brown called in 1994 "post neo-classical endogenous growth theories." The phrase was derided in the media at the time yet it refers to a key determinant of productivity such as training, education, creating a more skilled workforce and shaping the welfare state for the needs of the economy, essentially non-economic methods of boosting growth in the economy or rebuilding the supply of labour. So in came the

minimum wage, tax credits for children and working families, and the new deals for long-term unemployed and young people. Some of the Conservatives' attacks on welfare were reversed but redirected into means testing and work credits, so that New Labour could argue that it was "worth people working".

Blair told a meeting of European socialists after he became Prime Minister that globalisation meant that: "There is an urgent task to renew the social democratic model to meet this change".²⁴ Blair explained to a business audience in November 1998, that the new model was about our "our know-how, creativity and talent" and making the UK "distinctive".²⁵ The new model was about a changing world of high technology, communications, design, and the rise of small businesses. In order to pursue this creative future, the state was needed. Peter Mandelson outlined the state's role: "The government has a key role in acting as a catalyst, investor and regulator and to strengthen the supply side of the economy."²⁶ Brown developed it further: "Achieving high and stable levels of growth and employment will require new approaches from national governments, modernising social security systems, improving work incentives through the tax system, removing barriers to growth and encouraging the job-creating potential of small business."²⁷ Or, summing it up more simply: "Work for those who can, security for those who cannot." Labour had recognised that low investment underlay poor productivity. In Brown's first budget speech he had criticised British industry: "The UK has invested a lower share of GDP than most industrialised countries and GDP per a worker has been lower too." He went onto to provide some international comparisons:²⁸

Table 1: Investment per worker where UK equals 100

UK	100
Germany	145
US and France	150
Japan	160

So the UK's major competitors were investing on average nearly 50 per cent more in their workforces than the UK. But, despite the minimum wage and the sop to the unions over the Fairness at Work legislation, which made it easier for trade unions to ballot for recognition in workplaces, the UK still had the most flexible, unregulated labour market in the advanced economies. And New Labour was proud of it. Blair told business leaders in 1997 that "New Labour policies, including the minimum wage, would amount to less labour market regulation than the USA."²⁹ There was another reason for training the workforce: the unemployed were not acting as a restraint on wages. The lack of education and skills of many of the unemployed, especially with the decline of mass production and apprenticeships, meant that they were excluded from the labour market anyway. Those not in work could not compete for the jobs of those in work, therefore there were still skill shortages and bottlenecks. Karl Marx called the pool of unemployed the Reserve Army of Labour, whose function was to undermine the pay and conditions of those in work. In times of recession they would be thrown out onto the dole to act as a warning

to the employed while during a boom they would be employed on low rates undercutting the long-term workforce. In the British economy, however, this was not happening because the unemployed could not enter the workforce. The blame for the lack of skills was put on the unemployed. New Labour theorist Anthony Giddens referred to “generous benefits that run indefinitely”³⁰ thereby undermining the ability of the unemployed to act as a discipline on the employed. Instead, he argued for tying benefits to work or education so that the individual could enter the labour market with skills. In effect, however, the result often translated into subsidising businesses to take workers on very low, super-exploitative wages that would be topped up by the state through tax credits, or, in the case of social security claimants, effectively given over for free as the state continued to pay benefits, whilst those on schemes like ‘New Deal’ worked a full week for private sector employers. The result sustained and consolidated the ‘McJobs’ labour force that had been brought into being by the Tories in the 1980s.

The emphasis on overhauling the welfare state to make low paid, highly exploitative work more attractive by subsidising it with state benefits and to provide skills training attracted support from right and left. Even Will Hutton, whose ideas on stakeholding and critique of British industrial relations and the wider society had been spurned by New Labour’s leadership, praised Brown for recognising the role of the state in training and advocating investment in public services to boost productivity.³¹ However, Hutton tempered his praise by pointing out that the practice of New Labour was far from the potential. “As it stands, the Third Way has become a de facto means of the state reducing its obligations and shifting the burden of risk onto the least able to bear it while only offering limited help in comparison.”³² The bosses gave New Labour’s reforms fulsome praise. As far back as 1994, Blair had met the then head of the CBI, Adair Turner, who commented: “We are extremely impressed at the way Mr Blair is talking our language, the language of business.”³³ In April 1997, as part of the election campaign, Brown delivered *Equipping Britain for the Future* in the City of London, which was “generally welcomed”.³⁴ Brown also went courting business leaders with a succession of soundbites: “21st century Globalisation is made for Britain”,³⁵ “we want Britain to be a great place to do business” and “Labour was now the entrepreneur’s champion”,³⁶ New Labour was for a “modern industrial base, high levels of investment and a culture of entrepreneurship.”³⁷ In his pre-budget speech of November 1998, he told MPs “our policy is pro-business, pro-share ownership, pro-tax simplification and pro-competition.” All these pro-business policies had an effect in recruiting business leaders such as Lord Sainsbury, Alan Sugar, Tesco’s Terry Leahy and the head of British Steel, Brian Moffat. The result, as one commentator put it, was that: “Labour had passed a watershed in its relationship with business.”³⁸

5.4 New Labour’s policies in practice

Brown’s first budget was a clear expression of New Labour’s approach. He introduced a windfall tax on public utilities that was to be used to fund his New Deals for long-term unemployed and young people. He abolished tax relief on pensions in

an attempt to stimulate investment (believing businesses would re-invest profits rather than pay shareholders) and reduced it on mortgages, raising substantial sums of money without touching income tax. This allowed him to cut corporation tax from 33 per cent to 31 per cent and for small businesses from 23 per cent to 21 per cent, and left him with enough to promise a 10p tax rate and tax credits. He stated he would keep to former chancellor's Ken Clarke's tight limits for public spending but found extra amounts for the NHS (£1.2 billion), schools (£1 billion) and school building and repairs (£1.3 billion).³⁹ The budget was praised by Labour MPs and the IMF: "The new government has made an excellent start."⁴⁰

New Labour's economic prowess was soon to be tested with the economic crash in South East Asia in 1997. The crisis originated in Thailand in July when the government floated the currency, the baht, in response to its ongoing debt problems. The baht fell sharply, precipitating a collapse in the real estate market and the wider economy. The crisis quickly spread to other economies in the region, particularly South Korea and Indonesia, forcing the International Monetary Fund to bail out the currencies with \$40bn to help affected countries meet debt obligations. Eventually, the international system was able to contain the crisis, but another one erupted in 2000 with the bursting of the dot.com bubble in the USA. UK monetary policy was now in the hands of the Bank of England-led MPC. From 1997 to 2001, inflation moved in a narrow band around the target of 2.5 per cent, averaging out at 2.4 per cent during the period. The IMF praised its proactive role in fighting inflation contrasting it positively with the "more infrequent moves of the Bundesbank or the ECB or the Federal Reserve Bank in the United States."⁴¹ It was also congratulatory about the transparency of the MPC's decision making.⁴² MPs were also satisfied, the Treasury select committee stated in 1999 that the MPC had "helped stave off a recession" with its policies and insulated the British economy against global instability.⁴³ The result was that the government operated an annual budget surplus for the first four years (the largest being \$12bn in 1999) and was able to reduce public spending from 41.2 per cent of GDP in 1997 to 37.8 per cent of GDP in 2000 so obeying one of Brown's rules.⁴⁴ Helped by low inflation, the government also reduced the national debt by more in its first four-year term than all governments had in the previous 50 years.⁴⁵

Consequently, New Labour got what it had set out to achieve: stability for growth. The surpluses, low inflation and stable economy allowed Brown to steer the country past the obstacles in the global system. The lack of synchronicity between the UK and other major economies meant that the British business cycle ran between those of the US and Europe. Therefore, unlike the crash of 2008, which was a global synchronised phenomenon, the recession of the early 2000s occurred in Europe in 2000-1 and in the US in 2002-3. Meanwhile, growth in the UK only slowed in these years it, did not dip into a recession in 'official terms' i.e. two quarters of negative growth.⁴⁶ This peculiarity also delayed membership of the single currency and eventually postponed it indefinitely. The single European currency, the Euro, was launched in 1999. Depending on the biographer, Brown was "inextricably linked to preparations for the Euro"⁴⁷, Blair was not a Euro enthusiast⁴⁸ and both decided to let the issue lie⁴⁹ or Brown turned against joining when he became chancellor.⁵⁰

Brown came up with his five tests, which the economy had to pass, before joining; one of which was the aligning of the business cycles. Eventually when they did align the case for joining the Euro had diminished and it fell from the political agenda.

Another factor in staving off recession was the re-emergence of the Private Finance Initiative. This was originally a Tory policy in which the state contracted private sector firms to rebuild infrastructure projects such as hospitals, tube lines, government buildings, and to operate services such as cleaning and catering. In return, the state leased the service from the private contractor for a period up to 30 years. The supposed 'benefits' were that it attracted private sector cash and know-how to build and operate public services while keeping borrowing off the government books, as it is in the form of rental or service charges. Between 1992-7, PFI went into the doldrums. Brown, however, seized upon it as a tool for modernising and reforming the UK's infrastructure. Geoffrey Robinson, Brown's friend and in cabinet as Paymaster General (who holds accounts at the Bank of England for the government) was put in charge of revitalising PFI by recruiting business people. By 1999, there were more PFI schemes than there were under the Tories – even though PFI was a sham that simply provided a means to channel public funds into private pockets. The government admitted that PFI was costlier than borrowing, the contracts were of a size and complexity that often mitigated against any competition, the unions opposed the policy recognising it as not only a callous waste of money, but a step towards privatisation, involving attacks on pay and conditions.⁵¹ It was particularly used in school and hospital rebuilding programmes.⁵² As early as January 1998, the National Audit Office was criticising the PFI firms' charges, which, including servicing and building, were expected to account for £44bn of public spending.⁵³

This spending of public money on private profiteering meant that the PFI programme did provide a state-led boost to infrastructure investment during Brown's first term of 'prudence', which, along with a budget surplus that could be invested and low inflation and interest rates, allowed the British economy to continue to register growth while those around sank into recession. A buoyant economy coupled with rising wages, measures such as tax credits and the minimum wage, also led to living standards rising in the first four years by 14 per cent and another 4 per cent by 2004.⁵⁴ By 2001 – the end of New Labour's first term in office – the Treasury was able to claim that its rules, monetary policy and stewardship of the economy were working well, praise echoed by the IMF and World Bank.⁵⁵

5.5 Investment in public services

Labour's second term of office, from 2001 to 2005, saw expansions in spending on public services. The NHS and education both received real (i.e. adjusted for inflation) increases in spending of more than 7 per cent.⁵⁶ Other areas, including welfare, also received spending increases "significantly higher" than previous Labour administrations.⁵⁷ In addition to spending on education and welfare as part of the "supply side revolution", New Labour also spent £31 billion on trade, industry, research and development; offering generous terms or policies to its favoured parts of the economy such as the City, property, nuclear, the military industrial complex

and pharmaceutical companies. PFI deals, de-regulation, easy credit and subsidies or generous loans were handed out such as the nearly billion pounds given to BAe, a key part of the UK's military industrial complex, to build the Airbus. But later, BAe sold off its 20 per cent share in Airbus in 2006 and kept the money. Government and unions were left trying to negotiate safeguards for the staff earmarked for working on Airbus and suppliers – about 135,000 jobs in all.⁵⁸

To pay for all this spending the government started to increase borrowing from 2001 (reaching about £30 billion a year from 2004 to 2006). The breaking of the 'golden rule' on ensuring a surplus over an economic cycle was avoided by changing the dates of the cycle, which the Treasury did several times in 2005-6.⁵⁹ Some commentators argue that only a quarter of the borrowing can be explained by spending, the rest is the reduction in corporation tax revenues.^{60&61} Figures do show that the City of London pays very little tax, given the amount of money that passes through it – according to the British Bankers' Association, UK banks paid just £8 billion in tax in 2007. Meanwhile, the TUC estimated in 2008 that the super rich avoid paying £13 billion a year while the top corporations evaded their tax obligations to the tune of £12 billion.⁶² The problem reveals the limits of New Labour's style of reformism. Much of its spending is for the benefit of business, either training the workforce, subsidising low wages through tax credits, or contracting private sector firms on generous PFI terms or even giving preferential loans to favoured companies. Without an increase in taxes on wealth and business profits (less money is raised from Corporation Tax than from Income Tax, National Insurance and VAT), the cost of reforms will be borne either by taxing the majority of workers or borrowing, which will lead to a greater burden on workers in the future.

There are several measures that could be used, but they all point towards the bank bailout and inevitable costs of recession being the cause of increases in spending and borrowing – not the exuberance of years of Labour spending as the Tories have claimed. First, there is government spending as a percentage of GDP. By 2007, government spending broke the 40 per cent of GDP rule. However, to put this in context, government spending as a percentage of GDP also broke through 40 per cent in the early 1990s as the country went into recession spending more on unemployment benefits and receiving less in taxation.⁶³ Second, there is current government borrowing (the amount it needs to borrow in addition to tax revenues to cover its spending in any year), with the EU recommending the target of no more than 3 per cent of GDP as good financial governance. Net government borrowing (the amount needed to borrow to cover spending after tax revenues) averaged less than 3 per cent of GDP until 2008-9 when it doubled to 6 per cent and is forecast to peak at 11 per cent in 2010-11. It was running at over 6 per cent in the 1990s and more than 7 per cent in 1992-5. In 2007-8 central government borrowing was £38.7 billion, it then jumped to £91 billion in 2008-9 and is forecast to be £159 billion in 2010-11, according to the latest figures from the Treasury after the election.

Third, there is the public sector net debt (PSND a modification of the national debt) as a percentage of GDP (the amount owed in total after current and historic spending and receipts). This exceeded the 1990s when it reached 44 per cent in 2008-9 and is forecast to rise to about 75 per cent by 2014-5. Although at the time

of publication the UK's new Office of Budget Responsibility puts the current account deficit and government borrowing slightly lower. By these three key measures it is clear that claims that Labour spent beyond its means in the last years of the crisis are exaggerated; the big hole in the public finances was principally caused by reduced revenues due to the biggest recession in the post-war period. In addition, the net liabilities from the bank bailout are huge (considered to be anywhere between £1-£1.5 trillion); some of which, including Lloyds, Northern Rock and HBOS (Royal Bank of Scotland) are added to the national debt,⁶⁴ although they are discounted against assets and are assumed to disappear once the banks are privatised with the possibility that the taxpayer will make a profit – hence all forecasts show a decline in debt from 2014. Nonetheless, at the time of the decision to add bailout liabilities to PSND, there were worries that state finances were being imperilled (including *The Telegraph* and *Money Week*, which are now arguing that public services should be cut to improve government finances).⁶⁵ Yet the thrust of the new government's policies is to attack public sector services and jobs and, along with similar austerity programmes in Europe, this could trigger a double dip recession and with it bring further pressures on the international finance system.

5.6 Was New Labour successful in restoring the dynamism of British capitalism?

This section looks at whether New Labour was successful in achieving long-term reforms to British capitalism. In considering the successes or otherwise of the policies, we need to look at the main division in the economy between productive and unproductive sectors. The productive sectors are those that produce commodities that incorporate value; where a worker labours with raw materials, part-finished goods and machinery to produce a good to be sold on the market. In so doing, the worker not only produces value to replicate his own labour, but also produces enough commodities that when sold can replace the value of the materials and machinery used in production and provide the capitalist with surplus value (i.e. more than the worker is paid). It is this surplus value that is the source of the capitalist's profits; the accumulation process is where billions of people around the world produce value and the tiny minority of capitalists grab their share, surplus value, to enrich themselves and reinvest in order to accumulate more. Unproductive sectors refer to the often necessary services that are provided, but which do not produce commodities or services for sale on the market and so do not accrue surplus value. For example, public services are often free of charge and are paid for out of general taxation. The army and state bureaucracy are unproductive. Parts of private industry may also be unproductive such as retail or distribution services that only allocate or move commodities.

There is also an important Marxist debate about the finance industry: whether banks, investment funds, and so on, actually create surplus value or siphon off already existing profits from productive capital. Where they invest in capital then they are productive; the investment will be used by workers to generate more surplus. That is the role the finance industry likes to present as its main role: the fund-

ing of investments globally in order for the capitalist economy to grow and increase productivity, thereby generating more wealth – and so the sector argues that any controls on it undermine its ability to invest in production and so undermine the whole economy. However, large parts of the wealth of the finance sector is circulated within the sector itself in various opaque forms such as the financial instruments that were popularly blamed for the current crisis like Collateral Debt Obligations – what Marx called the “mad forms of money”. The money tied up circulating in this area can greatly expand in price, but when exchanged against a real commodity often decline sharply, revealing a huge loss – which is what happened to a lot of capital in 2008. In this way, the huge amounts of money circulating in these forms are unproductive: they are not being invested to produce commodities and so surplus and their own prices are often at odds with their nominal values. The term unproductive labour is a technical one, and is not pejorative, it only refers to workers who sell their labour power, but do not produce surplus value such as NHS workers or state teachers – they are still important elements of the working class. The reason we are interested in productive labour and productivity is that we want to ascertain the strength of British capitalism, a system based on the exploitation of labour by capital for profit.

5.7 Did productivity and profits improve?

New Labour’s welfare policies and the long period of economic growth boosted production through increasing the numbers in work. In early 2008, the rate of employment reached 75 per cent of the working population – about 29.4 million in work, with more than 7 million of these part-time. Now, with the onset of recession, the employment rate is down to 72.5 per cent. The 13 years of Labour saw an increase in the financial sector while other parts of the economy had only modest growth or outright stagnation. This was a continuation of already existing trends in the economy from the 1970s onwards.

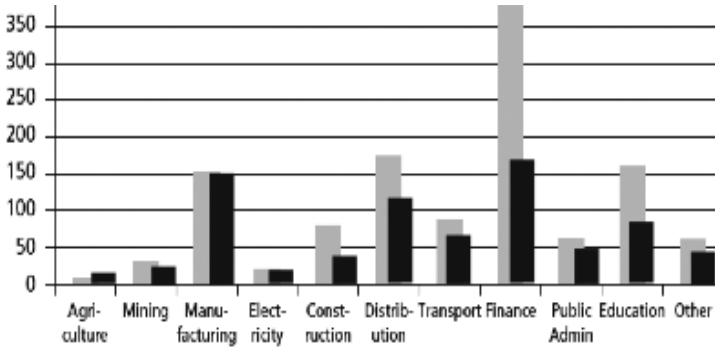
Figure 2: Changes in the UK economy. Share of gross value added by sector (per cent)

	1970	2007
Manufacturing	32	12
Public Services	14	18
Private Services	41	59
Other	13	11

Source: Oxford Economics Autumn 2009

A more detailed look at the period 1998 – 2008 shows the doubling of the finance sector. Other areas showing significant growth were also in the service sector such as education, distribution (which includes retail) and transport.

Figure 3: Gross value added 1998 (black) and 2008 (grey) at basic prices (£ billions)



Source ONS: UK National Accounts the Blue Book

The only area outside of the service sector to grow significantly is construction, fuelled by the property boom in corporate buildings and private accommodation. The productive sectors of agriculture, mining and manufacturing have stagnated or declined. Manufacturing declined from 22.5 per cent in 1997 to 12 per cent of the economy’s gross value added – a greater decline under New Labour than under Thatcher. This decline prompted Mandelson to comment recently:

“The economy was growing so well, and one of the drivers of that was financial services, that perhaps we took growth for granted too much.”⁶⁶

Overall, UK’s manufacturing is worth about £150 billion a year and it is still the sixth biggest manufacturing country in the world behind the USA, China, Japan, Germany and Italy. Most of the UK’s traditional competitors have experienced declines in percentage terms including US and France (seventh in the world list); and only Japan and Germany with a manufacturing base still over 20 per cent of the total economy.⁶⁷

High-tech IT companies and those manufacturing companies with increasing ties to international markets grew throughout the period while traditional manufacturing declined. High-tech companies now account for about 40 per cent of UK’s manufacturing (gross value added), which reflects the growing importance of R&D to UK manufacturing in the 2000s compared with the 1990s.⁶⁸ UK manufacturing has also become highly integrated into world production, the percentage of output which is linked to export and import is just under 90 per cent; this compares with Germany, just under 100 per cent, the US about 50 per cent, France 80 per cent and Japan 40 per cent. Britain and Germany are leading the way in integration with global production – the difference being that, in Germany, manufacturing still ac-

counts for about 30 per cent of the economy.⁶⁹ Mandelson even talked about a hi-tech future:

“I’m unashamedly talking about the reindustrialisation of the British economy, but not by going back to the old smokestack manufacturing past – we know we can’t turn the clock back.”⁷⁰

There were also improvements in productivity. According to the EU, the UK’s productivity levels are now in line with the original EU15 countries although still behind Germany and France.⁷¹ This is supported by the Office of National Statistics, which finds that the UK has closed the gap on its G7 competitors since 1991 but still lags behind Germany, France and USA.⁷² An ONS research document in 2004 also found that the UK economy had been improving its productivity. For the first time, the percentage of UK workers with no or few skills was below 50 per cent (better than the US but still behind France and Germany). It also found that multinationals are far better at improving productivity than non-multinationals as they bring in outside skills and knowledge, investments and economies of scale as well as being better placed to keep wages down because of their size and social weight and the ease with which capital can move in and out of the UK economy. The report found that the UK’s average industrial wage is about £20,000 compared with France (£24,500 and Germany (£26,000). It is still the case that “UK manufacturing is dependent on low wages and long hours.”⁷³

Thus, increasing dominance of the UK economy by multinationals may have improved productivity but the UK’s inability to finally close the gap on the other G7 countries was still down to the lack of investment in training and education.⁷⁴ The main areas of investment were manufacturing, finance, real estate, communications and distribution.⁷⁵ But, overall, the UK had the lowest gross fixed capital formation (a measure of investment) as a percentage of GDP (14.5 per cent) of any of the 27 EU countries in 2008 with the exception of Malta. And, since 1997, it has been significantly lower than its major competitors such as Germany and France and the average across the EU. The same pattern occurs when we look at state aid to all business, with the UK again being lower (about 0.3 per cent) than the EU average and its major competitors; Germany being more than double that figure with France in between with an average of (0.5 per cent).⁷⁶ The government did have some success in boosting skills and international competition also played an important role in increasing productivity. The government could claim with some justification that its policies did attract foreign capital but the downside is that these same firms can also move out of the UK with hardly any hindrance. So, while the UK economy under New Labour closed the productivity gap, it did not overhaul its major competitors and still relies on low pay and long hours rather than investment in capital or training.

5.8 Profitability?

The UK continental shelf companies show remarkable profitability in the latter part of the 2000s. Manufacturing profits appear to have declined under New Labour – so despite the shaking out of poor performers suggested by the sharp decline, prof-

itability still has not improved. Profits in the service sector have improved since the 1980s and are now significantly above those of manufacturing. An ONS study from 2002 shows the UK service sector (non-financial) in fifth place and manufacturing 13th – just behind the USA – in league tables for profitability. But, in terms of overall profitability, it came in fourth place behind Norway, Finland and Belgium (the rise in position may be due to finance, oil and gas). The UK appears to be equal or beating its major competitors in oil, gas, and especially in finance where London is pre-eminent.⁷⁸

Figure 4: Annual rates of return (gross) for UK private non-financial companies (PNFCs) Profitability of UK companies, 3rd quarter, 2009⁷⁷

Sector	1989	1997	2007	2008
All UK PNFCs	11.3	12.3	13.2	13.1
Manufacturing	10.1	13.3	9.8	8.9
Services	14.1	15.7	14.9	14.8
UKCS	11.9	15	26.2	35.6
Non UKCS	11.3	12.1	12.4	11.9

(Source ONS. CS is continental shelf, i.e. oil and gas companies in the North Sea. The figures do not include financial corporations).

6. The UK as an imperialist state

A Marxist analysis of the more recent evolution of the British economy cannot simply look at its ‘internal’ development, but also its role in the global system, both recently and in its historical, longer-term position. Britain is a peculiar state, because it was once the powerhouse of the global economy, and politically dominant with its huge empire giving it a hegemonic status over other powers (albeit, nothing like the unrivalled domination America enjoyed over the capitalist world following the Second World War). The economic and political domination of the world order by a handful of great powers within a globally integrated capitalist system was the subject of the classical imperialism theory developed by Lenin and the Marxists of his generation in their bid to understand how the capitalism of their day was changing. The immediate background was the catastrophic barbarism of the First World War which divided the international working class movement between revolutionary internationalists who opposed it, and reformist sections of the movement who aligned with ‘their own’ bourgeoisie. But the analysis they developed was based on more than the wars that had typified European colonial competition since the 15th century. The reason these had a more barbaric character in the First World War was due to the development of capitalism technologically and as a social system, this had heightened competition economically and politically and increased the terrible social costs of war. Lenin’s theory of imperialism drew on earlier insights of Hobson, Hilferding, and Bukharin, and in many respects synthesised the insights of these writers into a composite analysis of the development of capitalist contradictions of his day.

Lenin described how great industrial monopolies had grown out of capitalist production and become fused with banking capital to create finance capital, leading to the formation of cartels that dominated production, and with a global reach of investment and credit, allowing them to extract tributes from whole nations through debt and investment, and exploit the work of millions of working people. War and revolution were political expressions of these growing social contradictions.

Lenin also developed the analysis of Marx and Engels of the changing composition of the working class; with growing concentrations of wealth in the imperialist countries, some sections of workers, in particular those with high skill levels or in strategic industries, were able to force the ruling class room to make important concessions on wages and working conditions and this fostered the development of a 'labour aristocracy' that could provide a degree of social stability for the reformist parties.

In his *Imperialism: the Highest Stage of Capitalism*,⁷⁹ Lenin characterised imperialism as having five basic features:

- (1) The concentration of production and capital has developed to such a high stage that it has created monopolies which play a decisive role in economic life;
- (2) The merging of bank capital with industrial capital, and the creation, on the basis of this "finance capital", of a financial oligarchy;
- (3) The export of capital as distinguished from the export of commodities acquires exceptional importance;
- (4) The formation of international monopolist capitalist associations which share the world among themselves, and
- (5) The territorial division of the whole world among the biggest capitalist powers is completed. Imperialism is capitalism at that stage of development at which the dominance of monopolies and finance capital is established; in which the export of capital has acquired pronounced importance; in which the division of the world among the international trusts has begun, in which the division of all territories of the globe among the biggest capitalist powers has been completed.

Lenin argued that these were only the general economic characteristics of imperialism and that the world system had within it large differences in growth rates and utilisation of modern technology, continually emphasising this political and economic unevenness in his analysis. This could allow for a great deal of variation in models of economic development, but it would take place within a wider world system in which these features assumed exceptional importance. The idea of 'monopoly capitalism' was the most essential feature, because it expressed both the political-economic domination of the world by a set of advanced states and the undermining of free competition as capitalism developed through centralisation and concentration into a more and more oligopoly-like state of existence.

Keeping hold of the broad contours of this framework is essential when we come to analysing the contradiction-laden evolution of the global system today – not least

because the growing inter-connection of the world economy has gone alongside the increased domination of ‘finance capital’ – i.e. huge, highly-interconnected industrial and banking concerns that dominate global capital flows. Britain has benefited considerably from its place within the political-economy established in the globalisation years and has been able to offset to a large degree some of the problems of its domestic economy, by the global reach and power of its multinationals.

Britain was able to benefit from its Empire, its historic trading links around the world and being the first industrial power. But, in the post-war period, Britain had to find a new role for itself, no longer able to economically afford or politically control its huge Empire, it had to accept decolonisation and the loss of influence that came with it whilst its ageing domestic manufacturing sector was undermined by more nimble competition from its rivals. Britain has gone through a long period of relative decline and has had to re-orientate to Europe, which now accounts for 50 per cent of its exports. But how does it fare today – does it still have a global reach and power?

6.1 The rise and rise of British monopolies

British corporations today seriously punch above their weight internationally. Today, there are now 14 UK-owned and 3 UK jointly-owned trans-national non-financial corporations TNCs in world’s top 100.⁸⁰ The past decade has seen a remarkable 40 per cent decline in US and Japanese TNCs in the world’s top 100, with the UK, France and Germany firms being the main replacements. These TNCs are to be found in sectors such as: oil and gas (BP, Royal Dutch Shell), food and beverages (BAT, SAB Miller), mining (Rio Tinto, Xstrata), and pharmaceuticals (GlaxoSmith Kline).

Of the top five non-financial multinationals in the world, two are UK-based (Vodafone, BP) and one is a joint UK/Netherlands (Royal Dutch Shell).

The recent BP oil disaster in the Gulf of Mexico has helped reveal the nature of TNCs today – as BP represents modern finance capital par excellence. BP announced on 4 June that it was going to pay \$10 billion in shareholders’ dividends over the coming year, this was criticised fiercely by Obama who argued that some of the money should be spent on cleaning up the oil spillage and paying compensation (which is estimated to be in excess of £20 billion). There have also been widespread criticisms of the company’s safety record around the globe, its attempts to use legal means to gag whistleblowers, and the measly wages it has paid fishermen and other boat owners who have offered to help with the disaster. Surely, instead of paying out huge dividends, it could be spending some of that money to right the wrong in the Gulf of Mexico? “No!” said the finance industry: BP’s dividends are one of the main sources of revenues for investors. *The Guardian* wrote:

“BP’s dividend is of crucial importance to the City and to the pensions of millions who depend on payouts from profitable companies to boost their retirement funds. Together with rival Shell, BP accounted for 25 per cent of the total dividends of £50bn paid in the UK market last year.”⁸¹

So, two of the world’s top TNCs (one UK based the other partly UK owned) pay into the City of London £12.5 billion a year in dividends from shares. This money is

crucial to the workings of finance capital and its ability to generate greater profits.

Pension funds supposedly invest for the exclusive benefit of the workers and companies that pay into them; indeed, the UK's TUC sometimes make the point that workers own much of the means of production through pensions funds,⁸² despite many workers being put on schemes or no scheme over the past decade and having little legal redress to counter the decision. In reality, pension funds provide important sources of wealth for finance capital to invest and generate even more profits.

The *Daily Telegraph* listed BP's top 10 shareholders:⁸³

- 1) BlackRock: the world's biggest asset management company owns 5.9pc of the shares.
- 2) Legal & General: the UK insurer and asset manager owns 4pc of the shares.
- 3) Barclays Global Investors: asset manager, owned by BlackRock, with 3.8pc of the shares.
- 4) Norges Bank Investment Management: asset manager manages the money generated from Norway's oil revenues, 1.8pc of the shares.
- 5) Kuwait Investment Authority: fund manager for Kuwait government. Owns 1.75pc of the shares.
- 6) M&G Investment Management: the UK asset manager, owned by the Prudential, owns 1.67pc of the shares.
- 7) Standard Life: the Scottish insurance company owns 1.5pc of the shares.
- 8) Capital Research & Management Co: the Los Angeles-based fund owns 1.3pc of the shares.
- 9) Insight Investment Management: the fund manager owned by Lloyds Banking Group owns 1.13pc of the shares.
- 10) China's State Administration of Foreign Exchange: manages China's \$2.4 trillion of foreign-exchange reserves, owns 1.1pc."

This is an example of finance capital – how productive and banking capital become fused into great combines. BP is involved in extractive industries such as oil and gas but its profits are crucial to the wealth in the City of London and its shares are bought up by huge investment funds. Another example is the Prudential, which recently spent £450 million on a campaign to buy up assets in Asia only for the shareholders – i.e. investment funds – to throw out the deal because they said Prudential's managers should have obtained a lower price for the assets. The result was subsequent decline in the share price knocking off £2.5 billion in total that will affect the next dividend payout. In addition to many of the biggest monopolies in the world, the UK also has six of the top 50 financial institutions with more than 3,300 affiliates around the world, more than 800,000 employees and nearly \$10 trillion of assets. This builds on the traditional strength of British capital and of the legacy of Empire – that UK capital had global reach and was backed up by armed force. The six companies were among the biggest in the world with HSBC the largest of the 50.⁸⁴ These companies not only look after people's savings, but have extensive interest in global investments.

6.2 The importance of capital flows

Lenin emphasised the export of capital as being a key feature of imperialism – and in this British monopolies lead the way. UK TNCs had more than a trillion pounds in direct overseas investment assets in 2008, mainly in Europe (55 per cent), and the Americas (33 per cent) with £239 billion in the USA alone. On these assets they earned £73.1 billion in profit.⁸⁵ The UK led the way in Europe in mergers and acquisitions in the 2000s, rivalled only by the Netherlands.⁸⁶ What is called “other investments”, mainly overseas short-term loans and currency holdings grew by more than 140 per cent in the 2000s to £3.75 trillion in 2007 and portfolio investments (equities and debt holdings) doubled to just under £1.7 trillion. Again, the holdings were overwhelmingly in Europe and the Americas and to a lesser extent in Asia. These investments were driven by the search for higher returns, which included “a greater willingness to take on a share of riskier assets offering a higher return and this will have contributed to the diversification in UK portfolio investment.”⁸⁷

What these patterns of investment show is that UK TNCs still export greatly to other imperialist countries. Imperialism is not just the export of capital to colonies or semi-colonies but also the strengthening of inter-imperialist money flows representing a greater degree of concentration and centralisation of capital, which not only leads to even bigger and more powerful TNCs but also huge profits in the forms of fees to banks, accountants and lawyers i.e. key components of finance capital.

The flow of money, however, is not just one-way. The UK is second only to China for inward flows of investment. While 2008 saw a sharp decline because of the onset of the global recession, there were still £672.9 billion of foreign direct investment assets in the UK of which £330 billion was from Europe and £190 billion from the US – again an example of inter-imperialist capital flows and the intertwining of TNCs. Since 2005, foreign capital has acquired more UK based firms than British-based firms.⁸⁸ All this shows that UK is the country of choice for foreign capital and that capital in the UK is becoming increasingly integrated into global ownership structures. Overall the UK’s outward foreign direct investment and inward FDI into the country was higher than any other country as a percentage of GDP.⁸⁹

6.3 The City of London and the export of capital⁹⁰

At the end of 2009, London led the way in having the largest share of the world’s markets in cross-border bank lending, foreign exchange, over the counter-derivatives, insurance premiums, and international bonds. It is second to New York in terms of share trading and before the crisis it was equal to, or better than, Wall Street. Much of the capital that is traded and managed in the city is foreign-owned, which contributes to the internationalisation of the UK economy and increasing cross border ties among TNCs. Here are some of the key sectors of London’s financial economy.

1) Banks: We have already seen how UK banks dominate the world. The UK banking industry had assets and liabilities of £7.6 trillion at the end of 2009 of which foreign banks held 51 per cent. Within this foreign owned share, EU banks

have increased their holdings to 54 per cent. There were 325 banks based in the UK including 249 foreign owned banks – 159 were incorporated in the UK with 88 foreign owned. UK banks have net exports of £30 billion.

2) Fund management: Globally the fund management industry has assets of more than a trillion dollars and, as we saw earlier with BP and its shareholders, this industry is key to finance capital and the generation of greater profits. The three conventional fund types are pensions, mutuals and insurance along with various forms of private wealth funds. London is the second biggest market in the world after the US and accounts for 9 per cent of the total of the three conventional types with about \$5.7 trillion of assets.

3) Equities or shares: London is second to New York for equity markets and lost about 40 per cent of its value during the crisis of 2008. However, by the end of 2009, the value of equities on the main London market was £1.7 trillion with another £56 billion on the alternative investment market. Overall trading of equities in the London markets was worth £11 trillion (i.e. nearly seven times their actual value) by the end of 2009 – up 4 per cent on the 2008 total.

4) Financial support services. In addition to the various money markets there are important support services such as lawyers, accountants and management consultants, which all generate more profit (by extracting it from value producing sectors through charges). The three top lawyer firms in the world are headquartered in London: Linklaters, Freshfields Brockhaus Deringer, and Clifford Chance. Overall income on fees from commercial transactions was £14.2 billion among city law firms in 2008-9 period – mainly through mergers and acquisitions and capital markets. There are four big accountancy firms such as PriceWaterhouseCoopers, Deloitte, KPMG and Ernst and Young, together they earned about £2.8 billion on audit and assurance in 2008-9 while management consultants earned nearly £3 billion in services in the same period.

London has the lion's share of the world trade in bonds and important markets in insurance, gold, commodities, derivatives and many other types of financial markets. Britain is now second to Dubai in terms of Islamic finance.

All this means that the UK's financial sector had a trade surplus of £38 billion in 2009 (down from £45 in 2008) and net exports of £50 billion. The UK is a highly internationalised example of finance capital – far more so than its rivals. New Labour's policies helped London in particular to accrue greater global reach and power, by keeping regulation light and maintaining a low-tax environment – favouring both domestic and foreign capitals investing here in Britain. By holding interest rates low throughout the period, they also encouraged the massive over-leveraging of private financial institutions that led to the crisis (although, this was influenced by the global factors holding down inflationary pressures). The result was finance capital unleashed: with the financial sector doubling its size in the domestic economy, and monopoly concerns dominating key global markets.

6.4 Imperialism and the working class

The huge growth in finance capital and the decline of traditional manufacturing have also changed the structure of the working class.

Figure 5: Changes in employees by sector (millions)

Sector	2000	2008
Production	4.5m	3.3m
Construction	1.9m	2.2m
Distribution, Hotels, Restaurants, Retail	8.5m	8.9m
Finance, Business	5.5m	6.7m
Education, Health, Public Services	8.7m	10m

The decline of manufacturing employment has been offset by the rise of the service sector, especially in financial services. All this serves to underline Lenin's argument about the rise of a strata of rentiers, the people Marx called the money traders, and the continuing changes to the working class – indeed, this has involved the breaking up of old labour aristocracies, the formation of new middle strata, and the development of a low wage, highly flexible and poorly unionised service sector workforce. It is estimated that there are one million people employed in financial services with about 300,000 in “City-type” jobs⁹². Most of the non-City jobs are low paid staff such as cleaners, caterers, administrative staff or those who work in local banks and on well below the average wage. Many of the cleaners and catering staff in the city are also migrants. Some have organised and fought courageous actions to be unionised and to win a liveable wage. The unions need to organise these low paid workers who often show courage, militancy and a flair for organisation – all of which are needed within the UK's unions, dominated by white males.

But there is also the layer of very well paid middle class sections of the workforce – the highest paid of whom slip into the bourgeoisie proper, and who earn substantial wages for unproductive work. The Tories oversaw the de-regulation that boosted the earnings of the rentiers, then New Labour went even further in encouraging self-enrichment; New Labourites such as Blair, Mandelson and John Hutton all emphasised that they were relaxed about people becoming “filthy rich”. The disparity between the average wage and the top few per cent grew enormously as the financial workforce took ever greater amounts of money in earnings, fees and bonuses. The Thatcherite revolution in Britain also succeeded in transforming attitudes to class and wealth more generally and consolidating the pro-market ideology that New Labour has not fundamentally challenged. And, although the great majority have no interests in maintaining the system, there was a social and material basis for this, fostered by encouraging the formation of the larger middle strata, and boosting economic inequalities within the working class.

Much of this, like in America, was built with easy credit conditions. As workers on low wages were encouraged to take out large mortgages or spend on credit

cards, this disguised slackening wage rates and poorer pay and conditions for the money and developed further Thatcher's myth of the "home-owning democracy". Most workers in society have over the past decade relied on credit and become deeply indebted through mortgages or personal borrowing. By December 2009, each household owed on average of £58,316 (including mortgage), which is about 133 per cent of earnings. Excluding mortgages, the debt is £9,120 per household with average borrowing per adult with credit cards or motor and retail finance deals £4,724.⁹³ That is an awfully large stimulus to finance capital that depends on workers needing credit to buy houses and goods while, of course, needing the economic environment to repay the loans otherwise the risk, as in the case of sub-prime mortgages is that the loans are defaulted on. This is how by using ideology and easy credit, finance capital is able to buy off sections of the working class, entwine others in debt (which also has the bonus of siphoning money from the working class to the banks etc) and organise in its support an army of ideologues to divide and demoralise the working class

6.5 The sources of profit in the finance industry

In *The Credit Crunch: A Marxist Analysis*, Richard Brenner wrote about how the world crisis had been brought about by declining profit rates, and used Marx's theory of the tendency of the rate of profit to fall as a mean to explain the crisis of 2008. The abundance of capital in the world leads to the capitalists searching for ever more profitable avenues of investment, leading to greater risks. This then leads to a huge increase in credit and other forms of money and a massive inflation in prices of assets such as property, shares, and various derivatives, funds and other financial tools. But these forms of money and assets are fictitious because the owner owns only a piece of paper that promises something in the future: a house, a share of profits and so on.⁹⁴ These are traded, but often the trades (as we saw earlier with the London stock market) exceed the actual value many times over, pushing up the price. Eventually, the bubble bursts, bringing the financial system down with it as these fictitious forms of capital that were trading for great sums of money become re-aligned with real values.

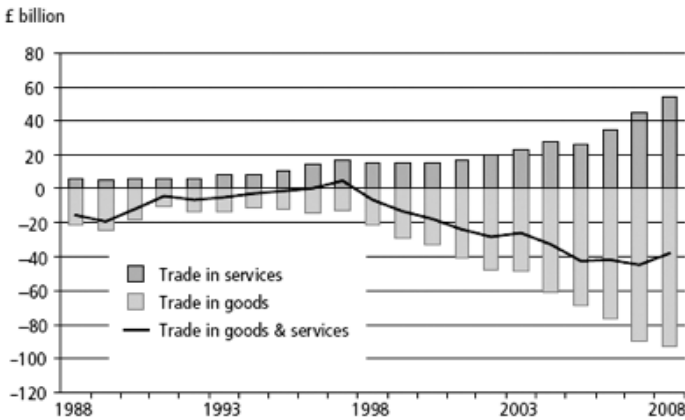
This collapse of credit and asset prices causes a crisis in production because the system is starved of money for investment and the banks hoard money. This has implications for the composition of finance capital, understood as the complex fusion, inter-relation, and mutual dependency of banking and monopoly capital. Some of the capital in the City of London is fictitious – a claim on future ownership of surplus.

Some of it will have been the profits from investments into fixed or variable capital and the subsequent returns on the sale of commodities. More profits will have been derived from the proceeds of interest on loans and other similar devices.

Marx writes about how value produced by the working class is divided into four: wages, profits, interests and rents. Banks are paid interest out of the wealth owned by capitalists and there is a constant struggle between finance capital and other capitalists over the share of the surplus value. Profits are also derived from charges to workers for banking, credit, insurance and so on. These act as claims upon the

working class's share of value paid in the form of wages. So overall, there are several sources of profits for finance capital; some comes from investment in the accumulation process and therefore is productive, other sources of wealth come from competing with other capitalists or workers for their share. There is also a sizeable part that is held in the form of shares etc, which is fictitious because it is a legal claim on future profits generated by the company. For example, the investment firms in BP we looked at earlier have bought millions of shares in return for a promise of a portion of the surplus; either a dividend per share which once paid is real money or a return when the share is sold, any profit being dependent on the selling price.

Graph 2: Trade in goods and services



(Source: The UK Balance of Payments, Pink Book, 2009)

So the expansion of finance capital in the UK reflects both the growth of profitability but also the strength and ability to secure greater amounts of surplus from other sectors of the economy. In this way, the UK's finance sector is parasitic on the peoples of the world, other countries, especially developing nations, and even other parts of the capitalist class in the imperialist heartlands. Also, the money sloshing around the stock market and the City and the promises of easy profits mean that there is a constant lure away from investment in productive capital and towards putting it into some financial fund or complex monetary form for a better rate of return. The money may well be invested at some point in the future, but with a hefty charge put on it by some City firm. However, there is also no guarantee it goes back into the local economy. It may be exported around the world – weakening the UK economy's productive core. In this respect, the semi-supranational character of British finance capital also exists in a symbiotic relationship to the country's own industrial decline, as it seeks to exploit global avenues for its capital rather than investing 'at home'.

The greater internationalisation of the British economy, the move of capital out of the country and the decline of the productive sectors mean that the economy imports more goods than it exports. Historically, this has been offset by 'invisible earnings': the profits of financial services. But, despite the huge growth in finance capital over the past decade, more and more of the wealth of the service sector is either foreign owned or going overseas in investments. As a result, this sector no longer necessarily helps the balance of payments, because if the return on these investments is less than the outgoings then the balance of payments will worsen. The result is a constant drain of money going out of the country to pay for imports or to make-up for the profits being repatriated to the country where the investment originated.

Even with the UK being a financial centre and revenues from the trade in services growing, we can see that the balance of payments deficit is worsening. The government has to use more of its holdings in foreign earnings or gold to pay for the deficit, which puts downward pressure on sterling and forces the price of imported goods upwards. Debts deepen for companies and families as they pay for services – which in effect was what was revealed when the global crisis hit in 2007, a huge amount of banking, company and personal debt was exposed. What happens when it gets too great? Marx writing about a crisis in the French economy in the 1850s highlighted the danger of paper money.

"The printing press is inexhaustible and works like a stroke of magic. At the same time, while the crop failures in grain and silk enormously diminish the directly exchangeable wealth of the nation, the foreign railway and mining enterprises freeze the same exchangeable wealth in a form which creates no direct equivalent and therefore devours it, for the moment, without replacement! Thus, the directly exchangeable wealth of the nation (i.e. the wealth which can be circulated and is acceptable abroad) is absolutely diminished! On the other side, an unlimited increase in bank drafts. Direct consequence: increase in the price of products, raw materials and labour. On the other side, decrease in price of bank drafts. The bank would not have increased the wealth of the nation through a stroke of magic, but would merely have undertaken a very ordinary operation to devalue its own paper. With this devaluation, a sudden paralysis of production!"⁹⁵

If the UK had a large and competitive manufacturing sector this depreciation would help cheapen exports, but manufacturing capital is now only a small part of the UK economy. The government could let inflation rise – after all it would benefit debtors over creditors – but it would also severely harm the financial firms that trade in money. The continuing trade deficit will only add to the burden of debt of the UK government. It is a structural problem of UK capitalism originating in the decline of productive capital, and one shared by the USA where manufacturing is also being eroded in favour of financial services.⁹⁶

6.6 Labour and the economy

Under New Labour, the economy did achieve improvements in production and profitability especially in high-tech manufacturing and the service sector, and government policies did produce an increase in the size and skills of the workforce.

Yet these advances were not enough to close the investment gap on the UK's major competitors. Instead, Labour, like governments before it, relied on de-regulation and international competition to enforce greater exploitation of the workforce.

The big beneficiaries of government policies were the TNCs and financial services with London cementing its position as the main centre for international capital.

The result has been the internationalisation of the UK economy to a far greater degree than any of its imperialist rivals. Politically, it means that finance capital dominates and the money markets can often determine government policy over the interests of other sections of capital. During the election period, neo-liberal ideologues were calling on politicians to watch the bond markets and follow their policy prescriptions. The chaotic and erratic movements in price of financial instruments have now become the broad determinant of economic policy.

The Conservative-Liberal Democratic government's deep cuts will:

- a) Lead to tax cuts for the rich and businesses.
- b) Reduce government borrowing which will free up more money on the money markets and reduce the cost of borrowing – although the banks have been given plenty of money already and have only hoarded it.
- c) Open up new areas for capital accumulation either through outright privatisations or partnership schemes such as PFI where the private sector makes money at the public expense. The conversion of already existing organisations into private will favour the mergers and acquisitions policies of the TNCs
- d) Increase unemployment, which will put downward pressure on wages of those left. The bosses also want to reduce pensions; meaning that people will have to pay higher premiums for less rewards. We saw earlier the funds of these pensions are used to boost the earnings of finance capital.
- e) The cuts, if successful, will be part of a general “roll back” of the state and de-regulation programme where neo-liberalism will become even more entrenched as the dominant ideology of political and social life.

Many of these measures will be supported by other sections of capital. All of them will result in a net transfer of wealth from the mass of the population to the very rich and finance capital. However, some capitalists will baulk at the reduction in domestic demand that will occur with the huge cuts to public services, or the rising cost of unemployment benefits, or worry over the lack of government support for businesses. All those companies that serve the public sector will also lose business with the consequence that many more people than those targeted in the public sector will be made redundant. Firms will also worry over finance capital taking an ever-greater share of the surplus, squeezing out other productive capitals. Some economists are warning of a double-dip recession. Little of this has entered public debate because of the domination of finance capital – the main parties squabbled between themselves over the size and speed of the cuts, not the principle. Internationally, the debate appears to have been won by the neo-liberals: the recent G20 conference initially announced to the world that the worst was over and that the recovery was happening quicker and stronger than at first thought; only later in the

conference did the G20 demand an end to any state intervention and a swift move to slashing government debt.

6.7 Long-term contradictions

The UK's position as a leading imperialist power, and one that relies to a greater degree on capital from all over the globe, gives it many advantages. The deregulated nature of its markets means that it is better able to attract capital, it can shift money around the world easier than its competitors, and it dominates global financial services. All of which makes it well placed to withstand regional shocks in the world's economy such as the Asian crisis of 1997. However, its strengths are also its weakness. All these capital flows and webs of trading can act as a conduit into the UK, especially when there is a global crisis. The UK economy stands exposed with its over-reliance on financial services and few other sectors of the economy that can drag it out of recession. Governments are then left with two choices: letting banks go to the wall – one or two small ones may be a lesson to encourage the others, but it is unthinkable about the large ones; or bail out these parasitic forms of capital, which involves transferring great amounts of money from the people to the City. Other parts of the economy also suffer through the domination of finance capital and the balance of payments becomes skewed towards invisible earnings and growing deficits. The result is not what both Labour and Tories alike described in the 2000s as a new paradigm of upwards growth with no slumps but plenty of booms and cheap credit, but instead a system of near fateful crashes, bailouts and, as promised by Prime Minister David Cameron, generations of misery to prop up the City of London.

If foreign-based capital is increasingly buying up UK-based capital then what happens to the nation state and its ability to represent national interests on a world scale? For example, if half of the banking capital in London is foreign owned and a quarter owned by EU countries, then this undermines the ability of the nation state to put forward its own interests. It is a classic example of the contradiction in the imperialist system between the nation-state and the evolution of the capitalist economy. The Conservative right's bugbear of European dominance puts strains upon the party when EU countries own a quarter of the UK's banking assets. Under New Labour, the 'European question' was subsumed as finance capital doubled in size and Blair ensured that the UK followed the USA's lead in world affairs and acted as its junior military partner. In the future, a declining US imperialism and an EU caught up with the problems of the Euro will put greater strains upon austerity UK.

Some may argue that the internationalisation of London will overcome contradictions between the nation's state and finance capital – a similar theory to Kautsky's idea of 'ultra-imperialism' as economic development ameliorates national conflict. But history has time and again shown that, on the contrary, state competition intersects with the economic, to heighten the contradictions and conflicts of the system. Any capitalist government in Britain has to keep hold of the access to markets that are essential to the global reach and operations of British finance capital. Multinationals therefore have a tremendous influence on policy; time and again we saw this under Labour, refusing to regulate mergers or acquisitions, to legislate

in support of jobs or even to introduce minimal workers' legislation such as the EU's social chapter. New Labour could not even defend the UK chocolate industry over the Kraft/Cadbury's deal. Even its quantitative easing programme went mainly into the bank balances of foreign owned capital, we stated last year that:

"The Bank of England's own statistics show that some of the money exchanged for bad assets simply went abroad, there was an outflow of £1,000 billion from the UK or 15 per cent of total foreign deposits. The Daily Telegraph claimed that 80 per cent of the UK bank bail out] was tied up in loans to foreign nationals and companies, bond issues and other investments. In March, the Independent claimed that, through the quantitative easing plan, 'the Bank of England may, possibly inadvertently, be buying up gilts from foreign investors who, according to the latest data, held over £190 billion, or 36 per cent, of UK government debt'...The Times quoted Sir Steve Robson, former second permanent secretary at the Treasury, saying that: 'The bulk of the money has gone to overseas sellers of gilts. It needs to switch purchases to UK corporate bonds and so directly address credit conditions in the market'."⁹⁷

This then is the legacy of New Labour's economic policies: the further growth and domination of finance capital and its internationalisation.

None of this happened without a political struggle. If we take a long view of the past 30 years, we can see that there were key periods when dominant sections of the ruling class shifted policy or direction in the face of weaker elements of the capitalist class and against working class opposition. The economy of the 1970s was dominated by large-scale nationalised manufacturing industries with a workforce that, while poorly paid, had access to subsidised gas and electricity, cheap council housing, wages and prices controls, free NHS prescriptions and dentists, benefits for unemployed and pensioners that, again, while low, were at least linked to wages in addition to controls on capital and mass trade unionism. The growth of the European union and the advent of new technology in the form of computerisation posed new challenges to the UK ruling class. Thatcher and the Conservatives responded with slump economics that weakened manufacturing industry in the face of world competition, an offensive on trade unionism taking on the steel workers, miners and printers and the privatisation of state industries, which resulted in the end of any subsidies.

Thatcher also teamed up with President Reagan to launch a New Cold War and a military offensive in Latin America against progressive regimes. The result was increased exploitation of the workforce, de-regulation of the City and the beginnings of Globalisation. The Major years saw the Conservatives beset with rows over looking to either the USA or Europe. Blair and New Labour were able to overcome these disputes, continuing UK's support for Globalisation, developing a slavish relationship with US imperialism and seeing the domination of the City of London over the rest of the economy. This was despite facing huge protests over the war in Iraq and anti-globalisation protests that could have stopped the government.

Now we have the full weight of both the City and Con-Dem coalition demanding more cuts in public services and benefits and shift onto the working class an even greater burden of payment for services while transferring more wealth to the City. None of this will occur without a fight, the working class has the power to derail

the government. Across Europe, in Spain, Greece and Turkey, we have seen the beginnings of workers' struggles against austerity. A successful fight in the UK could not only change the political course nationally but also, because of London's international links, play an important part in defeating the global capitalist class and their cuts programme.

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ENDNOTES

1 See Brenner, R. and Pröbsting, M. (2008)

2 Harvey, K. and Morris, P. (1994), p. 16

3 We have explained the Marxist theory of crisis and the causes and unravelling of the current global recession in Brenner, R. and Pröbsting, M. (2008)

4 Harvey, K. and Morris, P. (1994), p.19

5 Harvey, K. and Morris, P. (1994), p.51

6 Brenner, R. and Pröbsting, M. (2008)

7 Williams, K., Williams, J.; and Thomas, D. (1983), p254 The estimate of half is from a management report at British Leyland Motor Cars, while the third was given by the authors from a right-wing think-tank.

8 Williams, K., Williams, J.; and Thomas, D. (1983), pp. 256 – 257

9 Williams, K., Williams, J.; and Thomas, D. (1983), p. 257

10 World Markets Automotive Productivity Index for Europe – Results for 2000 available at <http://www.prnewswire.co.uk/cgi/news/release?id=69602>

11 Coffey, D. and Thornley, C. (2009), p49

12 Independent 21 May 2001, online at <http://www.independent.co.uk/news/business/news/lu-ton-closure-drives-vauxhall-to-pound190m-loss-754080.html>

13 War of words over Rover collapse". BBC News. September 11, 2009. http://news.bbc.co.uk/1/hi/uk_politics/8251846.stm.

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16 Gamble, A. and Kelly, G. (2001), p.170

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19 This forced leaving of the ERM had unexpected benefits. Sterling depreciated by about 20 per cent when it left the ERM. This provided a boost to exports while making imports expensive but because it was done just after coming out of recession and at a time of a world slowdown it did not lead to a jump in inflation. Instead the UK economy was able to grow at a steady rate from 1992 with a floating currency free of political interference (keeping a high rate for the pound had been almost a symbol of political machismo for most of the century, the result was periodic depreciations causing chaos and the fall of governments).

20 The best source is Balls, E. and O Donnell, G. (2002)

21 Like the Iraq war, other ministers were kept in the dark about the move to the MPC. Brown and Blair, despite discussing it for several months in the lead up to the election, ignored the rest of cabinet with the exception of Robin Cook and John Prescott Routledge, P. (1998), p.290 and

- Rawnsley, A. (2000), p3
- 22 The Bank of England's boss Eddie George, was enthusiastic about leading the MPC but furious over losing the Bank's regulatory authority. For a few days, he threatened resignation and Brown pushed for him to go but both were soon placated. See Bowyer, T. (2004) and Routledge, P. (1998), p.302-3
- 23 Brown, G. quoted in Bevir, M. (2005)
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- 27 Brown, G. 'Personal View', 11 November 1997, *The Financial Times*
- 28 Quote and figures in, Coates, D. (2005), p.69
- 29 Thompson, N. (2006), p.272
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- 31 Hutton, W. cited in Chadwick, A. and Heffernan, R. (2003), p117
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- 33 Rentoul, J. (2001), p.250
- 34 Routledge, P. (1998), p.279
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- 36 Routledge, P. (1998), p.250
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- 38 Bowyer, T. (2004), p.285
- 39 It resulted in ministers pleading for more cash straight away. Brown told the then health secretary Frank Dobson that: "Health is a huge hole. There is no more money" and Dobson relayed this to a Royal College of Nursing conference – such was the good will for the new government he was cheered anyway. See Bowyer, T. (2004), p.215
- 40 *Financial Times*, 22 July, 1997
- 41 OECD cited in Balls and O'Donnell (2002), p.335
- 42 IMF 1999 cited in Balls and O'Donnell (2002), p.337 *ibid*
- 43 cited in Balls and O'Donnell (2002), pp.345-6
- 44 Bevir, M. (2005), p114
- 45 Coates, D. (2005) p.63
- 46 There are several ways of measuring GDP and they often produce conflicting figures. The 1 per cent figure is using a market price deflator while the 2 per cent figure is measuring with chained volumes. All statistics from the United Kingdom Blue Book July 2009
- 47 Routledge, P. (1998), p.326
- 48 Rentoul J. (2001), p.473
- 49 Rentoul (2001), p.476
- 50 Bowyer, T. (2004), pp.247-8
- 51 See chapter four in Hale, S., Legget, W. and Martell, L. (2004)
- 52 Hale, S., Legget, W. and Martell, L. (2004) p.73 The Building Schools for the Future programme alone was to cost £45bn while 100 hospitals were expected to be built using PFI.
- 53 From the *Guardian* 17 January 2008, online at <http://www.guardian.co.uk/politics/2008/jan/17/uk.Whitehall>.
- 54 See Coates, D. (2005), p169
- 55 See chapter 19 Balls and O'Donnell (2002)
- 56 See chapter 4 Coates, D. (2005)
- 57 Beech, M. and Lee, S. (2008), p35
- 58 See BBC report <http://news.bbc.co.uk/1/hi/business/4885426.stm>

- 59 Beech, M. and Lee, S. (2008), pp.26-7
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- 61 In 2001, government received in Corporation Tax £33.5 billion, which fell to just under £28.5 billion in 2003 and rose to just over £31 billion in 2004 before rising to about £46.5 billion in 2008 before falling again because of the global crisis. Income Tax was just under £112 billion in 2001 and reached £157.5 in 2008; or National Insurance which went from nearly £63 billion (2001) to £98.5 (2008); and VAT which rose from just over £60 billion to £80.7 in the same period. All tax figures from Office of National Statistics Public Sector Finances, December 2009
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- 63 All figures in next three paragraphs on government debt from the Treasury's 27 May 2010 Public Sector Finances Databank available at Treasury's website.
- 64 See page 5 Public Sector Finances, January 2009, Office of National Statistics
- 65 See Money Week, 19/02/09 Bank Bailout To Add up to £1.5 trillion to Public Debt <http://tinyurl.com/lqorjrm>; Guardian, 19/02/09, Bank bail-out 'could send national debt soaring by £1.5 trillion, <http://tinyurl.com/cm7kvg>, The Independent, 21/01/09, The Big Question: Could the government bailout of the banks bankrupt the country? <http://tinyurl.com/a5kk8p>
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- 67 Figures are based on dollar values and are from the UN's statistical service <http://unstats.un.org>
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- 73 Coffey, D. and Thornley, C. (2009) p.121 The wage levels are also from this source.
- 74 See Labour Productivity, ONS, November 2004
- 75 See 'Performance and employment characteristics of the UK service industries', 1990–2008, Economic & Labour Market Review, vol. 3, no. 6, June 2009, from ONS. Investment in manufacturing in 2006 was £26 billion, about the same as distribution, hotels and transport. Finance and business services had \$31bn invested.
- 76 at Eurostat <http://epp.eurostat.ec.europa.eu>
- 77 Profitability of UK companies, 3rd quarter, 2009, 6 January 2010, table one. I used the following assumptions: selected certain years – 1989 as it showed 10 years of Tory government, 1997 as the first year of Labour, 2007 as it was 10 years of New Labour and the year before the world recession and 2008 as the most recent and also the year of recession. I used gross; net returns similar figures except for UK CS companies, which increase remarkably to figures in excess of 60 per cent. However, because the same did not occur with non UK CS companies, I considered this increase to be a product of accounting or government subsidy rather than production.
- 78 International comparisons of Company Profitability, ONS, 2002
- 79 See Lenin (1967), chapter 7
- 80 UNCTAD/HEC Montreal, World Investment Report 2009 ; www.unctad.org/wir
- 81 see BP to go ahead \$10 billion share payout, <http://www.guardian.co.uk/environment/2010/jun/03/gulf-oil-spill-bp-dividend>
- 82 The assets of pensions funds are about \$24 trillion, see endnote 86 below
- 83 Based on Bloomberg data on 3 June. See article at <http://uk.finance.yahoo.com/news/bp-its-10-biggest-shareholders-tele-1a2e67fb9989.html?x=0>
- 84 World Investment Report 2009 www.unctad.org/wir

- 85 Foreign Direct Investment 2008, December 2009, ONS. direct investments differ from portfolio investments where an investment is made without any controlling interest in managing the company. Usually it is a title to equity or debt in a company.
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- 96 See Bureau of Economic Affairs, US International Trade in Goods and Services, 12 May 2010. The statistics show a growing trade gap since the early 1990s. The deficit reached \$760 billion at the height of the boom in 2006 and had fallen back to \$378 billion in 2009, mainly as a result of sharp falls imported goods.
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