From Financial Crisis to World Slump: Accumulation, Financialization, and the Global Slowdown

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This is an expanded version of a paper presented to the Plenary Session on "The Global Financial Crisis: Causes and Consequences" at the 2008 Historical Materialism Conference, "Many Marxisms," held at the University of London, November 8, 2008.[1]

1. From US Financial Crisis to World Slump

As the International Monetary Fund observed some months ago, we are living through "the largest financial crisis in the United States since the Great Depression." But that was to understate things in two ways. First, the financial crisis is no longer largely about the US. It has gone global, rocking the UK, the Eurozone, Japan, and the so-called "emerging market economies." A wave of devastating national and regional crises is just getting started, having already hit Iceland, Hungary, the Ukraine, and Pakistan. Secondly, this is no longer simply a financial crisis; a global economic slump is now sweeping through the so-called "real economy," hammering the construction, auto and consumer goods sectors, and clobbering growth rates in China and India. Manufacturing output is sharply down in the US, Europe, Japan and China. The Detroit Three automakers, reeling from losses of $28.6 billion in the first half of this year, are teetering on the verge of collapse. World trade is in a stunning free fall.

Catastrophic forecasts of the sort that only handfuls of leftists indulged in, often all too glibly, have now become standard fare, with the chairman and CEO of Merrill Lynch and the former chairman of Goldman Sachs both talking of a global slowdown comparable to the Great Depression.[2] Extreme (and misleadingly ahistorical) as such predictions are, it is easy to see why world bankers are so shaken.

Over the past year, global stock markets have dropped by 50 per cent, wiping out perhaps $25 trillion in paper assets and plunging us into "the worst bear market since the 1930s."[3] All five of Wall Street's investment banks are gone – caput. More than 250,000 jobs have evaporated in the US financial services industry. And now, as noted above, the effects of global over-accumulation are turning financial crisis into world economic slump. Problems of over-accumulation – more factories, machines, buildings, fibre optic networks, and so on than can be operated profitably, and piles of goods that cannot profitably be sold – can only be resolved via bankruptcies, plant closings and mass layoffs. One analyst at Merrill Lynch, for instance, suggests that, to remain viable, GM will have to shut five of 12 North American car assembly plants and slash output of trucks, sports utility vehicles and cross-over utility vehicles by two-thirds. Altogether, these moves would eliminate the jobs of 59,000 out of 123,000 GM employees in the US, Mexico and Canada.[4] The ripple effects, in the auto parts industries and beyond, would be dramatic. Indeed, the Center for Automotive Research predicts that a 50 per cent contraction of Ford, Chrysler and GM would wipe out nearly two and a half million US jobs.[5] So, if the first phase of the global crisis centered on the financial sector, with a stunning series of bank collapses, the second phase will be dominated by failure, bailouts and/or massive downsizing of non-financial corporations. But those will then trigger big drops in global demand (as laid off workers cut back consumption and corporate demand retrenches), which in turn will hit firms in services (such as hotels and business assistance) and spark further problems for banks.

As world demand and sales dive, the effects of overcapacity (factories, machines, buildings that cannot be profitably utilized), which have been masked by credit creation over the past decade, will thus kick in with a vengeance. Experts are already predicting that US vehicle sales will plummet by at least three million in 2009, and quite possibly by twice that much, imperilling the very future of the US-based auto makers. World sales of personal computers, mobile phones, and semiconductors are collapsing by 10 per cent and more, inducing frantic price-cutting in order to generate corporate revenues.[6] In Japan industrial production dropped three percent in October, with government officials forecasting that November will see a sharp 6.4 per cent drop in factory output. Having tried to export its way back to economic health after its “lost decade,” Japan now faces relapse into a downward economic spin as world markets contract. And contract they will, as October’s one per cent drop in US consumer spending, just the seventh drop in half a century, indicates.

And just as China was the center of the wave of accumulation of the past 25 years, so it will be at the center of the over-accumulation storm. According to some predictions, Chinese industry is running at only 50 per cent of capacity, as huge numbers of factories and machines sit idle.[7] Sitting in Chinese warehouses are stockpiles of refrigerators equal to three years of world demand. Not surprisingly, steel output dropped 17 per cent in October, signalling a deepening slump in the appliance and machinery industries in particular.[8] But most ominous was the 2.2 per cent drop in Chinese exports in November, the first such contraction in more than seven years. At the same time as it cannot export its way to growth, China’s domestic markets are dramatically contracting: car sales fell by more than 10 per cent in November, while imports plummeted by almost 18 per cent.[9] Trying to manage an economy that needs economic growth rates of eight per cent a year just to absorb the massive flows of rural migrants into industrial centers, Chinese officials describe the employment situation as “grim” and worry openly about social unrest.[10]

The downturn in China is part of a larger recession sweeping East Asia and India. South Korea experienced a staggering 18 per cent drop in exports in November, while Taiwan’s exports fell off the table, plunging 23 per cent.[11] India too is feeling the crunch, with exports plummeting 12 per cent in October and the Commerce Secretary predicting that half a million jobs will be lost in textiles by April of next year. With global overcapacity in play, the spectre that haunted Japan throughout the 1990s – deflation – has emerged; indeed, core prices in the US fell one per cent in October, the biggest drop since 1947, when records began. Over-accumulation, asset deflation and price-cutting now threaten a downward spiral in prices and profits that would spell a seriously prolonged global slump.

And we are very far from the endpoint. Despite a stunning series of bailouts of the banking system in the Global North approaching $10 trillion, or 15 per cent of world GDP, the international financial system continues to stagger.[12] Hundreds of billions more in losses will have to be written off by world banks. More banks will fail, more countries will be forced to turn to the IMF in order to stay afloat. Indeed, the global economy is now enmeshed in a classic downward feedback loop: financial meltdown having triggered a recession, a slump in the real economy will now spark a new round of banking crises, putting very big institutions at risk. In the wake of $65 billion in write-downs (with more to come), for instance, Citigroup, the second-largest bank in America has been kept afloat only thanks to a whopping $300 billion US government bailout.

The current crisis is unlike all the others of the past decade in terms of scope and depth. While previous financial shocks in the US were contained – the Savings and Loan meltdown of the early 1990s, the collapse of Long Term Capital Management (1998) or the bursting of the dotcom bubble (2000-1) – this one has moved from a financial meltdown to a generalized economic crisis. And unlike crises that were regionally confined – East Asia (1997), Russia (1998), Argentina (2000-1) – this is a globalizing crisis at the heart of the system. We confront, in other words, a *generalized global crisis* in specific forms for organizing the relations between capitals and the relations between capital and global labour that have characterized the neoliberal period. In short, the neoliberal reorganization of world capitalism is now systemically shaken.

And like any systemic crisis, it has produced an ideological one. Consider, for instance, the pronouncement from Alan Greenspan, who headed the Federal Reserve Bank of the US for 18 years, declaring that he is in “a state of shocked disbelief” as to how a system based on “the self-interest of lending institutions” could have found itself in this pickle. Or think about the report published by the Institute for Policy Analysis at the University of Toronto that bears the title, “We don’t have a clue and we’re not going to pretend we do.” Neoliberal claims for the magical properties of self-regulating markets are rapidly losing traction, even among their advocates.

In this context, the Left has an enormous opportunity to provide critical analysis, strategic vision, and mobilizational proposals. This paper largely restricts itself to the first of these: critical analysis of the crisis.

2. Capital Accumulation and the Question of Financialization

On the Left, most analyses of the crisis have tended to fall into one of two camps. On the one hand, we find a series of commentators who view the financial meltdown as just the latest manifestation of a crisis of profitability that began in the early 1970s, a crisis that has effectively persisted since that time. In another camp is a large number of commentators who see the crisis as essentially caused by an explosion of financial transactions and speculation that followed from de-regulation of financial markets over the past quarter-century.

Those interpretations that focus principally on the de-regulation of financial markets suffer from a failure to grasp the deep tendencies at the level of capital accumulation and profitability that underpin this crisis. They are unable to explain why this crisis has not been restricted to financial markets, or to probe its interconnection with problems of global over-accumulation. As a result, they are prone to describe the problem in terms of neoliberalism, rather than capitalism, and to advocate a return to some sort of Keynesian re-regulation of financial markets. Socialist politics remain effectively absent from these perspectives, displaced by arguments for "a renewed leashed capitalism" of the sort that is said to have prevailed after 1945.[13]

Those analyses that effectively read the current crisis in terms of a decline in the rate of profitability in the early 1970s at least focus on deeper problems at the level of capitalist accumulation.[14] But they tend for the most part to be amazingly static, ignoring the specific dynamics of capitalist restructuring and accumulation in the neoliberal period. After all, across the recessions of 1974-75 and 1981-82 and the ruling class offensive against unions and the Global South that ran through this period, severe capitalist restructuring did generate a new wave of capitalist growth. As analysts like Fred Moseley have shown, after 1982 a significant restoration of profitability took place,[15] and this underpinned major processes of expanded capitalist reproduction (particularly in China). It is true that profit rates did not recover to their peak levels of the 1960s, and that overall growth rates were not as robust. But there was a dynamic period of growth, centered on industrial expansion in East Asia, which enabled capitalism to avoid a world crisis for twenty-five years. And this process of growth, and the unique financial forms that have underpinned it, have determined many of the specific features of the current crisis.

Inattention to the specific forms of industrial, monetary and financial reorganization that have characterized the neoliberal period, or the patterns of sustained capital accumulation that have taken place over the past quarter-century, prevents us from explaining how and why capitalism managed to avoid a generalized economic and financial slump for the quarter century after the two recessions (1974-75 and 1981-82) that followed upon the sharp decline in profitability at the end of the 1960s. It will not do to say that for 25 years crisis was "postponed" because credit was pumped into the system. If this was the whole answer, if everything had simply been credit-driven, a massive global financial crisis of the sort we are witnessing today ought to have occurred *much* earlier. There is simply no way that priming the pump of credit could have staved off crisis for 25 years after the recession of 1981-82. We need, therefore, to be able to explain the partial but real successes of capital in restoring profit rates throughout the 1980s; the generation of new centers of global accumulation, such as China[16] and the creation of huge new labour reserves (by means of ongoing "primitive accumulation"); and the associated metamorphoses in financial markets, all of which enabled neoliberal capitalism to avoid a generalized economic and financial slump for a quarter of a century – only to lay the grounds for new crises of over-accumulation and financial dislocation. In doing so, we will be able to better make sense of the unique forms and patterns of this crisis by relating them to specific changes in the neoliberal organization of capitalism – and the fault lines inherent in it.

As I shall suggest below, the partial recovery in profit rates in the early 1980s sustained a wave of capitalist expansion that began to falter in 1997, with the crisis in East Asia. After that regional crisis (and particularly after the bursting of the dotcom bubble in 2000-1) a massive expansion of credit *did* underpin rates of growth, concentrating profound sources of instability in the financial sector. So, while the entire period after 1982 cannot be explained in terms of credit creation, the postponement of a general crisis *after 1997* can. A decade long credit explosion delayed the day of reckoning. But as the credit bubble burst, beginning in the summer of 2007, it generated a major financial crisis. And because of underlying problems of over-accumulation that had first manifest themselves in 1997, this financial crisis necessarily triggered a profound global economic slowdown.

To summarize, then, as well to anticipate some details, my argument rests on the following claims: 1) the neoliberal offensive succeeded in raising the rate of exploitation and profits, thereby inducing a new wave of global accumulation (1982-2007); 2) this expansion took place in the framework of transformations in money and finance that enabled financial service industries to double their share of total corporate profits, creating increasingly "financialized" relations between capitals; 3) when the first signs of a new phase of over-accumulation set in, with the Asian Crisis of 1997, massive credit-expansion, fuelled after 2001 by record-low interest rates, postponed the day of reckoning, while greatly "financializing" relations between capital and labour; 4) but when financial markets started to seize up in the summer of 2007, the underlying weaknesses of accumulation and profitability meant that financial meltdown would trigger global slump; and 5) neoliberal transformations in money and finance have given this crisis a number of unique features, which the Left ought to be able to explain.

It is with this in mind that I want to clarify the idea of financialized capitalism. For there are deep and important reasons why this crisis began in the financial system, and why it has taken unique forms – and these must be explained if we wish to illuminate the concrete features of this slump. However, in many respects, the term *financialization* can be, and has been, highly misleading. To the degree to which it suggests that finance capitalists and their interests dominate contemporary capitalism, it is especially so. And where it has been taken to imply that late capitalism rests on the *circulation* rather than the production of goods – as if we could have one without the other – it has contributed to absurd depictions of the world economy today. Moreover, the lines between industrial and financial capital are in practice often quite blurred, with giant firms engaging in both forms of profit-making. General Electric, for instance, is as much a bank as it is a manufacturing corporation, while General Motors and Ford have increasingly relied on their finance divisions in order to make a profit. Prior to its collapse, Enron was essentially a derivative trading company, not an energy firm. All of these firms financialized themselves to important degrees in response to the rising profitability of the financial sector during the neoliberal period – a point to which I return.

What the term "financialization" ought to capture, in my view, is that set of transformations through which *relations between capitals and between capital and wage labour have been increasingly financialized* – i.e. increasingly embedded in interest-paying financial transactions. Understanding this enables us to grasp how it is that financial institutions have appropriated ever larger shares of surplus value. It is as a way of capturing these structural shifts that I intend to use the term financialization. In order to avoid misunderstanding – and to close off bad theorizing often associated with the concept – I will identify it specifically with the complex interconnections among three key phenomena of the neoliberal period that have underpinned the dizzying growth – and now the stunning collapse – of the financial sector. The three phenomena at issue are:

1. the mutation in the form of world money that occurred in the early 1970s;
2. the financial effects of neoliberal wage compression over the past 30 years; and
3. the enormous global imbalances (revolving around the US current account deficit) that have flooded the world economy with US dollars

Let me now briefly explore each of these in turn.

3. A Mutation in the Form of World Money

Commentators have rarely noted the curious conjunction that has defined capitalist globalization in the neoliberal era. On the one hand, globalizing capital has involved an intensification of capitalist value logics – removal of extra-market protections designed to subsidize prices of subsistence goods (e.g. food or fuel); weakening of labour market protections for workers; privatization of state-owned enterprises; deep cuts to non-market provision of healthcare and other social goods. On the other hand, this intensification of value logics has occurred through the medium of more unstable and volatile forms of money. As a result, *value forms have been extended at the same time as value measures (and predictions) have become more volatile*. This has given neoliberal globalization a number of distinct characteristics and a propensity to enormous credit bubbles and financial meltdowns of the sort we are witnessing at the moment. The following bullet points trace this second, and largely neglected side of the process.[17]

- The breakdown of Bretton Woods saw not only liberalization of capital flows, but also globalization alongside a weakening in the world money properties of the US dollar. Under Bretton Woods, the dollar was considered equivalent to 1/35th of an ounce of gold, and major currencies were fixed in proportion to the dollar. Changes in these currency proportions (exchange rates) were infrequent and generally small. But with the end of dollar-gold convertibility in 1971 and the move to floating exchange rates (rates that literally fluctuate all day each and every day according to values determined on world markets), currency values, especially for the dollar, became much more volatile. As a result, the formation of values at the world level became much more uncertain and less predictable.

- With the end of convertibility, the dollar became a full-fledged international credit money – grounded in fictitious capital (the US national debt), and lacking any substantive grounding in past labour (in this case, gold). As we shall see, this produced fertile ground for financial speculation.

- As a result of the de-commodification of the dollar and the moving from fixed to floating exchange rates for currencies, the *measure of value* property of money – the capacity of money to express the socially necessary (abstract) labor times inherent in commodities – was rendered highly unstable.

- With increased uncertainty in value relations, the importance of risk assessment and hedging against risk became a crucial activity for all capitals, especially for those whose business activities required moving in and through multiple currencies (all of whose values were fluctuating more widely). It is in this context that markets for derivatives exploded. In the first instance, derivatives are instruments designed to hedge risk. They allow, for instance, a corporation to enter a contract that provides an option to buy a currency (dollars, yens, euros or whatever) at a set price. While this option contract costs a fee, it also provides greater financial predictability for the firm.

- But while this aspect of derivatives follows conventional business logic, there has been an amazing proliferation of such instruments to cover just about every imaginable risk. And, huge numbers of such derivative contracts represent nothing more than financial gambling. This is because I can buy insurance against "risks" to assets I don't own. I can, for instance, purchase a derivative known as a Credit Default Swap (discussed further below) against the risk of GM defaulting – and I can do this even if I own none of GM's stocks or bonds. Rather than protecting my investment, then, in this case I am buying a CDS as a bet that GM *will* fail, hoping then to collect in the event of the company's failure. It is as if I could take out an insurance policy on someone I suspect to be dying, and then wait to collect. Thus, while their explosion follows on the new volatility of money since 1971, derivatives have also evolved as speculative bets on the movements of specific currencies, interest rates, stocks or bonds, even when I don't own any of these assets. I can thus buy a derivative contract simply as a bet on the weather pattern or the result of a sports event. Derivatives also create opportunities for speculators to exploit value gaps between markets (arbitrage), when currency movements make some asset relatively cheaper or pricier in one national market compared to another.

- This volatile regime of world money thus gave an enormous impetus to foreign exchange trading and to a whole plethora of options, hedges and swaps related to it. In fact, foreign exchange trading is now far and away the world's largest market, with an average daily turnover above $4 trillion according to the Bank for International Settlements, which represents an 800 per cent increase since 1988. To that market must be added a currency derivatives market of more than half that much again.

- Meanwhile, derivatives markets have come to massively eclipse markets in stocks and bonds. In 2006, for instance, more than $450 trillion in derivative contracts were sold. That compares with $40 trillion for global stock markets, and about $65 trillion of world bond markets in the same year. And the profits that can be made on selling derivatives are much higher than on selling stocks and bonds, thereby fuelling the growth of financial markets and the profits of the financial sector.[18]

- The heightened instability of world money, the explosion in foreign exchange trading, and the rise of instruments designed to hedge risk (derivatives) and, finally, the speculative activities associated with these have all encouraged a whole range of practices designed to financially capture *future values*, i.e. shares of surplus value that have not yet been produced. The result has been a proliferation of *fictitious capitals*, such as mortgage-backed securities and Collateralized Debt Obligations (which are discussed further below).

All of these developments, which are structurally related to the mutation in the form of world money that took place in the early 1970s, as any commodity basis to world money was abandoned and exchange rates were allowed to float, constitute an essential basis of financialization in the neoliberal period.[19]

4. Neoliberal Wage Compression, Social Inequality and the Credit Explosion

It follows from this analysis that the financialization that defines capitalism in its neoliberal form consists in structural transformations that corresponds to a particular conjuncture, not a financial coup or the rebirth of the *rentier*.[20]

In the first instance, this is manifest in the doubling of the share of US corporate profits going to the financial sector compared to its share during the 1970s and 1980s. While the proportion of profits going to finance doubled to more than 28 percent by 2004, the share going to the broader financial (interest-bearing) services sector – Finance, Real Estate and Insurance (FIRE) – also doubled to nearly 50 per cent of all US corporate profits.[21]

The growth of financial markets and profitability is tied to processes of neoliberal wage compression that also underwrote the significant partial recovery of the rate of profit between 1982 and 2007. Wage compression – which is a key component of the increase in the rate of surplus value in the neoliberal period – was accomplished by way of social and spatial reorganization of labour markets and production processes. Five dynamics figure especially prominently here: 1) the geographic relocation of production, with significant expansion of manufacturing industries in dramatically lower wage areas of East Asia and, to a lesser degree, India, Mexico and so on; 2) the downward pressure on wages triggered by a huge expansion in the reserve army of global labour resulting from massive dispossession of peasants and agricultural labourers, particularly in China and India; 3) the increase in relative surplus value brought about by the boosts to labour productivity (output per worker per hour) resulting from the combined effects of lean production techniques and new technologies; 4) increases in absolute surplus value triggered by an increase in work hours, particularly in the United States; 5) sharp cuts to real wages brought about by union-busting, two-tiered wage systems, and cuts to the "social wage" in the form of a reduction in non-wage social benefits, such as health care, food and fuel subsidies, pensions and social assistance programs.

Where successful, all of these strategies have reduced the living standards of working class people while spectacularly concentrating wealth at the top of the economic ladder. Data from the United States are especially instructive in this regard. According to detailed studies, which may if anything underestimate the polarization, between 1973 and 2002, average real incomes for the bottom 90 per cent of Americans fell by nine percent. Incomes for the top one per cent rose by 101 per cent, while those for the top 0.1 per cent soared by 227 percent. These data have recently been updated to show additional increases in household inequality in the US all the way through 2006.[22] And a recent report from the Organization for Economic Cooperation and Development charts similar trends for most major capitalist societies.

Inevitably, even more unequal relations appear once we look beyond income to the ownership of corporate wealth. Whereas in 1991 the wealthiest one percent of Americans owned 38.7 percent of corporate wealth, by 2003 their share had soared to 57.5 per cent.[23] And similar effects are evident at the global level. According to the Boston Consulting Group, for example, since 2000, "the 16.5 percent of global households with at least $100,000 to invest have seen their assets soar 64 percent in value, to $84.5 trillion." The vast bulk of that wealth resides in the portfolios of millionaire households Although they comprise just 0.7 percent of the globe's total households, these millionaire households now hold over a third of the world's wealth.[24] And it is these households, particularly in the conditions of renewed over-accumulation of capital since the late 1990s, who have enormously boosted demand for interest-bearing financial assets.

Just as the wealthiest households demanded a plethora of financial instruments in which to invest, large numbers of working class people turned to credit markets – particularly in the context of dramatically lowered interest rates after 2001 – in order to sustain living standards. And the provision of greater amounts of credit to such working class people – in the forms of mortgage and credit card debt in particular – was underpinned by the provision of "cheap money" (low interest rates) designed to prevent the deepening of the slump that began in 1997 and was reactivated in 2001, and by growing demand from wealthy investors for "securitized" debt instruments (i.e. mortgage and credit card debt packaged like securities for purchase) that offered higher rates of return. The process of securitization of debt – repacking it as a purchasable income-generating "security" – enabled working class debt to comprise a significant source of new financial instruments for banks, pension funds, financialized corporations, wealthy investors and the like.

All of these trends led to a quadrupling of private and public debt in US, from slightly more than $10 trillion to $43 trillion, during the period of Alan Greenspan's tenure as President of the Federal Reserve (1987-2005).[25] And the great acceleration in this debt build-up came after 1997, as the recessionary dynamics of global over-accumulation became more evident. Moreover, as I discuss below, since 2000 the rate of credit creation in many economies has been much faster than that in the highly indebted US and UK, presaging a serious of local crises, of the sort we have already seen in Iceland, Hungary, the Ukraine and Pakistan.

5. Global Imbalances, Prolonged Slump

As I have suggested, a new wave of global capitalist expansion began in 1982, as two recessions (1974-75, 1981-82) coupled with mass unemployment, cuts to the social wage, an employers' offensive against unions, and the accelerated introduction of lean production methods all raised the rate of surplus value and general levels of profitability. Spatial restructuring of capital to take advantage of low wages, particularly in labour-intensive manufacturing and assembly, had the same effects. The center of the new wave of accumulation was East Asia. And it was there, fifteen years into the new cycle of growth, that the first symptoms of a new crisis of over-capacity manifested themselves.

While many commentators treated the Asian crisis of 1997 as simply a matter of global flows of finance (which exited the region *en masse* at the time), the regional financial outflows reflected severe pressures of over-accumulation of capital, as I argued at the time.[26] The investment boom in East Asia created enormous excess capacity in computer chips, autos, semi-conductors, chemicals, steel, and fibre optics. One key indicator of this overcapacity is the *consumption deflator*, which measures prices in consumer goods. That index demonstrates that US prices for consumer durables –electronics, appliances, cars and more – began to decline in the autumn of 1995. This signal of rising productivity and over-production offers the best clues as to the structural underpinnings of the crisis that broke out in East Asia (the center of the manufacturing boom of the neoliberal era). Equally important, the consumption deflator shows that prices for consumer durables continued to fall from 1995 right into 2008, one of the reasons the rate of inflation was relatively low, though still positive, and a clear indication that problems of over-accumulation have not been resolved.[27]

It is at this point – after the Asian crisis of 1997 and the slide back toward recession following the bursting of the dotcom bubble in 2000-1 – that two interconnected phenomena become crucial to postponing a general slump: massive growth of debt loads; and the US current account deficit (its shortfall in trade in goods and services and interest payments with the rest f the world), which operated as the "Keynesian engine" of the global economy over the past decade. And here too, as we shall see, the new form of world money played a central role.

Although it may seem paradoxical, it was the recently-hammered East Asian economies (plus China) that drove the next decade of growth (1998-2007). Obeying the logic of capitalism, these economies were forced to cut exchange rates of local currencies, shed labor, reduce costs and dramatically restructure industry. Soon they were exporting their way back to growth, developing huge trade surpluses and soaring international reserves (mainly dollars). But this export-led growth was sustained overwhelmingly by the growing trade and current account deficits in the US. As commentators have noted, the American economy effectively became "the consumer of last resort." From 1980 to 2000, for instance, US imports rose 40 per cent, accounting for almost one-fifth of world exports, and four per cent of world gross domestic product. But by 2006, this level of consumption of foreign goods could only be sustained at the cost of an $857 billion US current account deficit (the shortfall in trade in goods and services and in interest payments with the rest of the world). The recovery after 1997, in other words, was built on the pillars of exceptionally low US interest rates, particularly from 2001; steady growth in consumer indebtedness; and a swelling US current account deficit. Absent those, there would have been no sustained recovery after 1997 – and across the related crises in Russia (1998), at Long Term Capital Management (1998), Brazil (1999) and Argentina (2000-1).

No other country but the US could have run sustained current account deficits of this magnitude for so long. And, had it not broken convertibility with gold, it would have been confronted by another run on US gold supplies. But operating now as inconvertible world money, dollars had to be accepted by those governments with whose economies the US was running a deficit. And because the euphoria of a "boom" built on asset bubbles, particularly in real estate,[28] created real investment opportunities – even if these were increasingly built on sand – foreign investors kept pouring funds into US markets. Foreign central banks, particularly in East Asia and the OPEC nations did the same, recycling the dollars used to cover American current account deficits into the US, therein subsidizing the credit-driven consumer boom. Because the US dollar is the main form of world money, it remained attractive, so long as the American economy looked vibrant, despite sustained – and unsustainable – current account deficits and a massive decline in US international net worth.

But – and this is a point that has eluded many analysts – as soon as the US bubble-driven boom showed signs of faltering, a flight from the dollar and the US economy was inevitable. And precisely this is what happened in 2007. First, US profits peaked in the third quarter of 2006, entering a period of decline. By the first half of 2007, private investors saw the writing on the wall. *Private capital flows into the US turned sharply negative in the third quarter of 2007, with an annualized outflow of $234 billion* – a stunning drop of $1.1 trillion from the previous quarter (when flows were positive to the tune of $823 billion).[29] A reversal of this sort was absolutely without precedent. And it indicated that, contrary to some pundits, capital could flee the US economy and its currency as readily as anywhere else. What saved the US economy from a dizzying collapse of the dollar and an even more brutal seizure of credit markets was continued investment (particularly in Treasury bills and bonds) by central banks in East Asia and oil-producing Middle Eastern states. Tellingly, if Chinese reports are to be believed, this was provided only after US president George Bush begged his Chinese counterpart, Hu Jintao, to keep up purchases of US bonds.[30]

But foreign capital had spoken. Belief in the US "boom" was evaporating. The real estate bubble began to deflate, mortgage-backed securities entered their free fall, hedge funds (first at Bear Stearns) collapsed, followed by investment banks. The rout was on – and it is far from over. In the process, the capacity of whopping US current account deficits, underpinned by debt-fuelled consumer spending, to buoy the world economy appears to be exhausted. Yet, to rebalance the global economy, to eliminate huge US deficits and enormous East Asian surpluses, means to destroy the source of demand that enabled growth in a period of over-accumulation (and it would also mean much larger falls in the US dollar). For this reason, short of a long slump that destroys massive amounts of capital, it will be extremely difficult for the world economy to find a new source of demand sufficient to restart sustained growth.

6. Fictitious Capital, Continuing Financial Crises

Meanwhile, we will continue to be treated to a great destruction of capitals, both real and fictitious. The concept of fictitious capital is developed by Marx with two key features in mind. First, fictitious capitals are paper claims to wealth that exist alongside the actual means of production, stocks of goods and reserves of labour-power that capitals mobilize. Yet, they can be bought and sold many times over as if they were that wealth itself (this is why the prices of stocks can come to bear an absurdly inflated relation to the actual value and profitability of a firm). Secondly, fictitious capitals lay claim to future wealth, i.e. to shares of profits or wages that have not yet come into existence. So, when a bank creates a financial asset that provides the right to the principal and interest payments from my credit card debt – a process, as we have seen, known as *securitization* – it is not selling an existing asset but a claim to income that *may* be created in the future. Should I lose my job, however, and default on my credit card debt, then the "asset" sold by the bank is revealed to be totally fictitious, a mere piece of paper – nothing more than an IOU that will never be repaid.

And during the neoliberal period, for the three reasons I have outlined, we have seen an extraordinary build-up of fictitious capitals (paper claims to future wealth) within the system. A key structural underpinning for this is the mutation in the form of world money that produced massive new industries devoted to currency trading, and the related derivative instruments – futures, options, swaps and the like – that have proliferated over the neoliberal era.[31] As much as there are sound structural reasons for a proliferation of risk-hedging derivatives in an era of floating exchange rates, derivatives have also provided a huge field for purely speculative activity – for financial gambling, as speculators make bets as to which currencies, commodities or national interest rates will rise or fall, and reap profits or losses according to the accuracy of their bets. Of course, the profits on the trading of such instruments have to come from somewhere – and that somewhere has been the non-financial corporate sector, whose share of total profits has systematically fallen across the neoliberal era, while the financial share has soared, as we have seen. Secondly, the massive polarization of incomes produced both a huge demand from the wealthy for interest-paying financial instruments, which was eventually met by the extension of massive amounts of credit (particularly for mortgages, housing-backed loans, and credit cards) to working class households desperate to sustain living standards. Since 2000, mortgage-backed "securities" have been the flavour of the month, often in the form of Collateralized Debt Obligations (CDOs), that is, debts backed up by collateral (in this case houses). But if the value of the underlying asset (houses) plummets, no longer equal to the paper debts themselves, then the "collateral" is largely fictitious. And that is exactly what has happened. As housing prices have fallen off a cliff in the US, Ireland, UK, Spain, and elsewhere, the actual values of CDOs have collapsed, forcing banks to write off billions of dollars in assets. At the moment, billions worth of CDOs are actually trading at prices between 20 and 40 cents on the dollar.

This is what it means when Marx says a crisis involves a destruction of capital. The "values" of fictitious capitals – stocks, bills and all kinds of paper assets – which were previously treated as if they were real assets (and against which financial institutions borrowed), enter a freefall. At the same time, real capital is destroyed, as factories are mothballed, corporations go bust and sell off their buildings, machines, land, customers lists and so on at bargain basement prices. And what is particularly troubling for the ruling class is that, even after something approaching $10 trillion in bailouts, the destruction of capital is still in the early innings.

It is quite clear that huge global companies, of the scale of GM and Chrysler, are going to collapse or be merged. The same will happen in the electronics industry. Factories will be permanently closed, millions of jobs will be eviscerated (the OECD estimates eight million additional job losses in the major economies next year, and so far every mainstream prediction as to the severity of this slump has under-estimated). And the earthquakes in the financial sector are far from over, meaning that more bank meltdowns are in store.

There are, after all, a lot more ticking time bombs in the financial system. Consider, for instance, the rising defaults on credit card debt. And then contemplate the mountain of commercial paper, much of which was sold to finance Leveraged Buy Outs (LBOs), i.e. corporate takeovers made possible by borrowing funds and issuing IOUs. As corporate profits plummet, it gets harder and harder for firms that floated such paper to meet their payments. Many will go under. For that reason, LBO commercial paper now trades at between 60 and 70 cents on the dollar.[32] Consider also the coming decline in commercial mortgages, as businesses, faced with falling sales and disappearing profits, can't keep up their mortgage payments on lands and buildings. Those losses will wobble more banks. But perhaps the biggest fault-line runs through the market in Credit Default Swaps. As we have seen, a CDS is essentially an insurance policy taken by a creditor as a protection against default by a debtor. When all is well in the economy, it is a nice source of revenues for the insuring party. But in a crisis, it can be deadly. It is as if a life insurance company all of a sudden had to pay out on a rapidly rising percentage of its policies. But, whereas death rates are relatively constant, in the midst of a financial crisis, default rates are not. To make matters worse, as noted above, any investor can buy a Credit Default Swap, even if they do not own a single share of the company in question. This encourages speculators to literally bet on the failure of a particular company. If you think GM will default on its debt, for instance, buying a CDS on GM debt is a great way to get a payout many times higher than what the CDS costs. As a result, as speculative bets build up, the insuring party (the seller of CDSs) is on the hook for a growing number of claims in the event of default. In crisis conditions, however, the insurer can quickly go under, unable to pay out to every claimant. But in that event, nobody is protected any longer against default of the toxic waste they might be holding. And that means complete and total financial market panic. That's the secret behind the US government bailout of AIG, the world's largest insurance company. AIG holds about $1 trillion in CDSs. In the early fall of 2008, it defaulted on just $14 billion in Credit Default Swaps. That was enough to wobble the market. The government had no real option, if it wanted to avoid a devastating panic cycle, but to bail out AIG. Yet, a mere five weeks after having injected

$85 billion into the giant insurer, the US Treasury had to pump in $65 billion more, taking the total to $150 billion, the largest such bailout in history. Tellingly, of the government funds AIG has drawn, fully 95 per cent have been used to cover losses in a single sector of the Credit Default Swap market.[33] And there are likely to be bigger CDS losses to come, both at AIG and elsewhere, as there is another $54 trillion in CDSs out there, default on a small fraction of which could induce another major financial market collapse.[34]

And here, questions of market regulation and transparency become important. Because most derivatives, including CDSs, are sold outside regulated markets, nobody really knows who holds what, or how much. That is why banks have become so leery of lending to one another. Some institutions are sitting on time bombs, trying to conceal massive amounts of financial toxic waste. But no one knows exactly who it might be. As bankers at Lehman Brothers said to US government officials when the two groups reviewed Lehman's books, "We have no idea of the details of our derivatives exposure and neither do you."[35]

That's why, despite massive injections of liquidity into the banking system, credit markets are still stuck in low gear. There are very large financial crises yet to unfold. All parties involved know it. Until all of that junk is washed out of the system – which means the booking of massive losses of the sort Citigroup recently took – the financial crisis will not be over.

7. Capitalist Measurement, the Value Form and the Violence of Abstraction

This returns us to some of the specific features of the current crisis, which have too often been neglected on the Left. For, as money has become more volatile, its measure of value function has become more problematic, as I pointed out in section 3 above. While capitalist investment always involves wagers on future results, the conditions of such wagers have become riskier in a context in which the international values of national currencies have become less predictable and more unstable. After all, the profits made by foreign branches of a corporation – say in Korean *won* or Turkish *lira* – can be completely wiped out when repatriated to the home office, as a result of drops in the values of those currencies.

Derivatives, by allowing corporations to contract to buy a currency at a particular exchange rate some time in the future, or to purchase the right to borrow at a certain rate of interest in a given currency, have played a crucial role in helping capitalist enterprises manage these risks. Indeed, they have become the key financial instrument for doing so.[36] Moreover, as we have seen, with the proliferation of derivatives designed to hedge the risk of currency fluctuations has come an explosion of others meant to put a price on protection against any and every risk, from the effects of climate change on Florida's orange crop to the likelihood that Evo Morales's government in Bolivia will nationalize the hydrocarbons industry. And this requires that derivatives be capable of computing all concrete risks – climatological, political, monetary, and more – on a single metric. They must, in other words, be able to translate concrete risks into quantities of *abstract risk*.[37]

One recognizes here the logic of the value form as analyzed by Marx, in which all commodities, irrespective of their concrete characteristics, must be measurable on a single metric (value), and priced as mere quanta of money (the universal equivalent) – and in which all concrete labours must be treated as commensurable, i.e. as quantities of *abstract* human labour. But as the powers of money to do this pricing reliably – to provide relatively predictable measures of value – have declined (see Section 3), derivatives have increasingly filled in the gaps. *Now, however, a classic crisis of capitalist measurement is manifesting itself, in part in the form of a breakdown in derivatives pricing*.

During every crisis, value measurement is radically disrupted and destabilized. Pressures of over-accumulation and declining profitability induce a destruction of values that reorganize the foundations of capitalist production. In the process, existing capitals are de-valued, until a new and relatively stable valuation is found. In fact, for Marx, an essential feature of crises is that they destroy the old value relations that persisted through a period of boom, over-accumulation and declining profitability in order to lay the basis, through destruction and devaluation of capital and labour power, for a new set of value norms.[38] Today, as we have seen in Section 3, derivatives offer an indirect way of trying to measure value by way of measuring risk. But in the midst of this crisis, the risk measurement models that have guided derivatives markets have completely and utterly failed. This was admitted in an especially interesting way by Alan Greenspan:

> A Nobel Prize was awarded for the discovery of the pricing model that underpins much of the advance in derivatives markets. This modern risk management paradigm held sway for decades. The whole intellectual edifice, however, collapsed in the summer of last year . . .[39]

In trying to measure abstract risk, the models in question attempt to create indicators of current and future value relations by predicting the riskiness of investment or economic activity in a given situation (and the appropriate premium or "risk reward" that ought to be expected). Inherently, these models involve violent abstractions, to use Marx's term, insofar as they reduce concrete social, political, climatological and economic relations to a single scale of measurement, often with life-threatening implications, as we shall see. The process of abstraction these models undertake involves treating space and time as mathematical, as nothing more than different points on a grid. This homogenization of space and time assumes that what applied at any one spatio-temporal moment applies in principle at any other. Future events in multiple spaces are thus held to be predictable on the basis of past events. But crises destroy any basis for such assumptions – they bring about the "collapse" of "the whole intellectual edifice" on which they rest, as Greenspan notes. As a result, nobody knows any longer the value of trillions of dollars worth of financial "assets" – Collateralized Debt Obligations, Asset Backed Commercial Paper, and much more. Consequently, lack of knowledge of "the details of . . . derivatives exposure" is not a problem unique to Lehman Brothers; it is a *systemic* problem that will not quickly or readily be resolved. As a result of financialization of neoliberal capitalism, therefore, the crisis of value measurement is expressed in the first instance in markets for financial instruments, like derivatives. But it is at root a classic case of a crisis of value measurement, caused by collapses in value brought on by over-accumulation, falling profits, and unsustainable build-ups in fictitious capitals.

8. Debt, Discipline, Dispossession: Value Struggles and the Crisis

Thus far, I have focussed on developments on the side of capital, abstracted from its (mutually constituting) relation with global labour.[40] But, of course, every crisis of capital also involves immense suffering and hardship for the world's workers. And this one is no different. At the same time, crises are also moments in which the subordination of labour to capital must be reorganized, and in which new spaces of resistance can be pried open. They are, in short, moments of great danger and opportunity for the world's workers. It is not within the bounds of this paper to attempt any sort of analysis of actual correlations of class forces and capacities. But it is worth drawing attention to a few salient features of the current moment.

Recall that this crisis is deeply related to debt markets, and that working class debt figures centrally here. Debt, of course, is one of the oldest class relations; repayment of loans has been a great mechanism for transferring wealth from direct producers to landlords and moneyed capitalists. In the neoliberal context, debt has become a powerful weapon for disciplining the working class in the Global North. After all, the pressure of debt repayment (based on the threat of losing houses, cars, etc. should one fail to make payments) forces extreme capitalist work discipline on people. Not only do pressures of financial payments push people to work long hours, but, in a context of growing use of casual, temporary, contract, and precarious employment, it also increases the sheer stress of juggling multiple jobs. While there is an element of exaggeration in the idea of "the real subsumption of labour to finance,"[41] the formulation does grasp the powerful disciplining effects of the increased financialization of relations between labour and capital, of the ever-greater incorporation of workers into financial and credit markets.

But the politics of massive government bailouts, in which the debt of major financial institutions is assumed by the state, raises important openings for campaigns to reduce and eliminate working class debt, particularly in the housing sector, just as it opens political space for mobilizations to use the massive funds designed to save banks in order instead to build social housing, nationalize failing industries, convert them to green production, and preserve jobs.

Debt is also, of course, a weapon of dispossession. Again, this is as old as class society itself. But in the neoliberal period, debt has been used at multiple scales to engage in processes of "accumulation by dispossession."[42] National debts have been occasions for the transfer of state assets in the South – electrical utilities, mines, national airlines and the like – to investors from the North, as Structural Adjustment Programs imposed by the IMF have mandated privatization of government holdings. And there can be little doubt that capital in the North will attempt to use impending financial and currency crises that in the Global South to similar ends. As prices plummet for food and raw materials –

copper, oil, coffee, cocoa, timber, rubber and more – dozens of poorer countries will encounter big drops in their export earnings. This will inhibit their capacities to import food, medicine and other essentials, as well as to service existing debts. Trade and currency crises may ensue, driving poor nations into the dreaded hands of the IMF. Already, Iceland, Hungary, the Ukraine and Pakistan have had to turn to the IMF. And more will follow. Once again, the IMF will join with governments and banks in the North to set loan conditions that open countries in the South to plunder of their assets. The only alternative will be to repudiate debts, as Ecuador rightly plans to do, and to mobilize against the imperial order embodied in the domination of the IMF, the World Bank and financial institutions in the Global North.

Beyond the level of the global debts of states, debts on smaller scales continue to be used as levers to seize peasant lands and dispossess millions, thereby gaining capitalist access to oil, minerals, timber, lands for eco-tourism, and more, all the while swelling the global reserve army of labour.[43] Meanwhile, "natural disasters," from Katrina to the tsunami have provided ideal conditions for government sponsored displacement programs in the US, Thailand, Sri Lanka, and Indonesia that re-enact the economic violence of "primitive accumulation" as described by Marx.[44]

Such processes of accumulation have given rise to powerful movements of the rural poor – think of Via Campesina, the Landless Workers' Movement in Brazil, or the Save Narmada Movement in India, the latter of which has fought mass displacement by giant dam projects. Such movements are likely to resurge in many parts of the world as this crisis intensifies processes of dispossession. Indeed, recently, in the wake of the global financial crisis, major riots against displacement swept China's Gansu province.[45]

All such struggles, however much they can be derailed or diverted, implicitly challenge the domination of society by the capitalist value form. They assert the priority of life values – for land, water, food, housing, income – over the value abstraction and the violent economic and social crises it entails. And one of the tasks of the Left is to highlight this conflict – between life values and capitalist imperatives – that comes to the fore dramatically during times of crisis, in order to pose a socialist alternative that speaks directly and eloquently to the most vital needs of the oppressed.

It is, as we have seen, the logic of the value abstraction to express utter indifference to use values, notably to the needs of the concrete, sensuous beings who are bearers of labour power. What matters for capital is not the capacity of a given commodity to satisfy specific human needs; instead, what counts is its capacity to exchange for money, to turn a profit, to assist accumulation. Bread, steel, water, houses, clothing, computers and cars count only as potential sums of money; their specific use values are ultimately irrelevant to the drive to accumulate. Capital is thus indifferent to the concrete need-satisfying properties of particular goods. For capital, they are all interchangeable, merely potential sums of expandable wealth. The rich diversity of human needs is thus flattened out (abstracted) by the expansionary drive of capital. The question of food illustrates this particularly clearly.

In recent years, traders in raw commodities have come to treat four different use value groups as interchangeable. They claim to have effectively integrated commodities that serve as transportation energy; heat and power; materials for plastics and other goods; food and water. All four are said to have become part of a single equational system in which they are literally interchangeable, indeed in which they are effectively a single complex use-value that operates as if it were a *uni-commodity*. One commodity trader explains,

> ". . . we don't care what commodity you buy. We call it bushels-to-barrels-to BTUs convergence. Take corn: it can now create heating and transportation . . . And you can use petroleum to create plastics or to create fertilizer to grow food – suddenly we are indifferent to what commodity we are buying to meet our demands."[46]

But while capital is indifferent to the concrete commodity in question, working people are not. It matters enormously whether the corn being grown will be used for food, as opposed to fuel for trucks or for heating factories. Survival for millions can literally turn on market dictates in this regard. And this graphically underlines the value struggles at the heart of capitalism in general, which are posed with a dramatic urgency in the midst of a crisis such as this.

And it is not simply the "automatic" operations of capitalist markets that are at issue here. Similarly, the political decisions of the world's rulers obey the same market logics, as we have seen throughout the course of the global bailouts. Again, the case of food vividly illustrates this.

Last spring, as rising food prices pushed millions of people toward starvation, governments pledged $22 billion in emergency funding for the world's hungriest. While that was a paltry sum, even more paltry is the amount that was actually delivered – merely one tenth of what was pledged, or $2.2 billion, according to the UN Food and Agriculture Organization.[47] Yet, somehow, governments in the Global North have in short order come up with about $10 trillion to bail out financial institutions – nearly 5000 times as much as they have anted up to feed the world's poor. Compressed in that simple fact is the most basic case for socialism.

And despite falling food prices, the current slump is going to deepen the global food crisis. Lack of credit with which to import food and production cutbacks by farmers in the face of falling prices are expected to exacerbate food shortages in much of the Global South. And, to make matters worse, governments in the South, squeezed by falling prices for the commodities they export, are trying to cut back on food imports, in order to avoid balance of payments crises. All of this foreshadows severe crises of hunger and starvation. Not surprisingly, the Food and Agriculture Organization now predicts that food riots "could again capture the headlines," the way they did in 2007 and early 2008.[48] Not only are such riots one of the most longstanding forms of plebeian revolt against the dictates of the market; they also pose the most fundamental questions about the nature of a society that condemns millions to starve while funnelling untold trillions into global banks.

9. Looking Forward

We are, in sum, entering the second stage of a profound systemic crisis of neoliberal capitalism. The first stage involved a staggering financial shock that toppled major banks and elicited a multi-trillion dollar bailout of the global financial system. The second stage will entail the collapse, merger, and/or effective nationalization of major corporations, especially in the auto and electronics industries. Unemployment will ratchet higher – much higher. And the ongoing collapse of sales and profits will topple more financial institutions.

It is impossible to predict exactly how this crisis will play out and how long the slump will last, though there is a strong possibility that it will be deep and protracted. Some things, however, are clear.

First, the crisis will induce massive centralization of capital. Already, banks have been merged on a huge scale. In Japan, the crisis of the 1990s saw three national banks emerge from a field that once boasted more than ten. In Britain, the merger of Lloyds bank with the Halifax Bank of Scotland (HBOS) will create a single institution with 40 per cent of all retail banking in the UK. Bank mergers in Brazil have produced one of the 20 largest banks in the world and the largest in Latin America. Meanwhile, pressure is growing for a merger of General Motors and Chrysler or for their merger with other firms, moves which would close large numbers of plants and axe tens of thousands of jobs. And in Asia, a merger of electronics giants Panasonic and Sanyo is also being mooted. As they centralize, combining former rivals under one corporate owner, capitals try simultaneously to get a leg up on their competitors and to concentrate their power over labour, so as to drive down wages, benefits and total employment.

Second, this crisis will also pose again the question of the balance of global economic power and the role of the dollar. One of the key problems making for financial instability is the diminished capacity of the US dollar to act as a stable form of world money. In fact, despite its recent rise as a "safe haven" in the midst of financial panic, the dollar is likely to resume its downward movement in the near future, creating more instability for the world economy. This has prompted economists at the UN to advocate reforms to the international monetary system that would move towards a multi-currency regime of world money.[49] Notwithstanding the impressive rise of the euro in less than a decade – to the point that it exceeds the dollar in international bond markets and nearly equals it as a means of payment in cross-border transactions – there is no rival currency with the economic depth to displace the dollar. As a result, the world economy is likely to drift toward a more fractured regime of world money, with two or more currencies pushing for larger shares of global financial transactions. This could lead to pressures to develop an Asian currency bloc capable of rivalling the dollar and euro zones. It could also indicate new forms of competition between rival imperial projects – not the forms of territorial and military rivalry of the nineteenth and first half of the twentieth centuries, but competition between blocs for greater control of financial markets and global monetary privileges.[50] Interestingly, elements of this have been grasped by the US National

Intelligence Council, whose *Global Trends 2025* predicts a world order characterized by “multipolarity,” rather than simple US dominance.

Third, centralization of capital and competition between blocs will also be played out by way of attempts to spatially reorganize capital, so that economies in the Global North can displace the effects of crisis onto those in the South. There has been a major build up of credit in a whole number of “emerging market” economies in recent years, and these debt loads will produce a variety of crises. Especially vulnerable will be countries like Turkey and South Africa, where economic growth has been driven by huge inflows of foreign capital. At some point during this crisis, if investors become wary of the prospects of these economies in the midst of a world slump, capital outflows will trigger major financial and currency crises.[51] Those economies may then encounter their own version of the Asian crisis. And if the IMF is called in, western governments will press to buy up assets on the cheap, as was done to South Korea in particular in 1997, after IMF loan conditions facilitated perhaps “the biggest peacetime transfer of assets from domestic to foreign owners in the past fifty years anywhere in the world.”[52] As sharp regional crises unfold, therefore, major conflicts between governments in the North and South may emerge (over loan repayment, IMF conditions requiring greater liberalization and privatization and so on), with the capacity to ignite powerful social struggles. In Latin America, where a number of governments – Bolivia, Venezuela, Ecuador and Argentina – already strike an oppositional stance towards the US-dominated economic order, such struggles may well assume an anti-imperial form. Campaigns for debt repudiation, bank nationalizations and the like could become part of significant social upheavals.

Fourth, just as nations at the top of the imperial order will try to inflict greater hardship on the South, so we can anticipate moves toward even more draconian restrictions on the movement of migrant labour. At the same time as they press for “free movement” of capital, governments at the core of the system also demand tighter control and regulation of the movement of labour. With the deepening of the economic crisis, many have already started to play the anti-immigrant card. Britain, in particular, has signalled a tightening up of immigration policy, and others will surely follow. As businesses fail, factories close and unemployment mounts, immigrant-bashing is likely to become more widespread. Moreover, government officials and parties on the right are likely to fan xenophobic sentiments of the sort that were on display earlier this year in countries like South Africa, where migrants from Zimbabwe in particular suffered violent assaults, or in South Korea, where undocumented migrants from the Philippines have been subjected to mass deportation. This crisis will thus put a premium on a Left for which anti-racism and defence of migrant workers are absolutely central to a politics of resistance.

Finally, this crisis also puts a premium on Left responses that are clearly *socialist* in character. The notion of calling for a “leashed capitalism”[53] in the face of such a colossal failure of the capitalist market system represents an equally colossal failure of socialist imagination. If ever there was a moment to highlight the systemic failings of capitalism and the need for a radical alternative, it is now. True, the Left must be able to do this in a meaningful and accessible language, by way of formulating concrete socialist demands and strategies that speak eloquently and powerfully to real and compelling needs and interests of oppressed people. And this will certainly involve fighting for specific reforms – to save jobs, build social housing, cancel Third World debts, invest in ecologically sustainable industries, feed the poor. But, as Rosa Luxemburg pointed out more than a century ago, while Marxists have a duty to fight for social reforms, they ought to do so in a way that builds the revolutionary capacities of the world's workers to remake the world.[54] And one crucial part of this involves popular education and agitation for socialism. Not to advance the critique of capitalism as a system, and not to highlight the need for a systemic transformation that will break the hold of the capitalist value form over human life is to squander an opportunity that lurks within this moment of crisis. This is a moment that calls out for bold, thoughtful socialist responses, a moment when socialist theory, joined to practical struggles, can become "a material force" for changing the world. But this requires insisting, in the face of capitalist crisis, that another world really is possible.

NOTES

[1] I would like to thank the editors of *Historical Materialism* for the opportunity to first present this paper at their conference. Thanks too to Sue Ferguson for comments on an earlier draft.

[2] Greg Farrell, "Merrill chief see severe global slowdown," *Financial Times*, November 11, 2008; "Doom and Gloom rule on Wall Street," *Globe and Mail Report on Business*, November 13, 2008.

[3] As of the end of October 2008, Standard and Poor's Index Service, estimated world stock market losses of $16.2 trillion. Since then, losses have climbed, and some analysts believe S&P's figures were already too low. The quote comes from John Authurs and Michael Mackenzie, "Worst bear market since 1930s dashes hopes, *Financial Times*, November 21, 2008.

[4] Greg Keenan, "Detroit Three rev up to plead case," *Globe and Mail*, December 2, 2008.

[5] Nicholas Van Praet, "Auto industry collapse would crush U.S. economy: study," *Financial Post*, November 5, 2008.

[6] Richard Waters, "Electronics bargains for US consumers spell trouble for the industry" *Financial Times*, November 20, 2008, and Chris Nuttall, "Semiconductor sales poised to slump next year," *Financial Times*, November 20, 2008.

[7] See the estimates of Noboyuki Saji, chief economist for Mitsubishi UFI Securities.

[8] Andrew Batson, "China's steel boom fizzles out," *Wall Street Journal*, November 26, 2008.

[9] Andrew Batson and Gordon Fairclough, "Double-digit expansion a memory for China," *Wall Street Journal,* December 11, 2008.

[10] Jonathan Manthorpe, "Chinese officials fear more unrest over job losses, *Vancouver Sun*, November 24, 2008. Late November also saw riots by laid off workers at a toy factory in southern China, in which the workers smashed factory windows and wrecked computers. See Marcus Gee, "China cuts rates by most in a decade," *Globe and Mail*, November 27, 2008.

[11] Robin Kwang, "Taiwanese exports hit by sharpest decline since 2001," *Financial Times*, December 9, 2008.

[12] On the scale of the bailout, the Bank of England, *Financial Stability Report*, n. 24 (October 2008) estimated $7.2 trillion. But estimates by CreditSights that the US government had already committed $5 trillion by that point to keep the financial system afloat suggested a higher figure. See Elizabeth Moyer, "Washington's $5 Trillion Tab," *Forbes.com*, November 12, 2008. Then, in late November, the US government earmarked an additional $1.1 trillion to its bailouts, designating $300 billion to rescue Citigroup and another $800 billion to buy troubled" mortgage-backed securities and to extend credit for borrowers with student loans and credit card debt. Commentators are now suggesting that the price tag for the US bailouts has hit $7 trillion; see Barrie McKenna, "Millions, Billions, Trillions," *Globe and Mail*, November 26, 2008.

[13] Robert Pollin, "Resurrection of the Rentier," *New Left Review* 46 (July-August 2007), p. 153.

[14] The most celebrated and widely debated effort to analyze the global economy since 1945 in terms of a developing crisis of profitability is that offered by Robert Brenner, *The Economics of Global Turbulence* (London: Verso, 1998 and 2006) and *The Bubble and the Boom: The US in the World Economy* (London: Verso, 2002). I attempted to re-cast Brenner's analysis in terms of Marxian value theory in "Turbulence in the World Economy," *Monthly Review*, v. 51, n.2 (June 1999), pp. 38-52. A very important response to Brenner from a value theory standpoint, and one that raised the critical questions of credit and international finance, is that by Ben Fine, Costas Lapavitsas and Dimitris Milonakis, "Addressing the World Economy: Two Steps Back," *Capital and Class* 67 (1999), pp. 47-90.

[15] See the empirical evidence presented by Fred Moseley, "The United States Economy at the Turn of the Century: Entering a New Era of Prosperity?" *Capital and Class* 67 (1999) and his "Marxian Crisis Theory and the Postwar US Economy," in *Anti-Capitalism A Marxist Introduction*, ed. Alfredo Saad-Filho (London: Pluto Press, 2003), pp. 211-23. See also Charlie Post, "Crisis Theory – Root Causes of the Current Crisis," available at http://.marxsite.com/Charles%20Post%20crisis%20theory.html.

[16] For helpful overviews of the often spectacular process of capitalist growth in China see David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2005), Ch. 5, and Andrew Glyn, *Capitalism Unleashed: Finance, Globalization and Welfare* (Oxford: Oxford University Press, 2006), pp. 88-95.

[17] I recognize the telegraphic style of this argument, which will be developed systematically in a future study on world money.

[18] See Aaron Lucchetti, "'Innovation, imagination' drive derivatives-investment contracts," *Wall Street Journal*, March 20, 2007.

[19] My argument, to be clear, is not that the operation of the law of value requires a commodity money, but, rather, that the move to a full-fledged system of credit money at the world level comprises a major metamorphosis in the formation of values at the world level.

[20] The idea of a financial coup, dated to 1979 and ostensibly led by Paul Volcker, then head of the US Federal Reserve, has been advanced by Gérard Duménil and Dominque Lévy, *Capital Resurgent: Roots of the Neoliberal Revolution*, pp. 69 and 165.

[21] David Leonhardt, "Bubblenomics," *New York Times,* September 21, 2008. For the FIRE sector more broadly, see Greta R. Krippner, "The financialization of the American economy," *Socio-Economic Review* 3 (2005), pp. 173-208, and Duménil and Lévy, Ch. 13.

[22] Thomas Picketty and Emmanuel Saez, November 2004 updated data for *Income Inequality in the United States, 1913-1998*, plus recent updates through 2006, available at http://elsa.berkeley.edu/saez/

[23] David Cay Johnston, "Corporate Wealth Share Rises for Top-Income Americans," *New York Times*, January 29, 2006.

[24] Boston Consulting Group, *Global Wealth 2007*.

[25] Kevin Phillips, "The Destructive Rise of Big Finance," *Huffington Post*, April 4, 2008.

[26] David McNally, "Globalization on Trial: Crisis and Class Struggle in East Asia," *Monthly Review*, v. 50, n. 4 (September 1998).

[27] Bureau of Economic Analysis. Graham Turner, *The Credit Crunch: Housing Bubbles, Globalisation and the Worldwide Economic Crisis* (London: Pluto Press, 2008), pp. 21-22, is one of very commentators to underscore the significance of these developments. While I have differences with Turner's analytical framework, he does see the general problem of over-accumulation.

[28] For a hundred years after 1895, US house prices rose in tandem with the rate of inflation. Then, from 1995 to 2007 they rose 70% faster, creating an extra $8 trillion in paper wealth for US home owners, paper wealth that became the basis for the great borrowing binge of the period. See Dean Baker, "The Housing Bubble Pops," *The Nation*, October 1, 2007.

[29] Bureau of Economic Analysis. See the discussion in Turner, pp. 90-91.

[30] David Pilling, "How China can be more than 350 Albanias," *Financial Post*, November 20, 2008.

[31] I am well aware that futures and options contracts, mainly on raw commodities, have existed for a very long time. But the explosion in these instruments and the size of their markets is a phenomenon that follows on the move to floating exchange rates in 1971-73.

[32] Jenny Strasburg and Peter Lattman, "Bain shaken by steep credit fund losses," *Wall Street Journal*, October 23, 2008; "LBO debt," *Financial Times*, November 5, 2008.

[33] Sinclair Stewart and Paul Waldie, "AIG's Journey: Bailout to Black Hole," *Globe and Mail*, November 11, 2008.

[34] Christopher Cox, "Swapping Secrecy for Transparency, *New York Times*, October 19, 2008; see also Matthew Philips, "The Monster that Ate Wall Street," *Newsweek*, October 6, 2008

[35] Francesco Guerrera and Nicole Bullock, "Struggle to unearth quake's epicentre," *Financial Times*, October 31, 2008.

[36] It is the great merit of Dick Bryan's and Michael Rafferty's that they have attended to the significance of derivatives in late capitalism; see their, *Capitalism with Derivatives: A Political Economy of Financial Derivatives, Capital and Class* (New York: Palgrave Macmillan, 2006). I dissent from their view, however, that derivatives *are* money in late capitalism. Instead, I

interpret them as financial instruments designed to bridge the spatio-temporal "gaps" in value measurement that characterize our era.

[37] See Edward Li Puma and Benjamin Lee, *Financial Derivatives and the Globalization of Risk* (Durham: Duke University Press, 2004), pp. 143-50.

[38] See for instance, Karl Marx, *Theories of Surplus Value*, v. 3 (Moscow: Progress Publishers, 1971), pp. 518-19.

[39] Alan Greenspan, Testimony to the House Committee on Oversight and Government Reform, October 23, 2008.

[40] For the record, by global labour I refer to all members of that social group, dispossessed of means of economic subsistence, which has no option but to *try* to sell their labour-power. This includes the unemployed, the casualized, and the majority of those eking out an existence in the so-called "informal sector."

[41] See Riccardo Bellofiore and Joseph Halevi, "The real subsumption of labour to finance and the changing nature of economic policies in contemporary capitalism," *Review of Radical Political Economics,* forthcoming.

[42] The term, of course, is David Harvey's resonant reformulation of Marx's concept of the "so-called primitive accumulation of capital." See Harvey, *The New Imperialism* (Oxford: Oxford University Press, 2003), Ch. 4. There are some unclarities in Harvey's deployment of this concept, however, as Ellen Meiksins Wood points out in "Logics of Power: A Conversation with David Harvey," *Historical Materialism* v. 14, n. 4 (2006), pp. 9-34.

[43] See my *Another World is Possible: Globalization and Anti-Capitalism*, 2nd edn. (Winnipeg: Arbeiter Ring Publishing, and London: Merlin Press, 2006), pp. 96-108.

[44] On Katrina see Michael Eric Dyson, *Come Hell or High Water: Hurricane Katrina and the Color of Disaster* (New York: Basic Civitas, 2006). On displacement after the tsunami see Naomi Klein, *The Shock Doctrine: The Rise of Disaster Capitalism* (Toronto: Alfred A. Knopf, 2007), pp. 476-87.

[45] Jonathan Manthorpe, "Chinese officials fear more unrest over job losses, *Vancouver Sun*, November 24, 2008.

[46] Doug Sanders, "What does oil have to do with the price of bread? A lot," *Globe and Mail*, October 25, 2008.

[47] Paul Waldie, "Food promises give way to financial reality," *Globe and Mail*, October 17, 2008.

[48] Javier Blas, "Another food crisis looms, says FAO," *Financial Times*, November 7, 2008.

[49] Harvey Morris, "UN team warns of hard landing for the dollar," *Financial Times*, December 1, 2008.

[50] See my "Global Crisis, World Finance and Challenges to the Dollar," *The Bullet*, n. 118, June 25, 2008, available at www.newsocialist.org or www.socialistproject.ca/bullet/

[51] For more extensive analysis in this area see Adam Hanieh, "Making the World's Poor Pay: The Economic Crisis and the Global South," *The Bullet*, n. 155, November 23, 2008. Available at www.socialistproject.ca/bullet/ or at www.newsocialist.org

[52] Robert Wade and Frank Veneroso, "The Asian Crisis: The High Debt Model versus the Wall Street-Treasury-IMF Complex," *New Left Review* 228 (1998), pp. 3-23.

[53] Pollin, p. 153.

[54] Where the goal is socialism, Luxemburg writes, "The struggle for reforms is its means; the social revolution its aim." See Rosa Luxemburg, "Reform or Revolution" in *Rosa Luxemburg Speaks* (New York: Pathfinder Press, 1970), p. 36.