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The First Great Crisis of the 21st Century

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A. Flight from Production

In 2005 at a conference in Beijing of radical scholars, a prominent North American Marxist told those who would listen that there would be no more major crises of capitalism. The end to crises was because financial capital had developed the means to ensure itself against all forms of risk and uncertainty. This spectacularly wrong embracement of the propaganda of financial capital required one to discard commonsense, as well as Marx's theory of value. That Marxists might take seriously the possibility that capitalist crises were a thing of the past is a tribute to the powers of obfuscation generated by the production and circulation of commodities.[1] Capital can,

[1] Marx explicitly rejected the argument that forms of finance might protect capitalism from crises:

> Can the existing relations of production and the relations of distribution which correspond to them be revolutionized by a change in the instrument of circulation, in the organization of circulation?...Various forms of money may correspond better to social production at various stages; one form may remedy evils against which another is powerless; but none of them, as long as they remain forms of money, and as long as money remains an essential relation of production, is capable of overcoming the contradictions inherent in the money relation, and can instead only hope to reproduce these contradictions in one or another form.

indeed, insure and protect itself against many disasters, but those arising from its own international contradictions are not among them.

The theory of value provides an explanation of the financial upheaval in 2008 that few mainstream commentators anticipated and almost none understood.[2] The common misunderstanding was that the crisis as the consequence of irresponsible lending by financial institutions, combined with new forms of financial assets that removed lenders from any direct responsibility of what their lending had financed. This interpretation mistakes outcome for cause. The apparently reckless lending and the proliferation of financial "products" are predicted from Marx's theory of value and money. They are the expected consequences of the contradiction between the forces and relations of production. This lecture takes that general statement of contradiction and applies it concretely to the *début du siècle* crisis that burst forth in 2008.

The fundamental dilemma that continuously plagues capital is that its *raison d'etre* is profit that arises in production, but the production process is the fundamental source of its difficulties. As a it they distances itself from production to the extent that it can. The most obvious reason that individual capitalists seek to escape production is to avoid the disruptions that potentially arise from the competition with labor over control of the production process. Throughout the two hundred and fifty year history of capitalism workers have used a variety of actions to contest control by capital over production process, with strikes one of the most disruptive from the perspective of capital.

However, the pressure for capital to escape from the confines of production goes beyond the potential disruptions arising from the class struggle, it comes from the inter nature of capital, the contradiction between value in exchange and value in use. Production is a material process whose expansion was material limits, the potential labor force, the available means of production and prevailing skills and technology. In contrast the expansion of value appears as unlimited, the apparently magical process of converting a quantity of money into a larger quantity of money. Financial capital is the pursuit of

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(Marx 1973, pp. 122-23).

This passage is quoted in the excellent book on monetary crises by Toporowski (2009).

[2] Notable exceptions are Rogoff (2006) and Izurieta and Godley (2002).

this magic, the discovery of a financial Philosopher's Stone which converts money into more money, value into more value, without production. Just as some great thinkers in the middle ages devoted themselves to alchemy,[3] similarly in the realm of finance capital men and women devote themselves to the pursuit of the absurd, converting money into money without production. However, these modern alchemists are revered as brilliant of mind bold of spirit, and rewarded for their semi-criminal behavior beyond dreams of avarice.[4] If not the capitalist Fifth Horseman of the Apocalypse, they are among the stable hands.

B. Finance to Speculation

The two-fold nature of commodities gives rise to money, which is a synthetic abstraction from that contradictory nature. This, the first step or first degree of abstraction, results in a second degree abstraction from money to credit, then successive abstractions with fictitious capital assuming increasingly exotic forms, each further from the production process. In the early period of capitalism, the owner-operator holds direct title to the productive apparatus of the enterprise and its output, direct ownership of use values. With the shift to "public limited companies" in the nineteenth century ("incorporated companies" in the United States) the capitalist owns financial paper ("stocks") which provides a claim on profit.

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[3] Perhaps the best known is the sixteenth century occultist, Phillippus Aureolus Theophrastus Bombastus von Hohenheim, born in what is now Austria.

[4] Keynes, who was not beyond speculation himself, passed the following withering judgment on the pursuit of personal wealth,

> When the accumulation of wealth is no longer of high social importance, there will be great changes in the code of morals. We shall be able to rid ourselves of many of the pseudo-moral principles which have hag-ridden us for two hundred years, by which we have exalted some of the most distasteful of human qualities into the position of the highest virtues. We shall…dare to assess the money-motive at its true value. The love of money as a possession…will be recognized for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease ...(Keynes 1972: 329-330)

Stocks represent the abstraction from capital as function to capital as ownership. This aspect of abstraction continues as claims on ownership are replaced by claims on the valuation of that ownership. These claims are then traded, becoming the abstract and mobile representations of the concrete and immobile. The trading of stocks results in a fundamental break with the concrete. Were they trade for the income the generate, their claim on current profit, they would be relatively mundane financial instruments serving no more than a minor distribution function.

However, their usefulness to those who trade in them lies in their potential to appreciate in exchange value. Indeed, financial markets throughout the capitalist world trade in stocks that generate no income themselves, transforming stockholders from *rentiers* to speculators.[5] This transformation is of singular importance for the stability of capitalism. It implies that the role of finance capital changes from facilitating the concentration and centralization of capital to the redistribution of surplus value through speculation. The development of the power of finance over production, ownership over function, takes a qualitative leap to the dominance of speculation over financial itself. As a result, the financial sector becomes the embodiment of instability.

In place of purchasing a nominal claim on corporate ownership, money can convert into a claim on someone else's claim on nominal ownership.[6] These claims without ownership consist of collections of stocks selected by financial institutions and sold in units. In the first abstraction from ownership stocks are associated with specific capitalist enterprises, such as Microsoft. In the further abstractions the link to enterprises

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[5] A financial website found it necessary to explain why it was wise to hold stocks that di pay a dividend:

> In the 1950s investors used to own stocks mainly for their dividends. They looked for companies that paid consistent dividends out of profits. If the stock appreciated in price that was an added incentive. However all that changed in the recent years when many investors started investing purely for price appreciation.
>
> http://topforeignstocks.com/2009/11/28/why-should-you-own-dividend-paying-stocks/, accessed on 11 August 2010.

[6] Collections of stocks have different names whose meaning can vary across countries. The terms "unit trust" and "mutual funds" are common.

consists at most of a list of the companies whose stocks are part of the collection. And the purpose of the abstraction is speculation not finance.

This abstraction from capital as ownership and then from capital as finance implies more than the separation of ownership from control, an aspect of corporate governance analyzed in the 1930s.[7] In capitalist society the purpose of production is exchange, not use, and the purpose of exchange is profit. It would appear that the next logical statement is that profit determines the market value of an enterprise, and therefore the market value of its stock. However, in the last decades of the twentieth century in the United States the process of abstraction went far beyond this. The market value of the stock of a capitalist enterprise came to reflect its place in a system of financial speculation whose relationship to the real wealth of society was so esoteric and complex as to be beyond the immediate understanding even of financial "experts" themselves. The buying and selling of commodities themselves becomes a minor sideshow of capitalism compared to the buying and selling of representations of the anticipated value of enterprises in which those commodities nominally produced.

C. Capitalist Risk

Credit provides a powerful mechanism for the acquisition of fictitious capital, serving as a means of exchange with deferred payment. A quite early mechanism to multiply the power of finance was the practice of "buying on margin" or "leveraging". This technique, which developed into increasingly complex forms, involves the purchaser paying a fraction of the money value of a transaction with a promise of full payment at a specified future date. The infamous financial "derivatives" represent various forms of leverage whose complexity came from the nature of the underlying asset on which they are nominally based, the contracted dates that defined them, and what the holder had to deliver on those dates.[8]

The proliferation of financial derivatives at the end of the twentieth century prompted a fiction that capitalists had discovered the mechanism by which they could

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[7] Berle and Means (1932), though their conclusion was that the separation resulted in a weakening of the profit motive, because managers sought to maximize sales.

[8] A straight-forward explanation of derivatives is given by Stulz (2005).

protect themselves from economic contractions. This capitalist Philosopher's Stone gave birth to the concept of the "new economy" that would enjoy continuous growth immune from "boom and bust".[9] This immunity would be achieved by the proliferation of financial "products" that could eliminate risk. The logic of the argument, an invalid syllogism, went as follows: capitalist crises result from the economy suffering shocks when risks are realized in practice; by use of derivatives it is possible to insure against risk; therefore, it is possible for capitalism to be free of crises.

The risks against which capitalists seek to protect themselves are not the source of instability and crises, but the contrary. It is instability and crises that create the risks against which capitalists seek to protect themselves, and the mechanisms designed to achieve this protection create the illusion that such protection is possible. As capitalism develops, capital as ownership supplants capital as function, and capital as ownership becomes subsumed within capital as finance, with capital as finance becoming capital as speculation. The function of the arcane representations of fictitious capital is the same as fictitious capital itself, only divorced from the vestiges of what created the ownership function, the redistribution of surplus value.

In capitalist society the term "risk", like all terms arising from the circuit of capital, has a historically specific meaning. Risk is the possibility that a capitalist enterprise may not be capable of meeting its financial obligations.[10] Except as an occasional and marginal social phenomenon, this risk is unique to capitalism. An early manifestation of the general financial crisis of the late 2008s was the foreclosures on housing loans in the so-called sub-prime mortgage market. These foreclosures and the associated collapse in the value of financial assets occurred not because the borrowers were a bad risk; they occurred because housing was a commodity in a society

[9] The claims for a "new economy" were journalistically summarized in *Newsweek*, January 2001. Alan Greenspan, head of the US Federal Reserve Bank infamously endorsed the concept. In testimony before the US Congress in October 2008 he would recant.

[10] "Risk [is the danger] that a firm will be unable to meet its financial obligations. This risk is primarily a function of the relative amount of debt that the firm uses to finance its assets." http://financial-dictionary.thefreedictionary.com/financial+risk.

characterized by high inequality. The asset collapse in this market was a spectacular but minor aspect of the general financial disaster to come.

The risk against which capitalists seek to insure themselves reflects the division of social capital between capital as function and capital as ownership, and between capital as ownership and capital as a claim on surplus value. Credit extended to facilitate the expansion of an enterprise beyond its profit involves risk because of the competition among enterprises to achieve that expansion simultaneously. The competition for credit can prompt productive enterprises to undertake investments that are intrinsically risky in the universal sense of technological uncertainties. However, at the level of capital as a whole, expansion involves no financial risk. It is the struggle among capitals over the distribution of surplus value that creates financial risk.

The transformation of financial capital from a function that was primarily financial in the strict sense of lending to industrial capital to a predominantly speculative role fulfilled the parasitic potential of money capital. When its primary function was to finance the concentration and centralization of industrial capital, it activities were unproductive because these did not themselves create value or surplus value. Though unproductive, these activities were supportive of the accumulation process. Like the policeman who guards the property of capital or the lawyer who writes its contracts, the banker could claim the distinction of making a necessary contribution to accumulation, though not a productive one. Once speculation replaces finance as the principle activity of money capital, the banker and colleagues remain necessary, but increasingly dysfunctional. Therein lies the nature of the first economic crisis of the twenty-first century.

D. Formal Subsumption of Productive Capital

Competition among financial capitals differs fundamentally from competition among productive capitals, because the latter produces surplus value while the former only distributes it. Two levels of appropriation occur: the industrial capitalist appropriates the unpaid labor of workers, and the financial capitalist appropriates a share of what the spoils taken by industrialist. Financial capital is a parasite, while industrial capital is an exploiter. Productive capital can increase profit by raising the productivity of labor, in contrast to financial capital that is restricted to intensifying work or finding more effective parasitic mechanisms.

The initial impact of the introduction of a innovation in an industrial enterprise is to lower production cost and increase profit. Other industrial enterprises producing the same commodity will be under pressure to adopt the same innovation. As they do so, the average profit rate in the sector will rise, attracting an inflow of new competitors, which will lower the price of the commodity. If the commodity the sector produces is bought by workers or used as an input for commodities workers buy, the value of labor power will fall and the rate of surplus value will rise. This analytical sequence implies that if an innovation is productivity increasing for one enterprise, the process of competition renders it productivity increasing for capital as a whole.

Financial capital costs can be lowered but the aggregate amount of surplus value is unaffected. Because financial capital does not contribute to the creation of surplus value, competition among financial institutions focuses on two processes: 1) attempting to extract profit from productive capital, and 2) the struggle within finance over that extracted profit. The increasing financial instability in the last decades of the twentieth century was the result of these two processes.

The concrete consequence of the first redistribution process is shown in Table 1, which reports the value added going to the financial sector in the United States. Following the First World War mechanisms of speculation developed substantially in the United States, and the financial sector increased from less than four percent of GDP to almost five percent. Strict regulation of financial institutions in the 1930s resulted in a decline in 1940 to the level of twenty years previously, where it remained into the 1970s.[11] The repeal of Roosevelt's New Deal regulations, beginning in the 1980s and culminating at the end of the 1990s, brought a dramatic rise in the income share of the financial sector, to six percent in 1990 and eight percent in 2007. The second column of the table suggests that this rise in financial income was not associated with more rapid economic growth. The quantitative growth of finance relatively to the aggregate economy

[11] The Banking Act of 1933 (the Glass-Steagall Act) introduced the separation of finance into commercial and investment banking. It also created the Federal Deposit Insurance Corporation to insure bank deposits. Repeal of the provisions of the law was completed in 1999.

indicates the parasitic function of finance, to allocate surplus value to itself, the abstract form of capital, capital removed from both function and ownership.

Table 1: Financial Value Added in GDP and GDP growth by Decade, United States, 1920-2007

Year	Financial Sector/GDP	GDP growth by decade
1920-29	3.6	
1930-39	4.9	
1940-49	3.4	
1950-59	2.9	3.5
1960-69	3.7	4.4
1970-79	4.1	3.3
1980-89	4.7	3.1
1990-99	6.0	3.1
2000-06	7.4	2.6
2007	8.0	

Source: http://pages.stern.nyu.edu/~tphilipp/papers/finsize.pdf and Council of Economic Advisors (2010).
Note: The final sector share refers to the beginning of the decade except for 2007.

Toward the end of the twentieth century in the United States and the United Kingdom industrial capital countered the growth of financial profit by a partial conversion of itself into it opposite, financial capital, funding expansion with new stock sales.[12] Inherent in this method of corporate finance was the probability that the production and sale of commodities might prove incapable of generating the cash flow consistent with maintaining the expanded financial value of the enterprise (Wray 1994). By partial financialisation of itself, productive capital opened itself to the vulnerabilities that plague money markets, while simultaneously financial institutions developed increasingly complex "products" to generate the income to compensate for the lending lost to equity sales.

In the circuit of capital money serves several functions, means of circulation, store of value and means of payment. As means of circulation it can assume many forms, manifested in the proliferation of financial derivatives. This proliferation creates a source

[12] See the discussion of equity sales in Toporowski (2005:147ff; and Toporowski 2000).

of weakness in the financial system, increasing its potential for instability. The fundamental cause is the process of abstraction discussed in the opening section.

As capital as a whole seeks to escape the limits dictated by the sphere of production, the link between market values and commodity value grows more tenuous. This weakness is magnified when financial capital asserts itself from facilitator to manipulator of productive capital, and infects productive capital with the contradictions specific to it.[13] In the twenty-first century, capitalism in the United States had moved even beyond financial capital manipulating productive capital. What appeared to be productive capital had not been "taken over" by financial capital, but had been subsumed within financial capital and lost its identity as productive capital. The much comment upon shift in perspective from the long term to the short term by corporate management is a manifestation of this loss of identity.[14]

E. Financial Collapse in the 21st Century

General crises such at that at the beginning of the twenty-first century that provoke the collapse of production and unemployment do not arise from antagonism between factions of capital, serious as they are. Their cause lies in the sphere of production, the contradiction between the development of the productive forces and the social relations that manifest that development. The subsumption of industrial capital to financial capital leant to this crisis its specific characteristics. In this case the most striking aspect was the general collapse in the value of financial assets in most of the advanced countries, facilitated by the reduction in regulatory constraints of the previous thirty years, specially in the United States.

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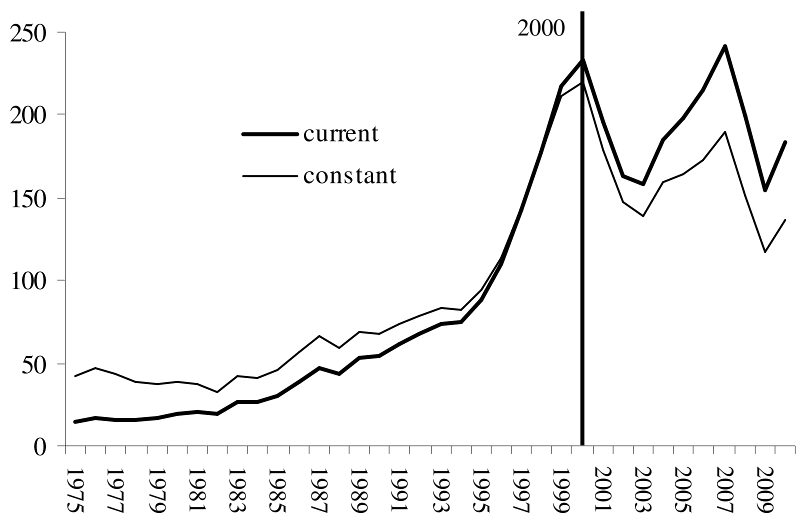
[13] "The social character of capital is first promoted and wholly realized through the full development of the credit and the banking system…The distribution of capital as a special business, a social function, is taken out of the hands of the private capitalists and usurers. But at the same time, banking and credit thus become the most potent means of driving capitalist production beyond its own limits, and one of the most effective vehicles of crises and swindle." (Marx 1971: 607).

[14] This is frequently treated in the context of "corporate responsibility". See the analysis at http://www.progressivereform.org/perspcorp_behav.cfm

The rapid ascendancy of finance capital is shown in Figure 1, which provides an index of the Standard and Poor measure of the value of stocks on the New York Stock Exchange (NYSE) for 1975-2010. This time period is chosen because it is after the US government ended its commitment to a fixed price of gold and after the first boom in petroleum prices, both of which had a temporary distorting effect on inflation rates. From 1975 through 1993, stock market valuation rose at 9.8 percent per annum in current prices and 3.8 percent when deflated by the wholesale price index. The latter, a constant price valuation, was only slightly higher than the growth in output of corporate GDP, which was 3.3 percent.

Figure 1 Standard and Poor US Stock Market Index, current and constant prices 1975-2009



Source: The stock market data are taken from the web page of Robert Shiller (2000), http://www.econ.yale.edu/~shiller/data.htm.
Note: The index is calculated with the period average as the base. The price adjustment is with the wholesale price index.

Coinciding with the deregulation of the US financial sector, from 1993 through 2000 the NYSE index rose at a phenomenal nineteen percent per year in current prices and at an equally phenomenal sixteen percent in constant prices. Over seven years when corporate output increased by thirty-four percent in constant prices (4.3 percent annually), the value of financial assets increased by 165 percent. While there are no comparable statistics on the value of fixed means of production, it can be approximated by the increase in output,[15] which would imply that after adjusting for inflation the increase in value of financial representations of corporate assets was five times the increase in the value of fixed capital.

This level of increase proved unsustainable, as any rational observer would have predicted (thought few did). The NYSE index declined by over thirty-five percent from 2000 to 2003, but this was quickly followed by an increase of one-third from 2003 to 2007. As a result of this stock market volatility, in 2007 less than a year before the financial crisis would strike, corporate financial assets were 225 percent higher than 1993, compared to a likely increase in fixed capital of 142 percent. The sharp decline in market values of stocks during 2000-2003 had achieved a partial alignment of the market value of fictitious capital with commodity value. The financial collapse of 2008-2009 would complete the task and threaten a financial disaster beyond imagination throughout the developed countries.

The instability of fictitious capital value would be transformed into financial collapse through a rush for money to serve as means of payment. This represented an attempt to convert credit money and debt into more secure forms of money and, specifically, commodity money. Figure 2 presents the manifestation of this process of monetary conversion and debt cancellation. Over the twenty-five years, 1975-2000, corporate gross domestic product grew in constant prices at 3.4 percent per year, with nominal debt of corporations increasing by 8.5 percent annually. During the first half of the1980s nominal corporate debt was slightly over ninety percent of corporate GDP, and almost the same during the md-1990s.

The extraordinary growth of stock values, described above and shown in Figure 1, was accompanied by a growing corporate debt-to-output ratio. In 1998 debt was 102 percent output, 112 percent in 2006 and 124 percent in 2007, and over this ten years total debt almost doubled. The analysis of money and its forms predicts that rapid accumulation of debt would prompt a conversion from valueless representations of money to the money commodity, movement from means of circulation to means of

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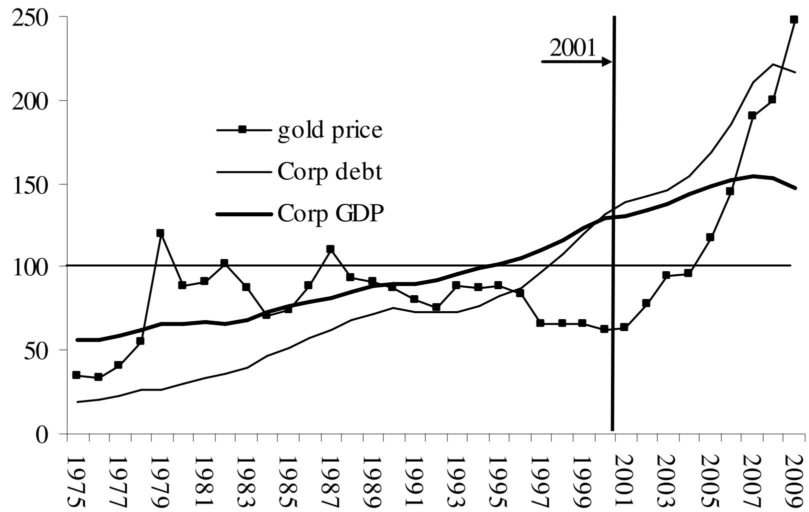
[15] If we assume that productivity change was the same across all commodities, then the increase in the constant price market value of output should be close to the increase for fixed means of production.

payment. When there are many forms of valueless money and a proliferation of forms of fictitious capital, the concrete manifestation of this conversion is extremely complex. One form it should take would be a rise in the fiat price of the money commodity.

Figure 2: Indices of the US dollar Price of Gold, Corporate Debt, and constant price Corporate GDP, 1975-2009



Source: Council of Economic Advisors (2010) and flow of funds analysis of the Federal Reserve system, http://www.federalreserve.gov/releases/z1/current/.
Notes: Corporate debt is in current prices.

Figure 2 verifies this is devaluation of fiat money. Over the twenty years 1980-1999, the price of gold averaged US$ 370 with a quite low variation, and in 2000 the gold price dropped to a twenty-year low of $273. Then, as corporate indebtedness and stock prices increased, the gold price began a rapid rise, to $513 in 2005, an all-time high of $636 in 2006, and a phenomenal $1104 in 2009. Inspection of Figure 2 shows clearly that the spectacular rise in gold prices preceded the financial crisis. When the crisis arrived, with a sharp slow down in growth in 2007 and decline in 2008 and 2009, the rush to gold, the manifestation of a rush to money as means of payment and store of value, accelerated.

Those skeptical of analysis based on commodity money might argue that the increase in the price of gold after 2000 was part of a general speculative process that affected most raw materials and primary products. Figure 3 shows that this was not the case. From 2000 through 2007 all the commodities reported in the chart display an upward trend. The prices of crude oil, non-precious metals and food and beverages have a pattern typical of commodities that are bought and sold for their value in use. Their prices rise during the years when corporate demand for inputs and household demand for food was expanding, then decline when output contracts. In contrast, gold shows the tell-tale pattern of a money commodity. Its price continuous to rise after contraction of output and the general demand for commodities. This commodity, unlike the others, was being held for itself, for its embodiment of all other commodities. To those that might say, the increase in the price of gold as the crisis arrived reflected speculators moving to the "safest possible investment", so-called flight to quality.[16] To which Marx would answer, yes, because gold is the money commodity.

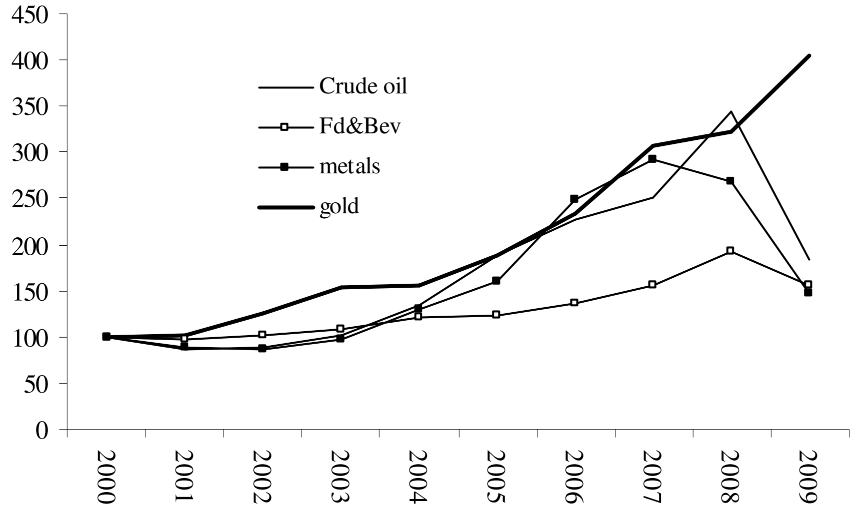
A financial crisis is not the same thing as a economic crisis, nor is it the cause. Financial collapse can occur accompanied by relatively small disruptions to the accumulation process. This was the case in the late 1980s. On 19 October 1987, designated "Black Monday" in financial jargon, the NYSE index dropped by almost twenty percent, the largest one day proportional decline in US stock market history. During 1986-89 corporate output rose in constant prices by at least three percent each year, and by over four percent in 1988. The exuberance of financial speculation is quite capable of generating its own disruptions within itself that unsettle the exotic abstractions from real wealth. This is never the cause of a crisis of accumulation.

The Great Contraction of the late 2000s resulted from a long period of sustained accumulation that continuously transformed production forces with innovations that have received much comment, most notably so-called information technology. At the end of the twentieth century and into the twenty-first this technical change undermined and unsettled the real structure of capital. Deregulation of the US financial sector during 1981-1998, that allowed for proliferation of fraud and semi-criminal activity, went far to determine the form that the disruption of accumulation would take. But the cause, as in all previous crises, was the uneven development of productive capital, an uneven development that competition among capitals would resolve through the destruction of

[16] This business cliché is defined at http://www.investopedia.com/terms/f/flighttoquality.asp, accessed on 12 August 2010.

part of capital. Had the deregulation of finance not occurred, could this crisis have been avoided? I address that question in the final section.

Figure 3: Indices of International Commodity Prices, 2000-2009



Source: IMF (2010).
Notes:
Crude oil: simple average of three major spot prices.
Fd&Dev: food and beverages, trade weighted average of tea, coffee and cocoa.
Metals: non-precious, copper, aluminium, iron Ore, tin, Nickel, zinc, lead, and uranium

E. Controlling Capitalism

The conversion of financial crisis into general economic contraction at the end of the 2000s demonstrated both the inherent contradictions in the accumulation process. It also demonstrated the role of the state to mitigate the consequences of those contradictions. When accumulation proceeds vigorously, capitalists praise the virtues of "free markets" in the name of efficiency and demand fewer constraints on their behavior. When accumulation collapses their demands switch to the need for government intervention.

As happened in the 1930s in the United States, the crisis of the 2000s demonstrated that a range of government actions could be effective to rescue national economies from collapse. Perhaps the strongest evidence of the effectiveness of state interventions and controls in stabilizing and maintaining accumulation was the minor impact that the international financial crisis had on China. In 2007 the average growth rate across the six largest developed capitalist countries was 2.4 percent, which fell to less than one percent in 2008 and a negative 4.4 percent in 2009.[17] Over the same three years China's state-managed capitalist economy grew at more that eight percent annually. Many specific aspects of government economic policy in China explain its apparent immunity to the crisis, and they all have one thing in common: they restrict competition. The approach of the Chinese government to capitalism might be summarized as the principle that capitalist accumulation is too contradictory to be left to private capital.

The success of Chinese capital in avoiding the crisis that swept the rest of the capitalist world raises the question of whether similar success in avoiding crises could be achieved by governments in capitalist countries that do not rule by overtly authoritarian means. The experience of the United States and Western Europe after the Second World War, during the so-called gold age of capitalism, suggests that the answer may be "yes".[18] A closely regulated capitalist economy within a political regime of bourgeois democracy was to a great extent achieved in the post-war period. The achievement was the direct result of the strength of organized labor. The reconstruction of managed accumulation will require the reconstruction of the strength of the working class.

Controlling capitalism in lieu of overthrowing it would require four fundamental reforms, whose purpose would be to restrict severely the economic and political power of capital.[19] First, the financial system would be taken into state ownership to prevent the tendency inherent in money capital to proliferate vehicles of speculation. The governments of the United States and the United Kingdom had the opportunity to do this

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[17] In descending order, with GDP for 2008 in parenthesis in trillions of US dollars: the United States (12.3), Japan (4.1), Germany (2.8), the United Kingdom (2.3), and France (2.1). China with a GDP of 3.3 trillion ranked third in size. Statistics from www.oecd.org.

[18] The "golden age of capitalism" is the title of Marglin and Schor (1991). In his introduction, Marglin wrote, "Full employment and high growth can be restored, but only on the condition that policymakers face up to the need for a profound restructuring of the system of production, the macroeconomic structure, and the international order" (p. 37).

[19] The four elements are much the same as those in the programmed of the British Labor Party in 1945, which was more radical than what was implemented during 1945-1951. http://www.unionhistory.info/timeline/1945_1960.php

in 2008 and 2009, and did not, even though a Swedish right-of-centre government had provided the model in the early 1990s.[20] By control of the banking system the state would confine capital to capital as function.

Nationalization of the financial system would be essential because state action to reduce the severity of crises would have contradictory results. The uneven development of capital creates the conditions for the uneven development of capital, and uneven development *via* the credit system produces financial or monetary crises, followed by crises of generalized overproduction. The state can act to maintain demand, using monetary and fiscal policy, and this can postpone the crisis of realization. However, this postponement is at the cost of maintaining a fragile structure of stratified capitals. Postponing a crisis of realization prevents the devaluation of fixed capital that would facilitate the reorganization of capital. Control of the financial system provides the state with the vehicle for a guided restructuring of productive capital in place of the catastrophic crisis mechanism.

Second, the state would purse a purposeful macroeconomic policy. The nationalization of the banking system would be complemented by state management of external trade and capital flows and counter-cyclical fiscal and monetary policy. Management of international transactions would include a fixed exchange rate and strict controls over capital inflows and outflows. The fixed exchange rate would reduce currency speculation to the marginal role it played in the 1950s and 1960s. Effective implementation of a fixed exchange rate requires controls on capital inflows and outflows. Counter-cyclical fiscal policy with an accommodating money policy would provide macroeconomic stability and full employment.

Third, government regulation of labor markets would be based on the principle in the constitution of the International Labor Organization that "labor is not a commodity".[21]

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[20] A journalist account of the Swedish nationalization is given by Carter Dougherty, "Stopping a Financial Crisis, the Swedish Way", *New York Times* 22 September 2008. The nationalization was implemented by the short-lived right wing government, not the Social Democrats. Once banks recovered they were privatized.

[21] This principle appears in the, http://www.ilo.org/ilolex/english/iloconst.htm.

The apparent inconsistency between this principle and capitalist wage labor could be resolved by various programmes that eliminate unemployment as a form of labor discipline. The most effective of these would be the universal guaranteed minimum income programmed.[22] A universal income programmed would not eliminate exploitation, which is inherent in capitalism, but would not longer use unemployment as a disciplining tool of labor.

Fourth, and the basis for all of the above would be the protection of the right of workers to organize. A program of fundamental reform of capitalism would be based on the political power of the working class, in alliance with elements of the middle classes. This is the bourgeois democratic alliance that brought about major reforms throughout Europe after the Second World War. An effective reform of capitalism that eliminates capital's economic and social outrages requires a democracy of labor and its allies in which the political power of capital is marginalized.

The economic consequences of this program could be profound, capitalism without severe crises. The political consequences would be even greater. Nationalization of financial sectors would end the profoundly anti-democratic role of capital in dictating economic and social policy through speculation in financial markets. In the twenty-first century it became common throughout the global for economic policy to be dictated directly by capital in the form of the argument that almost any progressive measure would "unsettle capital markets".

For example, both in the United States and the United Kingdom arguments against the deficit spending that would reverse economic decline alleged that this obviously necessary and sensible policy would result in currency speculation and capital flight. In the case of the United Kingdom, in the summer 2010 the new right wing government of Conservatives and Liberal Democrats successfully used this argument to gain public support for unprecedented reductions in social expenditure. The same argument was made by the leaders of continental Europe. Most absurd of all, the German Chancellor, Angela Merkel, led the rest in refusing to join in the mild fiscal stimulus

[22] A universal guaranteed income scheme would be paid to the employed as well as the unemployed. The possible specifications for such programmes are explained in detail at http://www.basicincome.org/bien/

sought by US President Barack Obama. This refusal was in apparent ignorance of her country's small fiscal deficit and massive trade surplus which were the ideal conditions for an expansion of expenditure.

For large capitalist countries, the United States, Japan and Germany, the suggestion of capital flight in response to mildly progressive policies is pure ideological propaganda by the agents of capital. For smaller countries, Greece in 2010 being an infamous example, the financial holdings of international capital are small enough in relation to their total capital to make "punishing" governments for progressive behavior both possible and effective. Therefore, nationalization of financial capital is essential to maintain bourgeois democracy.

The sufferings caused by the Great Depression of the 1930s, quickly followed by the horrors of the Second World War, generated a broad consensus in the developed countries of the need for state intervention to protect people against the instability and criminality that results from the accumulation of economic and political power by capital. Franklin D. Roosevelt, four times elected president of the United States, had this dangerous power in mind when he addressed the US Congress in 1938:

> Unhappy events abroad have retaught us two simple truths about the liberty of a democratic people. The first truth is that the liberty of a democracy is not safe if the people tolerate the growth of private power to a point where it becomes stronger than their democratic State itself. That, in its essence, is fascism—ownership of government by an individual, by a group or by any other controlling private power. The second truth is that the liberty of a democracy is not safe if its business system does not provide employment and produce and distribute goods in such a way as to sustain an acceptable standard of living. Both lessons hit home. Among us today a concentration of private power without equal in history is growing.

In the twenty-first century the advanced industrial countries, especially the United States and the United Kingdom, reached the point at which private power became stronger than "their democratic state". This private power of capital was manifested in those financial markets that through the contradictions of value and use value became vehicles of speculation. Even more serious, they became the vehicles for capital to assert a thinly disguised dictatorship that over-road bourgeois democratic decisions. A radical program such as described above is required to prevent capital's unconstrained power from fulfillment of Roosevelt's warning against fascism.

During and after the Second World War even prominent non-Marxist economists recognized the dysfunctional and anti-democratic nature of excessive power of capital. In 1947 in the premier English language economics publication, the *Economic Journal*, K. W. Rothschild wrote,

> …[W]hen we enter the field of rivalry between [capitalist] giants, the traditional separation of the political from the economic can no longer be maintained. Once we have recognized that the desire for a strong position ranks equally with the desire for immediate maximum profits we must follow this new dual approach to its logical end.
>
> Fascism…has been largely brought into power by this very struggle in an attempt of the most powerful oligopolists to strengthen, through political action, their position in the labor market and vis-à-vis their smaller competitors, and finally to strike out in order to change the world market situation in their favor.
>
> (Rothschild 1947)

The twenty-first century version of capitalists seeking "to change the world market situation in their favor" is globalization. While history does not repeat itself, it carries lessons. The link between excessive power by capital and reactionary political power is an obvious lesson what capital does not let humanity forget.

For over two hundred years a struggle has waxed and waned to restrict, control and eliminate the ills generated by capitalist accumulation: exploitation of labor, class, gender and ethic repression, international armed conflict, and despoiling of the environment. When the great majority has allied, this struggle has brought great advances in social justice and wellbeing. When capitalists, a tiny minority, have been successful in creating their own anti-reform and counter-revolutionary majority much is lost. The last thirty years of the twentieth century and into the twenty-first was such an anti-reform period, during which capital achieved a degree of liberation it had not enjoyed since before the Second World War. Capital's self-liberation threats the existence of the bourgeois democracy that capital itself brought into being.

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