Economic Crisis, Henryk Grossman and the Responsibility of Socialists

Rick Kuhn
Australian National University
Rick.Kuhn@anu.edu.au

Abstract
Henryk Grossman's discussion of economic crises was designed to complement his Leninist understanding of politics. For Grossman, as for Marx, the fundamental contradiction of capitalist production is between the unlimited scope for expanding the output of use-values and restrictions imposed by the framework of producing profits. The increasing weight of capitalists' outlays on dead compared to living labour, which is the only source of new value, gives rise to the system's tendency to break down and, hence, to economic crises. Deep financial crises can only be understood in the context of developments in production and particularly movements in the rate of profit. The initial widespread hostility to Grossman's development of Marxist economics can mainly be explained in terms of the logics of Social-Democratic and Stalinist politics. In contrast to dominant views on the Left today, the Marxist tradition in which Grossman stood places the construction of organisations capable of assisting the working class' conquest of political power at the heart of the responsibility of socialists. Grossman's political practice expressed his understanding of the close relationship between capitalism's breakdown tendency and the importance of building a revolutionary party.

Keywords
economic crisis, Henryk Grossman, Henryk Grossmann, intellectuals, Jewish Social-Democratic Party, political responsibility, rate of profit, revolutionary party

Henryk Grossman is particularly relevant today and not only because of his explanation of economic and financial crises, which I will briefly recapitulate.¹ That theory was formulated and can only be understood as an element in a broader, classical-Marxist analysis of capitalist society and the way it can be superseded. The specifics of Grossman's political outlook help explain the generally hostile reception of his work in the immediate wake of the publication of his best-known study, *The Law of Accumulation and Breakdown of the*

¹. This Isaac and Tamara Deutscher Memorial Prize Lecture was delivered at the *Historical Materialism* Annual Conference in November 2008.
Capitalist System, Being also a Theory of Crises, and subsequently. Grossman expressed his revolutionary Marxism not only in his writings but also in political activity. That was not always flawless – on the contrary. But his views about the responsibilities of socialists are superior to fashionable notions of the responsibilities of intellectuals. Furthermore, the continuities and discontinuities in his practice and, in some periods, the inconsistencies between it and his theoretical commitments are instructive.

Economic crisis

The purpose of Henryk Grossman’s economic research was to advance the class struggle. From 1920, if not before, he subscribed to a particular, Leninist conception of Marxist politics which overlapped with views he had already put into practice well before the First World War, particularly by helping to build a revolutionary organisation of Jewish workers in Galicia.

If Lenin recovered Marx’s revolutionary conception of politics, Grossman recovered the revolutionary content and implications of Marx’s economic analysis. Like Lukács, who also drew on Lenin and restored contradictory class-interests and perspectives to the centre of Marxist philosophy, he stressed capitalism’s crisis-prone logic and its mystification of that logic. By exploring the economic roots and implications of commodity fetishism and their relationship to capitalist crises and revolution, Grossman therefore also complemented Lukács’s arguments in History and Class Consciousness, which focused on ideology and revolution but not economics.2

Marxist and other criticisms of the way capitalism generates oppression and alienation powerfully justify the struggle for socialism. As a young man, Grossman was himself actively involved the Jewish working class’ fight against both oppression and exploitation. But, following Rosa Luxemburg and against those who thought that capitalism could be reformed into socialism, he insisted that Marx regarded the bourgeoisie as incapable of consistently sustaining workers’ lives.3 Capitalism has a tendency to break down economically, throwing a part of the working class out of work and attacking the living standards of those who retain their jobs. Today, that tendency is particularly apparent.

Grossman made two major contributions to our understanding of economic crises. The first was already outlined in 1919, developed in his 1929 The Law

Capitalist production, he pointed out following Marx, is at once a labour-process creating use-values with particular physical characteristics and a process of self-expanding value creating new wealth through the exploitation of wage-labour. This analysis provided a means of eliminating what was deceptive in the pure categories of exchange-value, thus creating a foundation for further research into capitalist production and affording him the possibility of grasping the real interconnections of this mode of production behind the veil created by value.

The satisfaction of the requirements for the proportional expansion of both these processes at once can only be passing and accidental. Far from being characterised by equilibrium – as assumed by the inaccurate and static assumptions of mainstream economics – capitalism is necessarily dynamic, uneven and crisis-prone. Grossman demonstrated that this was even true in the case of simple reproduction, where the scale of output does not expand. Furthermore, capitalism’s tendency to break down is grounded in a contradiction at the heart of the production-process. There is unlimited technical scope to expand the productivity of human labour, but this is restricted by the logic of production for profit, giving rise to the break-down tendency. The exposition and defence of Marx’s account of the way capitalism limits the possibilities for the self-expansion of value was Grossman’s second, and best-known, contribution to crisis-theory. It is, however, grounded in the first.

Capital-accumulation means that the proportion between the numbers of specific kinds of means of production (raw materials, buildings, machinery etc.) used in production increases compared to the number of workers employed. This is the technical composition of capital. The ratio of the values of means of production to means of consumption (on which workers spend their wages) – the value-composition of capital – changes as, with technological advances, the amount of labour-time (the foundation of value) required to make them declines unevenly. In the longer term, however, there is no reason to believe that the value of means of production falls more rapidly than the value of means of consumption. So the organic composition of capital, which expresses the effects of the technical composition of capital on the value-composition of capital, tends to rise: capitalists spend more on means of

production than on buying labour-power. As Grossman pointed out in a passage that does not appear in the English translation of *The Law of Accumulation*

The pure value perspective that has been taken over from bourgeois economics has already permeated so deeply into the consciousness of Marx’s epigones of all colours, from reformists to communists, that the most basic Marxist concepts have been distorted and corrupted. Thus the concept of the organic composition of capital. Marx distinguishes a *technical* and a *value* composition and finally, as the third concept, the *organic* composition, by which designation he understood the ‘reciprocal relationship of the two previously identified, namely ‘the *value* composition of capital, in so far as it is determined by its *technical* composition and reflects changes in it’. The organic composition of capital, formulated in this way ‘is the most important factor’ in inquiry into capital accumulation. Of all this not a trace remains in the work of Marx’s epigones.8

Amongst the mistaken commentators on the organic composition of capital, Grossman counted the Social Democrats Karl Kautsky, Rudolf Hilferding and Emil Lederer; the Communists Eugen/Jenö Varga and Nelli Auerbach; and the academic Ladislaus von Bortkiewicz, who ostensibly solved the ‘transformation problem’. The organic composition of capital is important because it is only living labour that gives rise to new value. If the rate of exploitation and number of workers employed remains constant, the amount of surplus-value produced will remain the same but capitalists will have spent more to generate it. The rate of profit will have fallen.

Marx and Grossman identified the tendency for the rate of profit to fall as a crucial contradiction in the process of self-expanding value. They also described mechanisms which serve to counter-act it. Amongst the countertendencies is the intrinsic cheapening of means of consumption through technological change, which can lead to increases in the rate of exploitation without cuts in workers’ living standards. Crises also eventually lead to improvements in profitability as bankrupt or failing businesses sell off their assets at a discount to other firms whose costs of production are thus reduced. Furthermore, when means of production lie idle and decay, crises destroy value. War has similar consequences. But there are other measures which capitalists and states can deliberately pursue to maintain or improve profit rates. Amongst these, attacks on workers’ living standards are particularly significant. Grossman explained that capitalism’s breakdown tendency takes the form of recurrent economic crises, conditioned by the empirical course of

the tendency for the rate of profit to fall and its countertendencies. For him, it was definitely not a unidirectional path to final collapse.

There is also a fundamental connection between capitalism’s crisis-tendency and imperialism. Before World War I, Marxists had elaborated theories of imperialism as a necessary consequence of capitalist development. Karl Kautsky linked this with capitalism’s crisis-tendency, which he generally understood in underconsumptionist terms, the problems capitalists have in realising the surplus-value embodied in commodities by selling them.

The system of trusts and cartels and that of militarism cannot guarantee the capitalist mode of production against collapse. Neither can the export of capital with its resulting new-type colonial system. However, the new colonial system, like the system of trusts and cartels and that of militarism, has become a mighty means of holding back this collapse for several decades.

Colonial policy has become a necessity for the capitalist class, just as militarism has.⁹

Kautsky changed his mind in 1914. Like the starry-eyed proponents of globalisation as the guarantor of world-peace up to (and even beyond) the US-led invasions of Afghanistan and Iraq, Kautsky maintained that the degree of integration of capital across national boundaries, ‘ultra-imperialism’, reduced the likelihood of war.

Rudolf Hilferding asserted, in 1910, that imperialism was ‘the economic policy of finance capital’, ‘bound to lead towards war.’ He insisted that ‘the idea of a purely economic collapse makes no sense’ and did not link imperialism to capitalism’s crisis-tendencies.¹⁰ Rosa Luxemburg, however, provided an explanation of imperialist expansion into non-capitalist territories as a means to offset capitalism’s inability to realise the surplus-value it had created.

Accumulation is impossible in an exclusively capitalist environment. Therefore, we find that capital has been driven since its very inception to expand into non-capitalist strata and nations, ruin artisans and peasantry, proletarianise the intermediate strata, the politics of colonialism, the politics of ‘opening-up’ and the export of capital.¹¹

Otto Bauer demonstrated that Luxemburg’s proof that capitalism’s survival depended on its expansion into non-capitalist territories or spheres of

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production was wrong. He used a version of Marx’s reproduction-schemes, tables that followed the pattern of accumulation over successive years, given certain assumptions, to show that capitalism could survive in a purely capitalist world.12

Amongst the leading Bolsheviks, while Nikolai Bukharin did not identify capitalism’s tendency to breakdown as a cause of imperialism in his major study,13 Lenin did. But he wrote little more than

[t]he need to export capital arises from the fact that in a few countries capitalism has become ‘overripe’ and (owing to the backward state of agriculture and the poverty of the masses) capital cannot find a field for ‘profitable’ investment.14

Paradoxically, Bauer’s refutation of Luxemburg was the starting point for Grossman’s vindication of her basic positions: that there is a breakdown-tendency in capitalism and that this gives rise to imperialism. Grossman extended a simplified version of Bauer’s own reproduction-scheme beyond a few years and found that the system broke down because of the tendency for the rate of profit to fall. He specified the nexus between capital-accumulation, crisis, imperialism and war in terms of efforts by capitalists and states to offset the fall in the rate of profit. In particular, unequal exchange, through foreign trade, helps bolster the profits of imperialist powers at the expense of less developed countries,15 while monopoly control over raw materials does so to the cost of their imperialist rivals.16

Finance-capital and neo-harmonism

As during the 1920s and 1930s, orthodox economists and governments have attributed the economic crisis that began in 2007 to the lack of effective state regulation and/or transparency of the financial system.17 Identifying the immediate causes of the current crisis is an empirical task. Problems in the realm of finance and inadequate state-regulation have, indeed, been a trigger. But there is also a methodological question: are there underlying, more fundamental processes that ultimately condition or give rise to the surface

appearance of the crisis? The issue here is that of abstraction. Henryk Grossman already stressed the importance of going beyond ‘naïve empiricism’ by abstracting from less salient features of the real world in order to lay bare underlying structures in a 1919 lecture. In *The Law of Accumulation*, he explicitly drew attention to, and himself employed, Marx’s method in *Capital*, by initially abstracting from, and then successively reintroducing, the complicating factors that are characteristic of concrete reality. As Grossman pointed out in a supplementary essay, Marx reorganised his plan for *Capital* precisely in order to implement this method in his explanation of the capitalist mode of production.18

The growth of financial speculation over recent decades was spectacular. ‘Subprime’ housing loans in the USA were only one aspect of the phenomenon. Foreign-exchange transactions in 2004 were more than sixty times greater than the value of all the world’s exports. In 2005, the notional amount of over-the-counter foreign-exchange derivatives was almost two and a half times greater than the value of global exports.19 Other indices of the flow of capital into speculative rather than productive investment were the scale of private-equity/leveraged buyouts and the fact that hedge-funds in 2006 managed over US$1.1 trillion. While the US finance-sector only realised 10 per cent of total corporate profits in 1980, the figure was 40 per cent in 2007.20 Most of the transactions on financial markets are a zero-sum game: players only gain at each others’ expense. The key question is why this shift, which some have called ‘financialisation’, has taken place.

Grossman pointed out in 1929 that, as the rate of profit declines, capitalists in productive sectors will increasingly turn to speculative activity.21 This goes a long way towards explaining recent developments. Low profit-rates characterised the end of the long boom of the 1950s and the 1960s. They recovered in the wake of the recessions of the mid-1970s, early 1980s and early 1990s, each in turn the deepest since the Depression. But not to the levels of

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19. For the relationship between foreign-exchange transactions and the value of exports see World Trade Organization, 2005, p. 1; Bank for International Settlements 2005. For derivatives and exports see International Monetary Fund 2007, Statistical Appendix, tables 3 and 4; and World Trade Organization 2006, pp. 3, 195–8, 203–5. Both comparisons are understated because large volumes of exports within the European Monetary Union are denominated in euros and do not require foreign-exchange transactions.
the long boom. So capitalists invested at an increasing rate in speculative financial assets rather than productive activity. Grossman insisted,

the very laws of capitalist accumulation impart to accumulation a cyclical form and this cyclical movement impinges on the sphere of circulation (money market and stock exchange). The former is the independent variable, the latter the dependent variable.

On this basis, Grossman attacked Social-Democratic ‘neo-harmonists’ like Rudolf Hilferding, twice Germany’s Finance-Minister during the 1920s, who argued that it was possible for the working class to take state-power by parliamentary means and to overcome capitalism’s pattern of booms and slumps on the road to socialism. The growing domination of production by larger and larger corporations and cartels, he maintained, meant that a government could achieve a forthright programme of reform by managing the capitalist economy, especially through state control over the banking system. Resistance from the German Social Democrats’ coalition partners and the Party’s own timidity meant that Hilferding never put his ideas into practice. But governments whose pronouncements were ever-so-recently neoliberal are now trying out Hilferding’s prescriptions for pragmatic reasons. This applies in Europe, Asia and North America, but I will provide an antipodean example.

In 2007, before the elections that made him Australia’s Prime Minister, Kevin Rudd reassured business that he was ‘a fiscal conservative’. But, in early October 2008, the Labor Government decided valour was the better part of discretion by speeding up expenditure on public infrastructure from the Future Fund. Again, this was designed to reassure corporate Australia: Labor will do whatever it takes to secure growth and, especially, profits. In the face of the crisis, a prolonged and careful assessment of how to spend the billions of dollars in the Fund on competing projects was set aside. It was necessary to get the money flowing to make up for the very rapid anticipated slow-downs in Australian investment, consumption and income from the export of minerals to China. A few days later, the Board of the Reserve Bank of Australia, on which the head of Treasury sits alongside a majority of corporate heavy-weights, had the same fears as the Government. So it cut the official interest-

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rate by a whole one per cent, for the first time since 1992.\textsuperscript{25} Further extensive reductions in interest-rates and attempts to boost demand have followed.

These measures looked like Keynesian economics, where the government steps in to sustain growth and make up for the deficiencies of markets. But the massive policy-shift was more than Keynesian. Governments of the world’s most prosperous countries provided tens and hundreds of billions of dollars to bail out first private and state banks and then strategic manufacturing corporations. In the USA, Britain, Belgium, Luxembourg, the Netherlands and Iceland, they nationalised failing banks. Some Republicans in the United States and conservatives elsewhere expressed concerns about creeping ‘socialism’, as governments made gifts to and took over banks and promised to regulate the rest much more closely.\textsuperscript{26} As the crisis deepens, there is bound to be even more overt state-involvement in economic activity and more of this kind of ‘socialism’, of which Hilferding would have approved. Yet, whether such state-capitalist measures are deemed ‘socialist’ or not, the important final chapter of \textit{The Law of Accumulation} (missing from the English translation) concluded that they are unlikely to resolve the underlying problems.\textsuperscript{27}

As the crisis in the real economy intensifies, capitalists and governments are turning, pragmatically, to measures that will help to restore profit-rates. ‘In the national interest’ they call on everyone to ‘tighten their belts’ for the common good. They have ‘wage-restraint’ and ‘responsible management’ of social-security outlays in mind. In other words, they will intensify the class-struggle from above, attempting to raise profit-rates by increasing the rate of exploitation. Inflation and currency-devaluations can have this effect too, as Grossman pointed out in relation to the French premier Léon Blum’s devaluation of the franc in September 1936.\textsuperscript{28} In the short term, as unemployment rises, such measures will intensify the economic contraction by reducing consumer-demand. In the longer run, at the expense of mass misery, successful attacks on workers will help overcome the crisis. Another vital factor in a recovery is the devalorisation of capital resulting from bankruptcies, the sale of failing businesses in the productive sector at large discounts, and state-imposed rationalisation of industries by shutting down less efficient operations.

Grossman drew conclusions, which reflected his political orientation, from his analysis.

\textsuperscript{25} Franklin 2008; Rollins 2008.
\textsuperscript{26} Skapinker 2008; White 2008.
\textsuperscript{27} Grossmann 1970, pp. 610–19.
\textsuperscript{28} Letter from Grossman to Horkheimer, 6 November 1936, Horkheimer 1995a, pp. 713–14.
If capital now succeeds in pressing down wages and thus raising the rate of surplus-value… the existence of the capitalist system can be prolonged at the expense of the working-class the intensification of the breakdown tendency slowed down and thus the end of the system postponed to the distant future…. Conversely, if working-class resistance counteracts or overwhelms pressure from the capitalist class, the working class’s struggles can win wage rises. Thus the rate of surplus-value will decline and consequently the breakdown of the system will accelerate…. It is thus apparent that the idea of a breakdown that is necessary on objective grounds, definitely does not contradict the class struggle. Rather, the breakdown, despite its objectively given necessity, can be influenced by the living forces of the struggling classes to a large extent and leaves a certain scope for active class intervention.29

Reception

Grossman’s book quickly became a reference point in Marxist economics. But, with a few exceptions, reviewers and commentators were very hostile. The main reasons are straightforward. In *The Law of Accumulation*, Grossman had attacked a series of prominent socialist economists in less-than-restrained terms. Many responded in kind. More importantly, his analysis was incompatible not only with bourgeois and Social-Democratic but also Stalinist and council-communist politics.30

The reassertion of Marx’s argument that a tendency to break down was inherent in capitalism found no sympathy amongst defenders of the existing order and advocates, even ostensibly Marxist ones, of reforming capitalism into socialism. Grossman’s book appeared in the course of the Stalinist counter-revolution in Russia. The construction of a police-state, competing militarily with Western imperialism through rapid capital-accumulation based on the hyper-exploitation of the working class and peasantry, had consequences in the realm of ideas. Stalin’s régime was imposing unchallengeable orthodoxies on the discussion in the Communist movement of many areas of life, ranging from literature and music, though history, social analysis and policy, to military doctrine and biology. Stalin anointed Jenő Varga as the guardian of Communist economic dogma in 1930.31 Varga, whom Grossman had specifically labelled an ‘epigone of Marx’,32 subscribed to an underconsumptionist explanation of economic crises which drew, without acknowledgement, on Luxemburg.

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Grossman’s approach, which – following Marx – stressed that the fundamental contradictions of capitalism derived from the organisation of production rather than the circulation of value, was therefore heresy. A focus on the production relations, at the heart of the logic of capitalism, might also prove embarrassing if applied to the way work was organised in the Soviet Union.

The two main currents in the labour-movement therefore agreed that Grossman’s analysis was flawed and mechanical, a theory of the automatic collapse of capitalism. Most council-communists concurred. They did not distinguish between Lenin’s development of the theory and practice of working-class self-emancipation, that Grossman’s economic analysis was designed to complement, and Stalinism.

Where and when Grossman’s work was taken seriously on the Left, it was on the margins of the workers’ movement. In particular, Paul Mattick, a council-communist, was a consistent proponent of Grossman’s approach to Marxist economics from 1931 until the 1980s. The two corresponded until Grossman moved to the United States, where they had contact with each other at least until the early 1940s. Mattick rejected critiques of Grossman, formulated by two of the most prominent figures in his own political current, Anton Pannekoek and Karl Korsch. He shared their rejection of Leninist politics but simply sheared off this, for Grossman, crucial aspect of his analysis, defending only Grossman’s main economic arguments. On the basis of two reviews, Antonio Gramsci in prison had also expressed interest in Grossman’s approach to economic crises.33

Later, Bernice Shoul, associated with the Socialist Workers’ Party in the United States during the 1940s, drew on Grossman’s work in writings between 1947 and 1967.34 So did her friend Jean van Heijenoort, formerly one of Trotsky’s secretaries, in a single article published in Paris, shortly before he broke with Marxism.35 The veteran Trotskyist historian Roman Rosdolsky in 1957 expressed reservations about Grossman’s analysis but defended Marx and Grossman against Martin Trottmann’s recycled, academic criticism of any theory of breakdown in general and Grossman’s reproduction-scheme in particular.

It was not until the late 1960s, with the growth of the radical student-movement in Germany, that Grossman’s work and Marx’s theory of capitalist breakdown found a new, wider and more receptive audience. Two leftwing publishing houses, one of them created by members of the radical Sozialistischer

35. Barbon (Jean van Heijenoort) 1946.

From the early 1970s, there was a flurry of interest in Grossman’s analysis of economic crises in German and English. This continued into the early 1980s, but subsequently slowed down, as class-struggles and the Marxist Left declined, especially in the universities. Most of the references to Grossman focussed on economic theory. There are, however, recent, more empirical applications of Marx’s approach along the lines of Grossman’s analysis by, for example, Chris Harman and Patrick Bond. But the dominant view, shared by a spectrum that has stretched from Stalinist textbooks in East Germany through various anti-Stalinist Marxist economists to the most influential account of the history of Marxist economics, by two radical economists, has been that Grossman’s approach is flawed. The impressively scholarly biography of Grossman by Jürgen Scheele, reproduced such assessments. Since the 1970s, many critiques of Grossman and/or Marx’s presentation of the tendency for the rate of profit to fall by both non-Marxist radicals and self-identified Marxists, have invoked the ‘Okishio Theorem’, which relies on an equilibrium-methodology alien to Marxism. After the revival of Marxism associated with the mass struggles of the 1960s and 1970s subsided, bourgeois economics again increasingly ‘permeated’ the consciousness the briefly expanded ranks of ‘Marx’s epigones’. Alan Freeman has aptly labelled such...
attempts to explain Marxist economics using tools and assumptions drawn from neoclassical economic theory ‘Walrasian Marxism’.42

Most of the treatments of Grossman’s economic theories since the 1960s have been undertaken in ignorance of his political orientations. The logic of his theory of breakdown is still self-evidently anathema to those committed to a reformist path to socialism, let alone proponents of a stable and humane capitalism.

The responsibility of socialists

Grossman stated, in an implicit but hardly disguised reference to Vladimir Ilych Lenin, that his treatment of capitalism’s tendency to break down was intended to complement analyses of the politics of revolution.43 His account was designed to help revolutionaries identify the objective circumstances in which intense class-struggles and revolution were likely to emerge. When discussing the politics of insurrection, he explicitly invoked Lenin as an expert.44 From both his writings and his political practice, Grossman’s Leninist conception of revolutionary politics (the need to smash the capitalist state) and organisation (the role of a revolutionary party) are clear, except to those wedded to social democracy, Stalinism or their academic legacies.

Yet Henryk Grossman’s practical political activities expressed his conception of the responsibilities of socialists, given capitalism’s tendency to break down, more eloquently than his writings. In pursuit of the goal of working-class self-emancipation, Grossman’s actions resisted the dominant currents of Polish and Jewish nationalism, Social Democracy and, for a brief period, Stalinism. At the centre of his approach to politics was a commitment to building a revolutionary party.

The view that those critical of the established order should be involved in organisations devoted to bringing that order down is currently unpopular. The expectation that intellectuals, scientists and academics should be dispassionate, ‘objective’ and apolitical is as widespread as the positivist conception of science. Even amongst those who publicly take sides, it is scandalously common for radicals in words to be rather politically inactive in their deeds. Moreover, most of those who engage in struggles against exploitation or oppression do not do so through involvement in organisations ‘dedicated not to building freedom but to moving the working class to build

which attempt to tie struggles for reforms to the project of revolutionary change. Beyond the pragmatic assertion that ‘the time is not ripe’ for any practical activity, there are arguments that people, intellectuals in particular, should avoid making commitments to revolutionary organisations. It is worth considering the most influential of these before examining the case made by Grossman’s practice.

**Liberal, reformist and radical conceptions of responsibility**

Julien Benda would have regarded Grossman as a participant in the ‘betrayal of the intellectuals’. In 1927, Benda formulated a metaphysically rationalist conception of intellectuals and denounced their ‘betrayal’ by participating in mass political passions. Instead, they should devote themselves to the truth, ‘every life which pursues only spiritual advantage or sincerely asserts itself in the universal, situates itself outside the real’ ‘and hence in a certain manner say: “My kingdom is not of this world”’. Benda was, however, a defender of Dreyfus and an anti-fascist, who believed that intellectuals should proclaim the truth even when this did not find favour with the authorities.46

In his *Representations of the Intellectual*, Edward Said appropriated the core of Benda’s argument: intellectuals are an élite of special ‘individuals with a vocation for the art of representing’ positions ‘to, as well as for, the public’, who should be devoted to proclaiming the truth and consequently ‘always [stand] between loneliness and alignment’.

> [T]here is a special duty to address the constituted and authorized powers of one’s own society, which are accountable to its citizenry, particularly when those powers are exercised in a manifestly disproportionate and immoral war, or in a deliberate program of discrimination, repression, and collective cruelty.

More consistently than Benda, Said stressed ‘the importance to the intellectual of passionate engagement, risk, exposure, commitment to principles, vulnerability in debating and being involved in worldly causes’; and ‘that the intellectuals belong on the same side with the weak and unrepresented’.47 Said’s own professional and political work impressively matched his conception of the role of an intellectual. He exposed the pervasiveness of imperialist modes of thought, particularly in high culture, and supported the struggles of his fellow Palestinians even when these were undermined by the leadership of the Palestinian Liberation Organisation.

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45. MacIntyre 2008b, p. 132.
Although, for Said, political passions were acceptable, even desirable, a residue of Benda’s emphasis on intellectual disinterestedness remained in his warning against political ‘gods that always fail’ and ‘joining up, not simply in alignment but in service and, though one hates to use the word, collaboration’. Said presented a false choice. On the one hand, he told us about McCarthyism, apostates who flipped over from Stalinism or Trotskyism to the right, and the need to avoid ‘subservience to authority’. On the other hand, he portrayed true intellectuals with their convictions derived from their work and ‘a sense of association with others’, but ‘not acting at the behest of a system or method’, and essentially alone. While cautioning against system and method, Said snuck their ghostly moral shades through the wall, by invoking ‘a consistent and universalistic ethic’. His is a conventional, individualistic, liberal morality. It excludes the possibility that, to be effective in the struggle for human freedom, our critical abilities may best be exercised collectively.

Said’s book began as the 1993 Reith Lectures for the BBC. He was an astute choice for this honour: a controversial figure in literary studies and on the Palestinian question who could attract an audience, yet his argument did not go far beyond the bounds of liberal protest at oppression. It struck a chord in a period when the extent of mass struggles was limited and the anticapitalist Left, particularly the organised anticapitalist Left was shrinking. It appealed to those who identified with the suffering of the oppressed but did not challenge the individualism of bourgeois common sense or the self-regard of intellectuals, confident about their own special social role. And it was summed up in a catchy slogan. ‘Speak truth to power’ is vastly more respectable than an injunction to promote mass action to change the world, however neatly or succinctly expressed.

The phrase was first published in a US Quaker pamphlet. Its roots are in the Quaker tradition of bearing witness on matters of social conscience and, further back, in narrowly theological propositions in the New-Testament passages about Jesus’s divine status and the related formulation that ‘the truth shall make you free’. It can embody an approach to change, through dialogue with those in authority, that is no threat to the established order. Teresa Kerry used it at the 2004 Democratic Party Convention in a speech supporting her
husband’s campaign for the US presidency.53 But invoking Said’s call to ‘speak truth to power’ is a lot more impressive and seems more radical than acknowledging the slogan’s Quaker roots.54 It also achieves little: as Lukács pointed out, the capitalist class’s position in society makes it incapable of recognising some fundamental truths.55

Noam Chomsky succinctly specified the nature of power and the relationship of most intellectuals to it: ‘They are, in Gramsci’s phrase, “experts in legitimation.” They must ensure that beliefs are properly inculcated, beliefs that serve the interests of those with objective power, based ultimately on control of capital in the state capitalist societies.’56 Chomsky has demolished the moralistic, liberal approach to politics and the notion that intellectuals need their own special code of behaviour.

…my Quaker friends and colleagues in disrupting illegitimate authority adopt the slogan: ‘Speak truth to power.’ I strongly disagree. The audience is entirely wrong, and the effort hardly more than a form of self-indulgence. It is a waste of time and a pointless pursuit to speak truth to Henry Kissinger, or the CEO of General Motors, or others who exercise power in coercive institutions – truths that they already know well enough, for the most part.

To speak truth to power is not a particularly honourable vocation.57

If you want to change the way things are then ‘the intellectual responsibility of the writer, or any decent person, is to tell the truth’. More specifically ‘The responsibility of the writer as a moral agent is to try to bring the truth about matters of human significance to an audience that can do something about them’.58 This link between telling the truth and political action was also a central argument in Chomsky’s famous essay ‘The Responsibility of Intellectuals’.59 Yet Chomsky has become more coy about ‘the truth’ recently. ‘We don’t know the truth. At least I don’t’, he has asserted.60 This claim is disingenuous, or at least self-contradictory. Clearly, in making all the generally excellent arguments he does in books, articles and interviews about a range of issues, especially US foreign policy, Chomsky thinks he knows better than mainstream

politicians and the mass media. And he is right. He usually does know much better, if not the final, absolute ‘truth’, and it is a very good thing that he argues his case, from a forthrightly anticapitalist perspective. The following formulation is more specific about his conception of truth. It accurately describes the collective nature of science and the importance of critical thinking

I’m always uneasy about the concept of ‘speaking truth,’ as if we somehow know the truth and only have to enlighten others who have not risen to our elevated level. The search for truth is a cooperative, unending endeavor. We can, and should, engage in it to the extent we can and encourage others to do so as well, seeking to free ourselves from constraints imposed by coercive institutions, dogma, irrationality, excessive conformity and lack of initiative and imagination, and numerous other obstacles.61

But, in the context of his wider anarchist outlook, this argument fudges issues too, just as Said’s call for open-mindedness did.

Chomsky has been reluctant to distinguish the effectiveness of different forms of political activity, invoking the importance of tactics appropriate to concrete situations: ‘there has not in history ever been any answer other than, “Get to work on it”’.62 This neglects the question of strategy and contrasts with the strategic emphasis that Marxists place on the unique potential power of the working class to replace capitalism with socialism. There are, moreover, some activities that Chomsky explicitly rejects, notably involvement in revolutionary groups whose inspiration is the Marxist and Bolshevik tradition, no matter how democratic, committed to promoting socialism from below or counterposed to Stalinism they are.63 He reproduces Benda’s and Said’s liberal hostility to Marxist organisations.

Both Said and, much more convincingly, Chomsky have drawn on Antonio Gramsci’s discussion of how traditional intellectuals and organic intellectuals of the capitalist class serve ruling-class interests.64 Neither has explored Gramsci’s observations about organic intellectuals of the working class.

While he notes that intellectuals are privileged and generally have special skills,65 Chomsky, unlike Said and Benda, does not draw a sharp dividing line

62. Chomsky 1996b, pp. 114–15. For an excellent appreciation of Chomsky, on this and other questions, see Arno 1997.
64. Said makes the rather odd remark that ‘… Gramsci’s pioneering suggestions in The Prison Notebooks which almost for the first time saw intellectuals, and not social classes, as pivotal to the workings of modern society’. Said 1994, pp. 6, 10. Chomsky 1978.
65. For example, Chomsky 1983.
between intellectuals and mortals. Comparing specialists’ interpretations with the facts of contemporary affairs, according to Chomsky the basis for understanding social issues, is

of some importance, but the task is not very difficult, and the problems that arise do not seem to me to pose much of an intellectual challenge. With a little industry and application, anyone who is willing to extricate himself from the system of shared ideology and propaganda will readily see through the modes of distortion developed by substantial segments of the intelligentsia. Everybody is capable of doing that.66

This is fine in its assessment of people’s abilities but ignores the context in which they exercise them. The conception here of how critical ideas arise is voluntarist, dependent on individuals’ willingness to critically assess dominant ideas. Yet Chomsky has provided convincing accounts of the operation of ‘the propaganda system’ in maintaining a conservative consensus, which marginalises dissident thinking in liberal-capitalist societies.67 His own efforts to provide a ‘course in intellectual self-defence’68 are very valuable, but compared with the power of this system and the coercive forces that stand behind it, the scale of his individual contribution is necessarily small. For, more profoundly than the propaganda-system, our daily experience of the market and work – the fetishism of commodities – generally reinforces ruling ideas.

There is a way to systematically magnify the ideology-dissolving effect of class-struggles, which are a necessary consequence of capitalist society, into more sustained and widespread criticisms of the established order, as a basis for political action. It draws on the insight that knowledge is a collective product and Gramsci’s discussion of intellectuals. But his anarchism means that it is a path that Chomsky rejects. Marxists’ efforts to build both the class-struggle and revolutionary organisations Chomsky dismisses with quotations from Mikhail Bakunin and thinly documented attacks on the Bolsheviks, rather than references to Marx’s writings or specific activities. It was, however, Bakunin whose political practice was conspiratorial and elitist as a matter of principle and who justified this in his writings.69

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67. See especially Herman and Chomsky 1988.

Bakunin’s views about the desirability of conspiracy, during the 1860s, and his support for a ‘revolutionary state’ are apparent in Bakunin 1973a. The dictatorship of ‘invisible pilots’ he favoured ‘must be prepared and organized in advance, for it will not come into being by itself, neither by discussions, nor by theoretical disputations, nor by mass propaganda meetings’,
Marxism and revolutionary responsibilities

Marx and Engels identified the working class as the sole social actor which could replace capitalism with a democratic society whose logic was not profit but production to satisfy human need. On this basis, they were themselves involved in building organisations which sought to ensure that the working class developed and used its capacity to change the world.

In the Communist League, their activities amongst workers in Köln and further afield during the German revolution of 1848–9, in the International Working Men’s Association from 1864 to 1872 and in their later relations with the emerging socialist workers’ parties, they promoted the growth of a layer of organised workers with an awareness of working-class interests and the capacity to advance social struggles by intervening in them. That was the point of the educational activity of the Communist League. An organising perspective informed publications like the *Manifesto* and *The New Rhineland Newspaper* and underlay the production of in-depth analyses, like *Class Struggles in France, The Eighteenth Brumaire of Louis Bonaparte* and *The Civil War in France*, and even theoretical texts like *Capital*. All were designed to be tools that organised workers could use to make their struggles more effective.

In this spirit, the 1891 Erfurt Programme of the German Social-Democratic Party specified that ‘It is the task of the Social Democratic Party to shape the struggle of the working class into a conscious and unified one and to point out the inherent necessity of its goals’. Engels had suggested including, at this point, a reference to ‘workers saturated in the conscious of their class position’.70

On the other hand, Marx and Engels ‘pointed to intellectual strata whose social function it was to foster suitable fantasies’ in the interests of capital, as Hal Draper put it.71 When people from these strata joined workers’ parties, which from being thoroughly exceptional became more common late in the nineteenth century, Engels argued that they should

understand that their ‘academic education’ – which in any case needs a basic, critical self-review – gives them no officer’s commission with a claim to a corresponding post in the party; that in our party everyone must serve in the ranks; that posts of responsibility in the party will be won not simply by literary

Bakunin 1973 pp. 180–1. On Bakunin’s antisemitism see Kelly 1982, p. 236. For discussions of the conflict between Marx and Bakunin and a critique of Bakunin see Draper 1978, pp. 564–9; and Draper 1990, pp. 130–75.

70. Social-Democratic Party of Germany 1891; Engels 1891.
71. Draper 1978, p. 503. The discussion of Marx and Engels’s position here draws heavily on Draper. Also see Blackledge 2007, pp. 21–41.
talent and theoretical knowledge, even if both of these are present beyond a
doubt, but that in addition what is required is a thorough familiarity with the
conditions of the party struggle and seasoning in its forms, tested personal
reliability and sound character, and, finally, willing enlistment in the ranks of the
fighters – in short, that they, the ‘academically educated people’, have far more to
learn from the workers, all in all, than the latter have to learn from them.72

In other words, leaders of the Party needed to be able to write, to be theoretically
sophisticated and to have experience as tested partisans of the working class.
The background of some leaders might be the intelligentsia but Engels clearly
expected all of them to be products of the Party and its involvement in
class-struggles.

Karl Kautsky made a similar point in his 1903 article ‘Franz Mehring’:

What the proletariat needs is scientifically grounded self-knowledge. The science
that the proletariat needs cannot be that which is officially recognised and taught.
Its theoreticians have to develop themselves and they are thus all autodidacts,
whether they stem from the circles of university graduates or the proletariat. The
object of study is the proletariat’s own praxis, its role in the production process,
its role in the class struggle. Only from this praxis can theory, can the self
consciousness of the proletariat arise.

The world saving unity of science and labour is therefore not to be understood
as university graduates passing on to the people knowledge which they have
received in bourgeois lecture halls. It is rather each of our co-fighters who is
capable and has the opportunity, whether university graduates or proletarians,
participating in proletarian praxis – as combatants or at the very least by
researching it – in order to draw from it new scientific knowledge that will then
reciprocally influence proletarian praxis by making it more fruitful.73

Lenin agreed with this – indeed, he quoted from the article in *One Step
Forward, Two Steps Back* – and also with Kautsky’s stress on the importance of
a Marxist party rallying all those oppressed under capitalism.74 Where Kautsky
was primarily concerned with the petty bourgeoisie and peasantry, Lenin had
already generalised the point in *What Is to Be Done?*

[T]he Social-Democrat’s ideal should not be the trade union secretary, but the
tribune of the people, who is able to react to every manifestation of tyranny and

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73. Kautsky 1903a, pp. 100–1. Part of this article is elegantly but not entirely accurately translated in Kautsky 1903b.
74. Such a view was widely shared in the German Party and international Social Democracy,
‘[T]he socialist movement does all in its power to support measures which are calculated to bring
about, without injury to the working-class, an amelioration of conditions for the farmer and
small business man.’ Kautsky 1892, Chapter 5.
oppression, no matter where it appears, no matter what stratum or class of the people it affects; who is able to generalise all these manifestations and produce a single picture of police violence and capitalist exploitation; who is able to take advantage of every event, however small, in order to set forth before all his socialist convictions and his democratic demands, in order to clarify for all and everyone the world-historic significance of the struggle for the emancipation of the proletariat.75

A model party-member is therefore experienced, equipped with Marxist theory and capable of applying it concretely. Not only those who hold responsible positions but all members are political leaders.

In the controversy which split the Russian Social-Democratic Labour Party, at its 1903 congress, Lenin, influenced by Marx, Engels and Kautsky, regarded the role of intellectuals in the Party as problematic. The Bolsheviks were concerned that, as members, intellectuals would have to overcome the individualism which is an occupational disease for them; like other members, they would have to be actively involved in a party-organisation and therefore be subject to its discipline.76 Much earlier, he had affirmed that ‘the task is that of promoting the organisation of the proletariat, and… therefore, the role of the “intelligentsia” is to make special leaders from among the intelligentsia unnecessary.’77

Gramsci’s observations about the roles of intellectuals, like those on the construction of the hegemony of the working class, did not only draw on well-established Marxist insights. He also applied them in the spirit of revolutionary-Marxist politics. Reformist appropriators of Gramsci as well as Said and Chomsky have not been willing to acknowledge this.78

Gramsci referred to organic intellectuals of the working class as well as those of the capitalist class. Organic intellectuals of the capitalist class are generated in the capitalist production-process. It is clearly the proletariat’s organic intellectuals that he is referring to in the following

The political party for some social groups is nothing other than their specific way of elaborating their own category of organic intellectuals directly in the political and philosophical field and not just in the field of productive technique. These intellectuals are formed in this way and cannot indeed be formed in any other way, given the general character and the conditions of formation, life and development of the social group.79

75. Lenin 1902, Chapter 3.
76. Lenin 1904, Chapter 1.
77. Lenin 1894.
79. The previous discussion outlines how ‘The capitalist entrepreneur creates alongside himself the industrial technician, the specialist in political economy, the organisers of a new
To a greater or lesser extent, all members of a workers’ party are intellectuals because one of its basic functions is to turn them ‘into qualified political intellectuals, leaders and organisers’. Furthermore, a party can assimilate traditional intellectuals who join ‘with the organic intellectuals of the group [i.e. class] itself’.80 Lenin put it this way: in the party ‘all distinctions as between workers and intellectuals . . . must be effaced’.81

One of the key purposes of a revolutionary workers’ party (and even of a socialist propaganda group or circle when no party exists) is to generate critical ideas and members who are capable of leading struggles – that is, organic intellectuals.82 Such a party can be a uniquely effective means for creating leaders like this because of its integration of political education, organisation and intervention into struggles so that each informs the others. It can be an organisational accumulator that draws in new members, sustains existing activists between campaigns and movements, syntheses and theorises their experience to generate fresh analyses and tactics, and thus help raise the level of struggles within and against capitalism.

What Henryk did

From the late 1890s, when he was at high school, until his death in 1950, at the age of 69, Henryk Grossman was politically active.83 He believed that it was the responsibility of socialists to create and sustain a revolutionary-Marxist organisation, whenever possible. In his twenties, he was involved in building a socialist group from the ground up.

By 1900, Social-Democratic organisation amongst Jewish workers in Galicia, the Austrian-occupied province of partitioned Poland, had fallen apart. Associations of Yiddish-speaking workers, affiliated to the Galician culture, of a new legal system, etc.’ i.e. clearly not through political parties, Gramsci 1999, pp. 135, 149–50. 80. Gramsci 1999, 150–1. 81. Lenin 1902, Chapter 4C. Alasdair MacIntyre (2008a, p. 100) made the same point:

*If Marx had approached the working-class movement from the outside as a middle-class sociologist, he would never have had working-class experience made available to him in the way in which it was. Mere speculative curiosity leads nowhere. The only intellectual who can hope to aid the working class by theoretical work is one who is willing to live in the working-class movement and learn from it, revising his conceptions all the time in the light of his and its experience.* 82. For the lineage of the general case for a revolutionary-socialist party and a more systematic exposition, see Harman 1968–9 and Molyneux 2003. Tony Cliff’s multi-volume Lenin 1975–9, explores Lenin’s contributions in their original context. Also see Lukács 1977. On propaganda groups, see Armstrong 2007. 83. For further details about Grossman’s activities with references, see Kuhn 2007.
Social-Democratic Party (GPSD), had existed in a number of cities in the mid-1890s. But, towards the end of the century, they had collapsed in most places and continued only as a rump in the province’s capital Lemberg/Lwow/Lviv. A recession, a political crack-down by the authorities and the indifference of the GPSD leadership were the main reasons.

Early in the twentieth century, Grossman, a student from a bourgeois family, started to build a Marxist association of Jewish workers in Kraków, the cultural capital of Poland and the seat of the administration of western Galicia. To begin with, according to the notes of his friend, the Australian novelist Christina Stead, he spent time in cafés where political workers gathered. Many of them had Zionist sympathies. Labour Zionism was expanding rapidly at this point and was the main competitor to Social Democracy for the support of Yiddish-speaking workers.

Twelve people founded Postęp (‘Progress’ in Polish) as a general association of Jewish workers on 20 December 1902. Grossman was its secretary. The association had early success amongst Jewish bakers. Postęp’s members led industrial struggles, formed branches of the central Austrian Social-Democratic trade-unions for newly organised groups of workers. They arranged lectures on unionism, politics, literature, and science, and conducted literacy classes. The Kraków association was in touch with similar organisations, in Lemberg and other towns, that were likewise at once trade-union, political and cultural bodies. They grew rapidly as the economy boomed in 1904 and then under the influence of the 1905 revolution across the border in the Russian empire. By 1905 Grossman had ‘recruited at least half of the membership of the Jewish proletarian organization’ in Kraków, made up of several hundred workers and a few students.

The Jewish associations and union-branches were initially affiliated to the Social-Democratic Party. Particularly after it off-loaded responsibility for organising Ukrainian workers in 1899 and became the Polish Social-Democratic Party of Galicia (PPSD), the Party was increasingly nationalist and suspicious its own Yiddish-speaking affiliates. To overcome this obstacle to building Marxist influence in the Jewish working class, Jewish Social-Democratic groups across Galicia left the PPSD to form the Jewish Social-Democratic Party of Galicia (JSDP) on May Day 1905. Grossman was its founding secretary.

As the new party’s theorist, Grossman generalised his own and the JSDP’s experience in a pamphlet on Bundism in Galicia.

party-consciousness is the multi-faceted expression of the proletariat’s class-interests and the most far-reaching interpretation of conclusions drawn from the objective trends of real social development. Workers’ parties do not always fulfill this requirement (as evidenced by the PPSD). Both the character and the content
of collective party thought remain directly dependent on the particular party’s
adjustment to the very working class whose expression it should be.

... The closest possible adaptation of the party-organisation to the historical
forms of the Jewish proletariat’s condition... could only be achieved through the
mutual organic growth of the party-organisation and the workers’ movement
itself, just as the latter has grown out of capitalist society.84

His assessment, like Lenin’s theory of the party, drew on the orthodoxy of
Second-International Marxism, systematically expressed by Kautsky.85

There is one specific story about Grossman’s agitational activities in Galicia
that must be included in a Deutscher Lecture.

Chrzanów, about 45 km from Kraków, was dominated by the town’s Jewish
bosses. Half of the population of around 6,000 was Jewish, many of them
Khassids, members of fanatical Jewish sects. One of the main industries
was printing. Many workers laboured for fifteen hours a day, six days a week.
Their bosses controlled local political life, through the municipal council,
and religious life, through the kehile (the local religious administration).
Paragons of the community like these did not appreciate outsiders whose
Social-Democratic agitation disrupted the established order. In early June 1906,
they expelled two JSDP members from the town. Soon Henryk Grossman
came to give heart to the local comrades. Amongst the traditionally-clothed
inhabitants, he was easy to identify, as a well-dressed, middle-class, young
gentleman. Incited by Khasidic zealots, a large mob roughed him up and
wrecked the rooms of the recently established JSDP affiliate.

Afterwards, the JSDP produced a leaflet that countered the arguments of
the Chrzanów worthies that Jewish socialists wanted to organise pogroms, as
in Russia. In fact ‘who took the Jew’s side in Russia and who defended them,
if not the socialists?’ The local bosses were the ones who had instigated a
pogrom, against the socialists. Grossman also took legal action over the assault.
He won, demonstrating that the parochial despots were not all-powerful and
turning the affair into a publicity coup for the JSDP. Christina Stead’s short
story ‘The Azhdnov Tailors’ is based on this incident.86

Isaac Deutscher was born in Chrzanów to a family which ran a printing
firm in 1907. His father was a Khassid.

85. See Lih 2006. More generally, Shandro 1997/1998 and Blackledge 2006 have noted that
the enduring value of Kautsky’s contributions to Marxism have been understated in many recent
treatments. But Lenin, long before, pointed out that ‘We know from many of Kautsky’s works
that he knew how to be a Marxist historian, and that such works of his will remain a permanent
possession of the proletariat in spite of his subsequent apostasy’. Lenin 1918.
Although he moved to Vienna at the end of 1908, Grossman’s close association with the JSDP continued until at least 1910. For the period immediately before and during World War I, no evidence has come to light of political involvement, although his publications during the period give hints of his continuing Marxist views. The German-Austrian Social-Democratic Party had opposed the existence of the JSDP from the start. So joining it was not an attractive proposition.

In 1919 or 1920, when Grossman joined the Communist Workers’ Party of Poland (KPRP), if not before, he adopted a package of Leninist politics, which included elements of his previous commitments, notably his belief that socialists should be involved in building revolutionary organisations. Grossman was, between 1922 and 1925, the secretary and then the chairperson of the People’s University (PU) in Warsaw. This educational institution was one of the Party’s most important fronts, as the KPRP was a semi-clandestine organisation. The PU organised about forty lectures a month, each attended by fifty to three hundred people, and programmes of talks for trade-unions. It supported a publishing programme and managed several buildings, including a cinema. Through PU activities, Communists involved in different areas, unionists, students, activists in campaigns could come together legally.

In 1925, after a series of arrests and periods in prison, the Polish authorities forced Grossman into a qualified exile. He took up a post at the Marxist Institute for Social Research in Frankfurt am Main and was now doubly insulated from conservatising pressures. On the one hand, his well-paid post at the Institute meant that he was not financially dependent on either a more conventional, bourgeois institution or a political organisation with a particular line. While he lived in Germany, he remained committed to the Communist International and Lenin’s political outlook. He was politically engaged, a close fellow-traveller of the Communist Party of Germany (KPD) and an admirer of the Soviet Union. In 1932, he returned from a study-tour of the USSR starry-eyed. Yet, in order to avoid provoking the German and Polish authorities, he did not join the KPD. So he was not, on the other hand, subject to the Party’s discipline as it imposed the new Stalinist orthodoxies. We have seen that Grossman defended Marx’s analysis of the anatomy of capitalism against the distortions that became the Stalinist line in economics.

Throughout his adult life, Grossman was committed to the Marxist perspective of working-class self-emancipation and the need for socialists to organise politically for that goal. His work in economic theory, from 1919 to his death, embodied this perspective and insights opened up by the success of the Bolshevik revolution. The subordination of Communist Parties to the interests of the rising Russian bureaucracy created a contradiction between
the fundamentals of Marxist politics and his loyalty to the Comintern and the Soviet Union. Consequently, professional and amateur mouthpieces of Stalinism distorted and denounced Grossman’s best-known work. For a period, he resolved the contradiction by re-establishing a consistency between his own political perspectives and the classical Marxism that was the basis for his theoretical insights.  

The disaster of the Nazi Party’s victory in 1933 and Grossman’s accurate assessment that the tactics of the KPD, the Comintern and the Russian leadership had failed to build an effective opposition to the Nazis’ rise to power led him to explore dissident Communist analyses of what had gone wrong. He recommended Trotsky’s ‘The German Catastrophe’ to Paul Mattick. This was not, however, a decisively ‘Trotskyist moment’ as Grossman was apparently closer to the Socialist Workers’ Party of Germany (SAP). For a period in 1934 and 1935, there were meetings, which discussed revolutionary politics and included the SAP leaders Paul Frölich and Jakob Walcher at Grossman’s lodgings in Paris.

There was a sharp contrast between Grossman’s attitude to politics and that of Max Horkheimer, who had become the Institute’s director during the early 1930s. Grossman appreciated Horkheimer’s work on philosophy. But these texts were published in German, in the Institute’s rather inaccessible journal, even after it had gone into exile, first in Geneva, then New York. Grossman suggested in 1937 that the essays be published as a book, for a wider audience. As in the natural so in the social sciences:

Really, from an activist standpoint, you should be interested in confronting broad layers of young people. One should never forget that the victory of Cartesianism was not simply achieved through the power of pure thought but was supported in the university by the fists and clubs of Dutch students, who answered the brutal force of scholasticism with the similar force of their fists!  

Apparently influenced by Russian support for Republican Spain during the Civil War, Grossman around 1937, sadly, again became a fellow-traveller of the Soviet Union and an uncritical supporter of Stalin’s foreign policy. He continued to engage in political activities that he mistakenly believed expressed the perspective that informed his research. In 1938, he moved to New York and, during and after the War, was involved in groups associated with the KPD.

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87. Letter from Henryk Grossman to Paul Mattick, 6 March 1933, Mattick Collection, Internationaal Instituut voor Sociale Geschiedenis.

On May Day 1949, a few months after arriving in Eastern Germany to take up a professorial chair in political economy at the University of Leipzig, he signed up for the Society for German-Soviet Friendship. On 9 June he became a member of the Socialist Unity Party (SED) which ruled Communist East Germany, under the supervision of Stalin’s régime in Russia. Nevertheless, Grossman still adhered not only to the Marxist perspective that it is a responsibility of socialists to be politically active but also to his own contributions to Marxist theory, even when these contradicted Stalinist orthodoxies.

Already ill for months, he died on 24 November 1950. Thus he escaped being affected by the SED campaign from 1949 that finally subordinated all institutions, notably the unions and universities, to the Stalinist state. The régime targeted, in particular, party-members who had been in Western exile during the Nazi dictatorship.

With the benefit of hindsight, but also from the perspective of some of his Marxist contemporaries, we can recognise weaknesses and contradictions in Grossman’s choices and actions. In practice, the Stalinist organisations in which he placed his faith undermined rather than advanced workers’ interests. There is, nevertheless, much to identify with in his Marxism and his political career.

In 1946, Henryk Grossman explained his revolutionary sentiment to Christina Stead:

I feel as if I saw a dangerous badly made deadly machine running down the street, when it gets to that corner it is going to explode and kill everyone and I must stop it: once you feel this it gives you great strength, you have no idea there is no limit to the strength it gives you.90

We can draw strength from Grossman’s systematic account of the contradictions at the heart of capitalist production and some important features of his political and organisational commitments in our own efforts to realise the project of working-class self-emancipation.


90. Letter from Stead to Blake, 12 September 1946, Stead and Blake 2005, p. 355, ellipsis in the original. Grossman’s concrete simile recalled György Lukács’s more elevated account of the revolutionary role of the working class, that also emphasised the significance of capitalist crises in the revolutionary process, Lukács 1971, p. 70. Also see Benjamin 1989.
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From Financial Crisis to World-Slump: Accumulation, Financialisation, and the Global Slowdown

David McNally
York University, Toronto
dmcnally@yorku.ca

Abstract
This paper assesses the current world economic crisis in terms of crucial transformations in global capitalism throughout the neoliberal period. It argues that intense social and spatial restructuring after the crises of 1973–82 produced a new wave of capitalist expansion (centred on East Asia) that began to exhaust itself in the late-1990s. Since that time, new problems of overaccumulation and declining profitability have plagued global capitalism. Interconnected with these problems are contradictions related to a mutation in the form of world-money, as a result of its complete de-linking from gold after 1971, which stimulated a fantastic growth in financial instruments and transactions, and generated a proliferation of esoteric ‘fictitious capitals’ whose collapse is wreaking havoc across world financial markets. The intersection between general conditions of overaccumulation and a crisis in financial structures specific to neoliberalism has now produced a deep world-slump. Inherent in this crisis is a breakdown in forms of value-measurement that is throwing up intense struggles between the capitalist value-form and popular life-values, the latter of which comprise the grounds for any real renewal of the socialist Left.

Keywords
economic crisis, overaccumulation, world-money, financialisation, value-struggles

From financial crisis to world-slump

At first glance, therefore, the entire crisis presents itself as simply a credit and monetary crisis.¹

In April of last year, the International Monetary Fund observed that 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, East Asia, and the so-called ‘emerging market economies’. A wave of devastating national and regional crises is just getting started, having already hit Iceland, Hungary, Latvia, the Ukraine, and Pakistan. Secondly, this is no longer simply a financial crisis; a global economic slump is now hammering the so-called ‘real economy’. Having started in the construction-, auto- and electronics-sectors, the slump is now sweeping through all manufacturing industries and spilling across the service-sector. As the Detroit Three automakers reel from losses of $28.6 billion in the first half of 2008, two of their number teeter on the verge of collapse. World-trade is in a stunning free fall, contracting for the first time since 1982. US merchandise-trade dropped 30 per cent in December of last year, while China’s imports plummeted 43 per cent a month later. Exports from Japan and Taiwan dropped off the table in January, declining by an eye-popping 45 per cent. Not surprisingly, the Baltic Dry Index, which tracks shipping rates (and demand for cargo ships) is still 84 per cent below its 2008 peak, despite recent rises, while air-cargo traffic is languishing, down 23 per cent at the end of last year. As a result of these trends, the US economy is now contracting at an annualised rate of more than six per cent, the Japanese economy twice as fast – all of which is without precedent in the last quarter-century.

Catastrophic forecasts of the sort that only handfuls of leftists dared to indulge 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, and the head of the International Monetary Fund declaring that the US, Europe and Japan are ‘already in depression’. Extreme (and ahistorical) as such predictions are, it is easy to see why world-bankers are so shaken.

2. This is a considerably expanded and updated version of a paper presented to a Plenary Session on ‘The Global Financial Crisis: Causes and Consequences’ at the 2008 Historical Materialism Annual Conference, ‘Many Marxisms’, held at the University of London, 8 November 2008. I would like to thank the editors of Historical Materialism for the opportunity to first present it there. A subsequent version, completed in December 2008, was posted at <http://www.marxandthefinancialcrisisof2008.blogspot.com>. Thanks to Andrew Chitty for making it available there. This version significantly updates and extends those earlier papers. I would like to thank Sue Ferguson for comments on those earlier versions and the anonymous reviewers for Historical Materialism for comments on the December 2008 draft.

3. GM and Chrysler are particularly imperilled, with GM, which has not turned a profit since 2004, having recorded a $31 billion loss for 2008.


Over the course of 2008, global stock-markets dropped by nearly 50 per cent, wiping out perhaps $35 trillion in paper-assets and plunging us into ‘the worst bear market since the 1930s’. All five of Wall Street’s investment-banks are gone – kaput. More than 250,000 jobs have evaporated in the US financial-services industry. And now, as the effects of global overaccumulation turn financial crisis into world-economic slump, we have entered the second phase of a deepening downturn. In response, governments everywhere confront a dilemma. Problems of overaccumulation – more factories, machines, buildings, fibre-optic networks, and so on than can be operated profitably – can ultimately be resolved only via bankruptcies, plant-closures and mass layoffs. Yet, the social and political costs of pure market solutions could be devastating. Take the case of the North-American automobile industry. Since 2000, the Detroit Three have eliminated 250,000 jobs. But, in the context of a deepening slump, further cuts are in store. In February of this year, General Motors announced additional layoffs of 47,000 and 14 plant closures, while Chrysler plans to chop 35,000 jobs. Yet, even with huge government bailouts, such restructuring may not be enough to keep the companies afloat. The ramifications of a full-fledged meltdown, however, would be devastating. The Center for Automotive Research estimates that a 50 per cent contraction, never mind failure, of the Detroit Three would wipe out nearly two and a half million US jobs in the assembly-, auto-parts and related industries in the first year alone. As a result, governments are intervening on a massive scale, tossing away free-market nostrums in a desperate effort to stabilise the system. So, if the first phase of the global crisis centred on the financial sector, with a stunning series of bank collapses, the second phase is concentrated in manufacturing, with a wave of failures, bailouts and massive downsizing of non-financial corporations. But downsizing and restructuring will, in turn, 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 hammer the current-account balances and financial systems of scores of nation-states, sparking yet further banking crises.

As world-demand and world-sales dive, the effects of overcapacity (factories, machines, buildings that cannot be profitably utilised), which have been masked by credit-creation over the past decade, will kick in with a vengeance.

7. Bear Stearns, Lehman Brothers and Merrill Lynch have collapsed entirely, while Morgan Stanley and Goldman Sachs have been restructured as bank-holding companies, not classic Wall-Street investment-banks.
Experts are already predicting that US vehicle-sales will plummet by about one third in 2009 – from 16 to 10.5 million, perhaps lower – imperilling the very future of the US-based auto-makers. World-sales of personal computers, mobile phones, steel, and semiconductors are collapsing by 10 per cent and more, inducing frantic price-cutting in order to generate corporate revenues.9 Meanwhile, East Asia, which was the heart of the neoliberal wave of expansion (1983–2007), to be discussed below, is now the centre of the overaccumulation storm. By the final quarter of 2008, the Japanese economy was contracting at an annual rate of 12.7 per cent, its steepest fall since the global recession of 1974. And the numbers were worse for other parts of East Asia, with Singapore’s GDP shrinking at an annualised rate of 17 per cent and South Korea’s at a staggering 21 per cent rate.10

At the heart of the East-Asian slump is a collapse of the production- and supply-chains across the region that frequently converge in China’s manufacturing industries. Yet, with global markets and world-trade reeling, these export-oriented production-chains are in a tailspin. Japan’s exports fell by an incredible 35 per cent in December of last year, and Taiwan’s were off by 42 per cent, while South-Korean exports dove nearly 33 per cent the following month. Central to these drops was the 27 per cent decline in Asian exports to China, the bulk of which consists of parts and components for assembly and re-export.11

Pivotal to the downturn in East Asia are the dynamics of the Chinese economy. The centre of the wave of accumulation of the past twenty-five years, as global production-chains ran through its manufacturing base, China is now at the nexus of the overaccumulation-crisis. While predictions that Chinese industry is running at only 50 per cent of capacity may be extreme, there can be little doubt that huge numbers of factories have closed, while many are operating at dramatically reduced levels.12 In the southern manufacturing zone that runs from Guangzhou to Shenzhen, as many as one half of all plants may have closed over the past year. The giant plastic

12. The estimate that Chinese plants are running at 50 per cent of capacity comes from Noboyuki Saji, chief economist for Mitsubishi UFI Securities, following a trip to China. While this seems extreme, there is certainly anecdotal evidence to this effect, as in the report by the marketing manager for CEEG, which produces solar panels in Nanjing, that his firm operated at 50 per cent of capacity during the final quarter of 2008 (see Gee 2009). Moreover, Chinese government statistics suggest that the country’s steel industry had excess capacity of one-third in 2005, while the iron alloy industry was operating at only 40 per cent of capacity at the time (see Lardy 2007, pp. 5–6). On Saji’s predictions see Sanders 2008.
manufacturer, Hon Hai, is slashing its Shenzhen workforce from 260,000 to 100,000.\footnote{13} Sitting in Chinese warehouses are said to be stockpiles of refrigerators equal to three years of demand. Not surprisingly, steel output dropped 17 per cent in October, signalling a deepening slump in the appliance- and machinery-industries in particular. But more ominous was the huge slump in Chinese trade, with exports dropping 17.5 per cent drop in January, while imports sagged a shocking 43 per cent.\footnote{14} A growing number of economists are now suggesting that an import-slump of that magnitude might signal the unthinkable, an actual contraction of China’s economy. Equally telling is the 33 per cent plunge in foreign direct investment in China, a clear sign that global investors are retreating from new accumulation. As export-markets collapse, foreign investment nosedives, and factories cut back, unemployment is mounting. More than 25 million rural migrant-workers have already lost their jobs, resulting in an unemployment-rate approaching 20 per cent for migrant-workers.\footnote{15} 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 centres, Chinese officials now describe the still worsening employment situation as ‘grim’ and worry openly about social unrest.

While East Asia is experiencing the most massive collapse thus far of exports and industrial output, other ‘emerging market’ economies are tracing the same downward path. The crunch has hit India, with exports plummeting 12 per cent in October and half a million jobs in export-industries vanishing in the final quarter of 2008. But much worse is in store, with the Federation of Indian Exporters predicting that 10 million export-sector jobs will disappear in 2009, a figure twenty times greater than official forecasts.\footnote{16}

Now, with the full effects of global overcapacity in play, the spectre that haunted Japan throughout the 1990s – deflation – has emerged. Core prices in the US fell one per cent in October 2008, the biggest drop since 1947, when records began, and continued to fall over the next two months. Meanwhile, producer-prices slumped 3.3 per cent in China in January, with some analysts suggesting they will fall by 10 per cent over the course of 2009.\footnote{17} Overaccumulation, asset-deflation and price-cutting now threaten a downward spiral in prices and profits that would spell a seriously prolonged global slump.

\footnote{13}{\textit{The Economist} 2009d, pp. 69–70.}
\footnote{14}{Batson 2008; Gee 2009.}
\footnote{15}{Official figures claim 20 million rural migrants have lost their jobs, representing an implied jobless rate of 15.3 per cent (see Anderlini 2009), but more realistic estimates suggest that as of the end of January 2008, at least 26 million migrants had been laid off.}
\footnote{16}{Bloomberg 2008.}
\footnote{17}{Dyer 2009.}
And we are very far from the endpoint. Despite a stunning series of bailouts of the banking system in the Global North approaching $20 trillion, or 30 per cent of world GDP, the international financial system continues to stagger.\textsuperscript{18} Hundreds of billions more in losses will have to be written off by world-banks. The International Monetary Fund has now increased its predictions of losses on US-originated credit ‘assets’ by ten times – to $2.2 trillion. Nouriel Roubini of New York University estimates that the real figure will be in the range of $3.6 trillion.\textsuperscript{19} So, huge losses still lie ahead. More banks will fail, more countries will be forced to turn to the IMF in order to stay afloat. The global economy is now enmeshed, therefore, in a classic downward feedback loop: financial meltdown having triggered a recession, a slump in the ‘real economy’ will 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. And European banks, particularly those with large holdings of US financial assets or loans to Eastern Europe, face devastating losses. So severe is the crisis that nationalisation of banks in order to avert financial collapse is now the preferred solution even on much of the political Right, with former Federal Reserve chairmen Paul Volcker and Alan Greenspan embracing the cause.\textsuperscript{20} In fact, mobilising a plethora of euphemisms for government-takeovers – including ‘pre-privatisation’ – the US state has now taken a 40 per cent (and rising) stake in Citigroup, once the country’s largest bank, and 80 per cent ownership of AIG, the world’s largest insurance company.\textsuperscript{21}

The current crisis is thus unlike any others of recent decades in terms of scope and depth. While previous financial shocks in the US were contained –

\textsuperscript{18} On the scale of the bailout, the Bank of England 2008, 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 Moyer 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 were then suggesting that the price tag for the US bailouts had hit $7 trillion (see McKenna 2008). In February 2009, the Obama administration in the US obtained a stimulus package of nearly $800 billion and further pledges to the banking sector that could exceed another $1 trillion. Indeed, since November of last year, the bailout-commitments of the US governments have grown by 73 per cent, taking them to a total of $12.8 trillion, or almost the equivalent of US GDP. That would push the total global bailout quite close to $20 trillion. See Pittman and Ivry 2009.

\textsuperscript{19} Wolf 2009.

\textsuperscript{20} Luce and Guha 2009.

\textsuperscript{21} Stewart 2009.
the savings-and-loan meltdown of the early 1990s, the collapse of Long Term Capital Management (1998) or the bursting of the dot.com bubble (2000–1) – this one has moved from a financial meltdown to a generalised economic crisis. And, unlike crises that were regionally confined – East Asia (1997), Russia (1998), Argentina (2000–1) – this is a globalising crisis at the heart of the system. We confront, in other words, a generalised global crisis in the reproduction of capital and of the relations between capital and global labour that have characterised the neoliberal period. The neoliberal reorganisation of world-capitalism is now undergoing a systemic shock.

Like any systemic crisis, it has produced an ideological period of uncertainty. Consider, for instance, the pronouncement from Alan Greenspan, who headed the Federal Reserve Bank of the US for eighteen years, 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, take 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 mobilisational proposals. This paper largely restricts itself to the first of these: critical analysis of the crisis. In what follows, I argue that we need a more dynamic, historical and nuanced account of what has happened to world-capitalism over the past quarter century than has been generally offered. Too many radical analyses focus either on regulatory frameworks or the crisis of profitability of the 1970s to explain what is happening today. In so doing, each approach ignores crucial features of the dramatic processes of restructuring and accumulation that ran across the neoliberal period – and that laid the basis for the current crisis. I further argue that this crisis should be analysed in terms of a breakdown in prevailing value-forms, including models of value-measurement, and that this breakdown opens up new spaces for value-struggles – struggles over the very forms for reproducing social relations – that could trace the outlines of a radical and systemic counter-project to that of capital.

Rethinking the neoliberal era: capitalist restructuring, expansion, and overaccumulation, 1983–2007

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 deregulation of financial markets over the past quarter-century.

The latter, who focus principally on the deregulation of financial markets, suffer from a failure to grasp the deep tendencies at the level of capital-accumulation and profitability that drove deregulation and that underpin this crisis. They confuse policy reactions to the globalisation of production and finance with causes of the current crisis. It is, of course, true that financial deregulation is a contributing factor in the current crisis. But, rather than driving the process of financial liberalisation, deregulation followed and responded to structural transformations – most notably the rise of the multinational corporation with international financing requirements, the global outflow of dollars as the US built up growing current-account deficits in the late 1960s and early 1970s, and the development of Eurodollar markets and off-shore banking – that eroded the pillars of the Bretton Woods framework for world-finance. As deregulated off-shore banking thrived, domestically-based commercial and investment-banks pressed for regulatory changes that would enable them to capture a share of the business that had moved off-shore.

Emphasis on financial policy over structural transformation produces fundamental explanatory and political problems. First, proponents of the deregulation-thesis lack an explanation as to why this crisis has not been restricted to financial markets; they are unable to probe its interconnection with problems of global overaccumulation. Secondly, because these commentators are prone to describe the problem in terms of neoliberal policy-changes, rather than capitalism, they advocate a return to some sort of Keynesian re-regulation of financial markets. In addition to downplaying the deep structural transformations that have occurred within capitalism since the Bretton Woods agreements, this view also displaces socialist politics in favour of arguments for ‘a renewed leashed capitalism’ of the sort that ostensibly prevailed after 1945.22

Those analyses that effectively read the current crisis in terms of a decline in the rate of profitability from the mid-1960s to early 1970s have the merit of focusing on deeper problems at the level of capitalist accumulation, and, for this reason, I will engage them at considerably more length. For the most part, however, these approaches tend to be amazingly static, ignoring the specific

dynamics of capitalist restructuring and accumulation in the neoliberal period. There is a particularly unhelpful tendency in many of these analyses to treat the entire thirty-five year period since 1973 as a ‘crisis’, a ‘long downturn’, or even a ‘depression’. Yet, such assessments downplay the dramatic social, technical and spatial restructuring of capitalist production that occurred across the neoliberal period, all of which significantly raised rates of surplus-value and profitability, and led to a volatile – indeed ‘turbulent’ – but nonetheless real process of sustained capitalist expansion, centred on East Asia. Only by grasping some of the central features of that process can we adequately explain the current crisis.

But, since these claims are controversial in Marxist quarters, I want to first set down three methodological and theoretical protocols meant to guide our analysis of global capitalism over the past quarter-century. On the basis of these, I will then offer three principal theses concerning the contradictory arc of expansion and crisis-formation that has characterised world-capitalism during this period. Let me start with methodological and theoretical protocols.

I insist, first, that we need to treat the world-economy as a totality that is more than the sum of its parts. This may seem a mundane protocol but, as we shall see, it is one that is regularly breached. Much discussion of the neoliberal period has focused on a number of capitalistically developed nations – most frequently the US, Germany and Japan – and treated the world-economy as largely an aggregate of these parts. This is both methodologically flawed and empirically misleading. It is at the level of world-economy that the laws of

23. Makoto Itoh regularly refers to the period since 1973 as a ‘great depression’ (see Itoh 1990, p. 4, 5), a position he reiterated in his lecture at the 2007 Historical Materialism conference in London. Chris Harman (1984) rightly rejects his earlier position that we are living in an age of ‘permanent crisis’ of capitalism, but he continues to argue that capitalism since 1973 has exhibited ‘an overall tendency to stagnation’ (see Harman 2007). Robert Brenner (1998; 2006; 2002) has deployed the term ‘long downturn’ to describe the state of the world-economy since 1973. Brenner is attentive to some of the dynamics of change within the world-economy throughout this period, but he too tends to see the system as mired in a protracted slowdown that comprises an era of ‘crisis’. I attempted to re-construct parts of Brenner’s analysis in terms of Marxian value-theory in McNally 1999. Smith 1999 makes a generous attempt to do something similar at a more methodological level. A very important response to Brenner from a value-theory standpoint, and one that raises the critical questions of credit and international finance, as well as the problem of rational-choice theory, is offered by Fine, Lapavitsas and Milonakis 1999. As I will almost certainly be misread on this point, I want to underline that I see the period of the past thirty-five years as indeed one of ‘global turbulence’, a sustained period of intense capitalist restructuring that has reorganised global capitalism, produced sharp cyclical and regional crises, and generated a sustained period of growth without, until now, a global crisis like those of 1974–5 and 1980–2.

24. ‘To analyse the parts and aggregate to the whole is “vulgar”’ (Weeks 1999, p. 213). This
capitalism are most fully and concretely enacted. The law of value works itself out on the plane of total social capital, and it is at the level of the world-market that money acquires the form of world-money. 'It is only foreign trade, the development of the market to a world market, which causes money to develop into world money and abstract labour into social labour', argued Marx.\(^{25}\) It follows from this that an assessment of global capitalism cannot pivot on evaluating 'the performance of the advanced capitalist economies',\(^{26}\) however significant that might be. Nation-states and 'national economies' cannot be the fundamental units of analysis, however much we need to attend to their importance as points of concentration within the system. But capitalism is a world-system whose imperative is the unbounded drive to accumulate, not to develop 'national economies'.\(^{27}\) For this reason, explanatory priority must be placed on the operation of capitalism as a global system.

Secondly, it is vital to recognise that an assessment of world-capitalism cannot make its focus the performance of national economies per se. Capital does not invest in order to boost Gross Domestic Product (GDP), national income, or aggregate national employment. It invests in order to expand itself via the capture of shares of global surplus-value (although what individual capitalists attend to are rates of return on total investment). But, the capture of surplus-value can – and does – happen in circumstances that are sub-optimal from the standpoint of the macroeconomic performance of national economies. So, interesting and important as such macro-economic indicators may be for any number of reasons, they are not the measures of phases of expansion or crises of capital. Indeed, as I will argue below, capitals in the 'core' economies of the world-system have demonstrated a systematic tendency to move investment outside the core in search of higher rates of return. This can, and frequently has, produced more robust rates of capital-accumulation in select regions outside the core, while contributing to slower rates of growth in the dominant economies.\(^{28}\) But we can only grasp these complex patterns does not mean that it is illegitimate to break wholes into parts for analytical purposes. Instead, it means that the process of reconstructing the whole from its parts cannot be additive. The parts must be theorised at increasing levels of concreteness in terms of the totality of relations that constitute them as just that – parts that are comprised in and through the whole.


\(^{26}\) Brenner 2006, p. xxii. I am frequently taking issue with aspects of Brenner's analysis here. I do so because he offers the richest and most nuanced case for the 'long-downturn' thesis. All serious Marxist political economists are deeply indebted to Brenner's work, however much they may differ with him on theoretical, methodological and empirical grounds.

\(^{27}\) “The tendency to create the world market is directly given in the concept of capital itself” (Marx 1973, p. 408).

\(^{28}\) The classic case throughout the 1990s was Japanese capital. As Japanese based multinationals invested feverishly throughout the rest of East Asia in an aggressive campaign to
of reproduction of capitalism if we look at it as a global social relation, rather than as a set of contending national economies.

Third, the unique quarter-century long postwar-boom (1949–73) ought not to be the benchmark against which everything else is deemed a ‘crisis’. That great boom was the product of an exceptional set of social-historical circumstances that triggered an unprecedented wave of expansion. But, prolonged expansion with rising levels of output, wages and employment in the core-economies is not the capitalist norm; and the absence of all of these is not invariably a ‘crisis’. It is utterly misleading to imagine that capital is in crisis every time rates of increase in world or national GDP fall below five or six per cent per annum. Indeed, where wage-compression characterises a phase of capitalist expansion, this may be favourable to profitability while sub-optimal in terms of the growth of consumer-demand and annual rates of national economic growth. Yes, capitalist expansion under such conditions throws up limits to itself. But this is what we should expect of all capitalist ‘régimes of accumulation’. The capitalist mode of production is inherently contradictory at multiple levels; every pattern of capital-accumulation involves self-generated limits.

* * *

With these preliminary reflections in mind, I now want to turn to the neoliberal era of the past twenty-five years or so. My analysis will build upon three main theses:

_Thesis One_ – Following the recessions of 1974–5 and 1980–2 and the ruling-class offensive against unions and the Global South that took off in this period, severe capitalist restructuring did generate a new wave of capitalist growth, albeit a much more uneven and volatile one than occurred during the great boom of 1949–73. By attacking working-class organisations and undermining states in the Global South; by raising the rate of exploitation and spatially reorganising manufacturing industries; by generating huge new reserves of global labour (via accelerated ‘primitive accumulation’); through massive foreign direct investment, particularly in East Asia; by introducing new systems of work-organisation and labour-intensification (lean production), and new technologies – by all these means, rates of exploitation were increased, South-to-North value-flows were accelerated, and the rate of profit was significantly boosted from its lows of the early 1980s. In the process, new
centres of global accumulation were created. To be sure, all of this has entailed 'global turbulence' – volatile restructuring, periodic recessions, heightened global inequalities, and national and regional crises. But it has, nonetheless, also involved a period of sustained expanded reproduction of capital.

Thesis Two – Alongside and interacting with these changes, a wholesale reorganisation of capitalist finance occurred, stimulated by a metamorphosis in forms of world-money (analysed in Section 4 below). The result was a collapse of the gold-dollar standard, the emergence of floating exchange-rates, heightened financial volatility and uncertainty, and a proliferation of new financial instruments designed to hedge risk in a context of unstable monetary relations. These risk-hedging instruments opened up enormous new fields for financial services and profits, while also creating an inordinately larger sphere for financial speculation. Meanwhile, as financial profits dramatically expanded as a share of total profits, new credit-instruments were created for both financiers and consumers. These transformations greatly expanded the sphere of purely financial transactions and ‘financialised’ capitalism in its neoliberal phase – and, in so doing, laid down major financial fault-lines that were sure to crack in the event of systemic pressures.

Thesis Three – The upward trend in profit-rates from the early 1980s sustained a wave of capitalist expansion that began to falter in 1997, with the crisis in East Asia. The East-Asian crisis signalled the onset of new problems of overaccumulation that shape the contours of the present crisis. After that regional crisis (and particularly after the bursting of the dot.com bubble in the US 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, one that was bound to be severe given the enduring processes of financialisation throughout the neoliberal period. And, because of underlying problems of overaccumulation that had first manifested themselves in 1997, this financial crisis triggered a powerful global economic slowdown.

Let me now take each of these arguments in turn.

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29. Brenner’s notion of ‘global turbulence’ since 1973 thus has decided merits, and accords with much of his own empirical description more cogently, in my view, than does his concept of a ‘long downturn’.
Capitalist restructuring and global accumulation, 1983–2007

Central to my argument is the claim that intense processes of capitalist restructuring throughout the neoliberal period created a new social-spatial reconfiguration of capital and a new, uneven and volatile wave of capitalist expansion (and drove key processes of the phenomenon known as 'globalisation'). Through a dialectic of global restructuring that has reconfigured labour and capital both within and outside the core, the world-capitalist economy has been decisively remade. I will take different sides of this dialectical process in turn.

While some commentary often seems to suggest that very little restructuring of capital has occurred at the core of the system since the crises of 1973–82, it is clear that major re-organisations of work-process and technology have in fact taken place.30 In the first instance, this involved significant destruction of capital, as plants were closed and workers sacked:

Britain lost 25 per cent of its manufacturing industry in 1980–84. Between 1973 and the late 1980s the total number of employed in manufacturing in the six old countries of Europe fell by seven millions, or by about a quarter, about half of which were lost between 1979 and 1983.31

Similar processes were at work in the US. Taking the case of the domestic steel-industry, we find that more than a quarter of a million jobs were lost by the end of the 1980s as large mills were shut and downsized, and new technologies and work-processes introduced. Throughout this restructuring, new mini-mills – such as Birmingham Steel, Nucor and Oregon Steel – established viable accumulation-régimes and seized market-share.32

Such processes of downsizing, work-reorganisation (‘lean production’) and technological revolution occurred in the midst of a concerted and increasingly successful offensive against the organised power of the working class. Union-density declined dramatically and persistently in the US, Canada, UK, France, Spain, and elsewhere33 as capital pushed down real wages, shed labour, broke down shop-floor organisation of workers, sped up and intensified work-processes, and introduced robotics and computerised production-systems.

30. This is how Brenner’s account is frequently read – and some of his own formulations contribute to this reading. Brenner’s actual historical narrative, however, is much more nuanced and does capture some aspects of the intense restructuring that took place throughout this period.
31. Hobsbawm 1994, p. 304
32. For an informative bourgeois account of the transformations in US steel see Ahlbrandt, Fruehan and Giarratani 1996.
The cumulative effects of these processes were profound. In the first instance, they involved a sustained and significant rise in the rate of exploitation. Detailed calculations by Simon Mohun on the US economy indicate, for instance, that after 1979,

The value of labour power fell for the remainder of the century (as productivity grew but hourly real wage rates for production workers did not), so that the rate of surplus value (the ratio of money surplus value to the wages of productive labour) increased by about 40%.34

This increase in the rate of surplus-value in the US went hand in hand with major improvements in the productivity of new capital-investment. As both Mohun and Edward Wolff further show, the tendential rise in the organic composition of capital35 that characterised the period 1947–82 was abruptly reversed during the period of vigorous neoliberal expansion (1982–97) and the productivity of new investment rose. In the language of bourgeois economics, ‘aggregate capital-productivity’ increased; in Marxian terms, after 1982 new capital-inputs were able to generate larger increments of surplus-value.36 On both sides of this equation — the rate of surplus-value and the composition of capital — increases in labour-productivity figure decisively.

None of this need surprise those who favour a dialectical reading of Marx’s account of the ‘tendency for the rate of profit to decline’. After all, in the manuscripts that make up these sections of Capital, Volume III, Marx treats the famous (and famously misunderstood) ‘law’ as a dialectical unity of a tendency and its counter-tendencies.37 During periods of ferocious restructuring

34. Mohun 2008, pp. 6, 24. See also Mohun 2006, Figures 4 and 5, pp. 357–8. In Husson’s estimation (1999, p. 86), increases in the rate of exploitation figure even more decisively in restoring profit-rates in Europe than in the US.
35. The organic composition of capital (often known as the capital:labour ratio) refers to the ratio between the means of production and labour under a given set of value-relations. For more on this concept and its relation to the ‘technical composition of capital’ and the ‘value composition of capital’ see Fine and Harris 1979, and Fine and Saad-Filho 2004, Chapter 8.
36. Wolff 2001, pp. 316–19; Mohun forthcoming, pp. 2–3 of 24. There are differences in the ways in which Wolff and Mohun derive their evidence, but it is clear that they are mapping the same trends.
37. As Michael Heinrich points out (2007, pp. 200–1), Marx’s treatment of this ‘tendency’ is much more open-ended than suggested by the three-chapter structure Engels created (Chapters 13–15 of Capital, Volume III), and certainly more so than mechanical readings lead one to believe. For one of the earliest and clearest dialectical interpretations of Marx’s ‘law’ see Fine and Harris 1979, Chapter 4; Kliman (2007, pp. 30–1) takes a similar position. All of these authors recognise that a Marxian theory of crisis cannot be directly derived from this ‘law’ (among other things, Marx’s theories of money, credit and finance would first have to be brought into play) although the ‘law’ does, in my view, grasp crucial contradictory dynamics of the accumulation-
of capital in response to a crisis of profitability (of the sort that characterised the era 1973–82), key ‘counter-tendencies’ are likely to dominate – unless massive organised working-class resistance can effectively prohibit such restructuring.\(^38\) In the absence of such powerful class-resistance, crises will serve as moments of reorganisation that create conditions for increases in labour-productivity and rates of profit – which, in turn, make renewed expansion possible.

While it is absolutely right to insist that Marx’s ‘law’ is not an empirical one,\(^39\) real-world movements in the rate of profit are nonetheless crucial to the dynamics of accumulation.\(^40\) And it is decidedly clear in this regard that, after falling consistently from 1964–82, profit-rates experienced a significant recovery after 1982, as detailed studies for both the US and Europe have shown. True, profitability did not return to the levels of the mid-1960s. But sustained recovery at lower levels is still that – sustained recovery that makes possible ongoing accumulation. And the available evidence from virtually all sources – Mohun, Moseley, Wolff, Duménil and Lévy, Husson, and Brenner – shows just such a recovery until 1997, as Figure 1 indicates.\(^41\)

As this figure shows, profit-rates in the US systematically declined from the mid-1960s until the bottom of the recession of 1982, when they recorded their low point. After that, the trend line moves persistently upward until 1997.

But the recovery of profitability in the dominant economies is only part of the story. If we expand our range of vision to take in developments outside the core capitalist economies, the picture is remarkably illuminating. As part of the intense restructuring of capital that emerged across the global recessions of 1974–5 and 1980–2, direct investment by corporations did become more international in orientation. The mid-1980s are a decisive turning point in this regard, as capital based in Japan and Germany, having long trailed process that are bound up with crises. For an important statement of Marxian crisis-theory based upon a dialectical interpretation see Weeks 1981, Chapter 8.

\(^38\) But let me reiterate that the domination, at such moment, of the counter-tendencies to the tendency for the rate of profit to decline is inherent in the ‘law’ itself. This is what it means for the law to be a unity of tendency and counter-tendencies.

\(^39\) Fine and Harris 1979, Chapter 4.

\(^40\) Freeman (1999, pp. 38–40) notes that money-profit-rates and labour-profits are by no means identical. Nevertheless, his calculations show both rates moving in synchronicity.

\(^41\) While I have drawn this Figure from Mohun 2006, p. 348, it corresponds entirely with the evidence presented by Moseley (1999 and 2003), and broadly with that of Duménil and Lévy (2004, p.24) and Husson (1999, p. 85), as indeed with that of Brenner (2006, pp. 292, 334) for the US economy.
US- and UK-based capital in terms of foreign direct investment (FDI), turned outward in dramatic fashion.

The Plaza Accord, which forced up the value of the Japanese yen and the German mark relative to the dollar, clearly played a major role in terms of the timing and the pace of the shift to FDI by capitalists in those two countries. But it did not, by itself, create the trend to globalised investment. And globalised it was. In the four years from 1985 to 1989 alone, FDI by Japanese firms tripled. From 1991 to 1995, manufacturing FDI rose another 50 per cent. This explosion in foreign investment owed much to efforts by Japanese corporations to reduce costs and boost profits by way of building regional production-chains that could take advantage of lower labour-costs in Taiwan, South Korea, China, Malaysia and so on. As a result, the share of manufacturing output produced abroad by Japanese multinationals soared; as did trade between Japan and its East-Asian neighbours who were increasingly linked through regional production-systems. German-based capital pursued a similar strategy, with FDI by German firms quadrupling from 1985 to 1990, and doubling again by 1995.42

By the 1990s, then, East Asia had become the centre of a new burst of world-accumulation. In the space of six years, 1990–6, for instance, total

42. Data on Japanese and German FDI come from OECD, Economic Survey of Japan and Economic Survey of Germany, various years.
capital-formation in East Asia (excluding Japan) jumped by nearly 300 per cent. Over the same period, capital-formation increased by 40 per cent in the US and Japan and a mere 10 per cent in Europe. A structural shift of immense importance was reshaping the world-economy.

As capital-investment became more 'global' after 1985, major transformations occurred in world manufacturing and the world working class. Across the quarter century 1980–2005, the world's 'export-weighted' global labour-force quadrupled. Most of this growth occurred after 1990 and about half of it took place in East Asia, where the working class increased nine-fold – from about 100 million to 900 million workers. South Asia, too, saw significant growth in both industry and the number of industrial workers. While the accuracy of these calculations can be debated, more conservative estimates still suggest that the world working class doubled in size over the past two decades. To get some sense of the spatial reorganisation of global industry over the neoliberal period, consider the size of the manufacturing working class in China relative to the G-7 countries (the US, Canada, Japan, France, Germany, Italy and the UK), as summarised in Table 1.

<table>
<thead>
<tr>
<th>Table 1: Number of manufacturing workers in China and the G-7 countries (2002)</th>
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<tbody>
<tr>
<td>China</td>
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<td>109 million</td>
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Sources: Banister 2005 and Bureau of Labor Statistics 2005

Here we get a powerful indicator of the explosive growth of manufacturing in East Asia (outside Japan), and in China in particular. These figures are

44. It is important to underline that much of the world was left out of these processes of capitalist globalisation. Most of Sub-Saharan Africa, much of Latin America and the Middle East, parts of South Asia saw very little increase in fixed-capital flows.
45. IMF reports 2007a and 2007b. The 'export-weighted' measure of the industrial working class is constructed by weighing a country's labour-force in relation to its ratio of exports to GDP. This, of course, tends to underestimate the size of working classes overall. But it does provide a useful index of the relative growth of the world working class.
47. Of course, manufacturing workers in the G-7 countries are much more productive than in China, largely because of the more sophisticated technologies with which they work. It may well be that they create value equal to their Chinese counterparts. Nevertheless, there can be no denying the crucial spatial re-organisation of global manufacturing or the dramatic industrial expansion in China.
especially striking when we realise that state-owned enterprises in China shed around 35 million workers during this period.48 The fact that, by 2002, there were twice as many manufacturing workers in China than in the G-7, where the number has been in a pretty steady decline for decades, is indicative of major structural transformations that have taken place in the global economy throughout the neoliberal period. Without accounting centrally for these developments — that is, by setting them at the heart of an account of the neoliberal period — we fail to grasp key dynamics of the system in recent decades. But making these shifts central requires that we analyse capital as a total global system, rather than as an aggregate of a few of its dominant economies.

Sticking with China for a moment, it is striking that its real GDP increased 12 times between 1978 and 2005, as it rode massive foreign investment and annual rates of capital-formation that surpassed those of Japan, Taiwan and South Korea during their boom years.49 While it is true that the Chinese economy became home to much of the world’s low-cost manufacturing — dominating industries such as footwear, clothing, sporting goods and toys — this is far from the whole story. For it is equally true that China has, in recent years, joined the ranks of the world’s largest exporters of electronics and information-technology hardware.50

Of course, none of this would have been possible without extensive processes of ‘primitive accumulation’, as hundreds of millions of Chinese peasants have fled rural poverty and dispossession in search of wage-labour. And these processes have by no means been restricted to China. The neoliberal period has, in fact, been characterised by a dramatic decline in the number of people living on the land — so much so that, for the first time in human history, the majority of the world’s inhabitants now live in urban spaces.51 Over the past quarter-century, intense processes of rural impoverishment, dispossession and war have swelled the ranks both of the employed global working class and the global reserve army of labour.52 And this has provided vast reserves of potential wage-labour that have underpinned the dramatic growth of global manufacturing outside the capitalist core.

* * *

50. Lardy 2002, p. 3.
51. Davis 2006.
Let me now recapitulate this part of my argument.

In response to the recessions of 1974–5 and 1980–2, the world’s ruling class unleashed an offensive against unions and the Global South that created intense capitalist restructuring and a new wave of volatile but real capitalist growth. After 1982, a significant restoration of profitability took place, and this underpinned major processes of expanded capitalist reproduction (particularly in East Asia). It is true that profit-rates did not recover to their peak levels of the 1960s, and that overall growth-rates in the core-economies were not as robust. It is also true that there were sharp cyclical contractions, as in 1992, and profound regional crises. But these are of the nature of capitalist growth and accumulation, which is inherently uneven, contradictory and volatile. It remains the case, nonetheless, that a dynamic period of growth, centred on industrial expansion in East Asia, enabled capitalism to avoid a world-crisis for twenty-five years. And this volatile process of growth, and the unique financial forms that have accompanied it, have determined many of the specific features of the current crisis.

It will not do to say that, for twenty-five years, crisis was ‘postponed’ because credit was pumped into the system.\(^{53}\) It is certainly true that, since the 1970s, governments in the core-economies have responded to economic downturns and financial shocks with monetary stimulation. And this has played a role in generating sectoral crises (for example, the dot.com meltdown) as well as national and regional crises (Russia 1998, Argentina 2000–1). But it does not follow that aggressive credit-creation artificially buoyed an otherwise stagnant global economy for a quarter-century. This is so for three reasons. First, as we have seen, there was a real recovery in profitability that enabled actual accumulation to occur during the neoliberal period. As commentators have regularly noted, much of the capital-investment of this period was based on retained earnings by firms, not borrowing. Second, sustained asset-inflation – the ‘bubble economy’ – takes off from about 1996 on, not from 1982.\(^{54}\) Asset-inflation then received continual fillips as central banks, led by the US Federal Reserve, repeatedly drove interest-rates lower to stave off a recession in response to the East-Asian Crisis (1997), the failure of the Long Term Capital Management hedge-fund (1998), the Russian Crisis (1998) and the dot.com meltdown (2000–1). It is only from 1996–97 that asset-values persistently and dramatically depart from wealth-creation. Indeed, one of the crucial figures

\(^{53}\) While Brenner is often read this way, he in fact dates the bubble-economy from the ‘reverse Plaza Accord’ of 1995. See Brenner 2002, p. 134. Kliman 2009 does seem to argue that growth since the 1970s has been essentially debt-driven. Notwithstanding my respect for Kliman’s work in value-theory, I think that he is wrong on this point.

\(^{54}\) Schiller 2008, p. 49.
produced by Brenner demonstrates precisely this pattern, with US profits recovering consistently from 1980 to 1997, and the New York Stock Exchange index simply tracking that recovery until 1996, after which point the NYSE continues to rise while profits turn down – a clear indication of the formation of a ‘bubble-economy’ after that point. Figure 2 tracks this pattern.

The third reason for claiming that pump-priming and credit-creation alone could not have enabled capitalism to avoid a generalised capitalist crisis for a quarter-century is both a logical and empirical one. It is inconceivable that the massive FDI flows into East Asia, the new industrial zones with tens of thousands of factories and millions of workers, the huge increases in the size of the world working class, could all have been generated simply by central banks creating credit. Credit-creation can frequently extend a boom, as I believe it did after 1997, but it cannot on its own create a quarter-century of secular expansion. Never in the history of capitalism has such a feat been possible and I see no reason, logical or empirical, to believe that central banks found a new magic in this regard during the age of neoliberalism. If this was the whole answer, if everything had simply been credit-driven, then all the historical evidence suggests that an enormous global financial crisis of the sort we are witnessing today would have had to occur much earlier. If they want to argue to the contrary, the onus ought to be on the proponents of such a view to demonstrate theoretically and empirically how a relapse into a global slump was staved off by thirty-five years of monetary and financial pump-priming.

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Figure 2

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_____ NYSE Composite Index _ _ _ _ Corporate profits after tax

Source: Brenner 2002, Figure 5.2, p. 140
Short of demonstrating a new central-bank magic, we need to be able to explain the partial but real successes of capital in restoring profit-rates throughout the 1980s; the generation of new centres of global accumulation, such as China; the creation of huge new global labour-reserves (by means of ongoing ‘primitive accumulation’); the re-subordination of the Global South under neoliberalism; and the associated metamorphoses in financial markets, all of which enabled neoliberal capitalism to avoid a generalised economic and financial slump for a quarter of a century, only to lay the grounds for new crises of overaccumulation and financial dislocation. In doing so, we will be able to make better sense of the unique forms and patterns of this crisis by relating them to specific changes in the neoliberal organisation of capitalism – and the fault-lines inherent in it.

Those fault-lines first manifest themselves, as I shall argue below, as the neoliberal recovery in profit-rates and the wave of capitalist expansion it sustained began to run up against powerful limits by the late 1990s. The 1997 crisis in East Asia was the first sign of a new, emerging crisis of overaccumulation. After that regional crisis (and particularly after the bursting of the dot.com 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. But as the accompanying credit-bubble burst, beginning in the summer of 2007, it generated a major financial crisis. And, because of underlying problems of overaccumulation, this financial crisis necessarily triggered a profound global economic slowdown.

To summarise, 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 ‘financialised’ relations between capitals; 3) when the first signs of a new phase of overaccumulation set in, with the Asian Crisis of 1997, gargantuan credit-expansion, increasingly fuelled after 2001 by record-low interest-rates, postponed the day of reckoning, while greatly ‘financialising’ relations between capital and labour; 4) but when financial markets started to seize up in the summer of 2007, underlying problems of overaccumulation and declining 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 that the Left ought to be able to explain.
'Financialisation' and the mutation of world-money

With these considerations in mind, I want to clarify the idea of financialised 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 financialisation 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 appropriating profit. 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 reap a profit. Prior to its collapse, Enron was essentially a derivative-trading company, not an energy-firm. All of these firms financialised 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 ‘financialisation’ should capture, in my view, is that set of transformations through which relations between capitals and between capital and wage-labour have been increasingly financialised – that is, 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 financialisation. In order to avoid misunderstanding, and to close off bad theorising 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:

i) the mutation in the form of world-money that occurred in the early 1970s;

ii) the financial effects of neoliberal wage-compression over the past thirty years; and

iii) the enormous global imbalances (revolving around the US current-account deficit) that have flooded the world-economy with US dollars
Let me now take up the first of these.

* * *

Commentators have rarely noted the curious conjunction that has defined capitalist globalisation in the neoliberal era. On the one hand, globalising capital has involved an intensification of capitalist value-logics – removal of extra-market protections designed to subsidise prices of subsistence-goods (for example, food or fuel); weakening of labour-market protections for workers; privatisation 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 globalisation 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.55

- The breakdown of Bretton Woods saw not only liberalisation of capital flows, but also globalisation alongside a weakening in the world-money properties of the US dollar. Under Bretton Woods, the dollar was equivalent to 1/35th of an ounce of gold, and major currencies were fixed in proportion to it. 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,56 currency-values became increasingly 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 fully-flanked 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 move from fixed to floating exchange-rates for currencies, the measure-of-value property of money – the capacity of money to express the socially-necessary

55. I recognise the telegraphic style of this argument, which will be developed systematically in a future study on world-money.
56. These are rates that literally fluctuate all day each and every day according to values determined on world-markets.
(abstract) labour-times and market-values inherent in commodities – was rendered highly unstable.

• With increased uncertainty in value-relations, risk-assessment and hedging against risk became crucial activities for all capitals, especially for those whose business-operations 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 do not own. I may, 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 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 explosive growth 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 do not own any of these assets. I can even buy a derivative-contract simply as a bet on the weather-pattern or the result of a sporting 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 régime of world-money 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.

• As a result of this growth, 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 a global stock-market of $40 trillion and world bond-markets of about $65 trillion at the time. 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.57

• 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 financial instruments designed to capture future values; that is, 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 Collateralised 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 financialisation in the neoliberal period.58

Neoliberal wage-compression, social inequality and the credit-explosion

It follows from this analysis that the financialisation 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.59 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 per cent by 2004, the share going to the broader financial services sector – Finance, Real Estate and Insurance (FIRE) – also doubled to nearly 50 per cent of all US corporate profits.60


58. 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 fully-fledged system of credit-money at the world-level comprises a major metamorphosis in the formation of values at the world-level.

59. The idea of a financial coup, dating from 1979 and ostensibly led by Paul Volcker, then head of the US Federal Reserve, has been advanced by Duménil and Lévy 2004, pp. 69 and 165.

60. Leonhardt, 2008. For the FIRE sector more broadly, see Krippner, 2005, and Duménil and Lévy, Chapter 13.
The growth of financial markets and profitability is tied to processes of neoliberal wage-compression that also underwrote the significant recovery of the rate of profit between 1982 and 1997. 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 reorganisation of labour-markets and production-processes. Five dynamics figure especially prominently here: i) 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, Eastern Europe, and so on; ii) 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; iii) 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; iv) increases in absolute surplus-value triggered by an increase in work-hours, particularly in the United States; v) 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 programmes.

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 US are especially instructive in this regard. According to detailed studies, which may, if anything, underestimate the polarisation, between 1973 and 2002, average real incomes for the bottom 90 per cent of Americans fell by 9 per cent. Incomes for the top one per cent rose by 101 per cent, while those for the top 0.1 per cent soared by 227 per cent. These data have recently been updated to show additional increases in household-inequality in the US all the way through 2006. And a recent report from the Organisation for Economic Co-operation 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 per cent of Americans owned 38.7 per cent of corporate wealth, by 2003 their share had soared to 57.5 per cent. And similar effects are evident at the global level. According to the Boston Consulting Group, for example, since 2000 the 16.5 per cent of global households with $100,000 or more to invest watched

their assets soar 64 per cent, to $84.5 trillion, prior to the recent crash. The vast bulk of that wealth resides in the portfolios of millionaire-households. Although they comprise just 0.7 per cent of the globe's total households, these millionaire-households now hold over a third of the world's wealth. And it is these households, particularly in the conditions of renewed overaccumulation 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 slowdowns that began in 1997 and in 2001, and by growing demand from wealthy investors for ‘securitised’ debt-instruments (that is, mortgage- and credit-card debt packaged like securities for purchase) that offered higher rates of return. The process of the securitisation 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, financialised corporations, wealthy investors and the like. And, here, I want to highlight a largely ignored point about the distribution of the US debt build-up. For, while mainstream commentators have focused on the ‘reckless’ spending and borrowing habits of US consumers, the epicentre of the borrowing binge was the financial system itself, as banks and ‘shadow banks’ (like hedge-funds) bought the very junk they were creating. For instance, while US consumer-debt relative to GDP doubled between 1980 and 2007, financial-sector debt more than quintupled in the same relative terms during those years.

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). And, as Figure 2 illustrates, the great acceleration in this debt build-up came after 1997, as the recessionary dynamics of global overaccumulation 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 economies.
and UK, presaging a serious of local crises, of the sort we have already seen in Iceland, Hungary, Latvia, the Ukraine and Pakistan.

**Global imbalances, prolonged slump: from Asian crisis to the crash of 2007–8**

As I have suggested, a new wave of global capitalist expansion began in 1982, as two recessions (1974–5, 1980–2) coupled with mass unemployment, cuts to the social wage, an employers’ offensive against unions, a ‘free-trade’ offensive against the South, 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 centre 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 overcapacity 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 overaccumulation of capital, as I argued at the time. 67 The investment-boom in East Asia created enormous excess-capacity in computer-chips, autos, semi-conductors, chemicals, steel, and fibre-optics. ‘A persistent trend to overcapacity’, observed the World Bank at the time, had induced ‘price wars and intense competition’. 68 One key indicator of these problems of overcapacity and price-wars is the *consumption deflator*, which measures prices in consumer-goods. That index shows 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 overproduction offers an important clue as to the structural underpinnings of the crisis that broke out in East Asia (the centre 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 overaccumulation created by the expansion of 1982–97 have not been resolved. 69

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69. Bureau of Economic Analysis, various years. Turner 2008, pp. 21–2, is one of very commentators to underscore the significance of these developments. While I have important
It is at this point – after the Asian crisis of 1997 and the slide back toward recession following the bursting of the dot.com bubble in 2000–1 – that two interconnected phenomena become crucial to postponing a general slump: monumental growth of debt-loads; and the US current-account deficit (its shortfall in trade in goods and services and interest-payments with the rest of the world), which combined to allow the American economy to operate 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 labour, reduce costs and dramatically restructure industry. Very little capacity was shed, however. Instead, it was both re-organised and snatched up by foreign investors seeking to capture valuable assets from distressed and ailing firms. Renault's takeover of Samsung Motors, and Volvo's buyout of Samsung's construction-equipment division loom especially large in this regard; but similar phenomena, including purchase of large stakes of Korean firms, occurred in steel, electronics and other sections of the auto-industry. Having driven down costs through the course of the crisis, East-Asian firms were soon 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'. By 2000, for instance, US imports accounted for almost one-fifth of world-exports, and four per cent of world gross domestic product. But this level of consumption of foreign goods could only be sustained by 2006 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),


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, in both financial investments and real estate,71 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, taking the dollars shipped out to cover American current-account deficits and cycling them back into the US, therein subsidising 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 gigantic decline in US international net worth.

Meanwhile, however, the investment-boom in China had exacerbated the problems of global overcapacity that first flared up in 1997. These began to manifest themselves in the Chinese economy from around 2005 on. According to the Chinese government’s National Development and Reform Commission, China’s steel industry had developed an annual capacity of 470 million metric tons at a time when actual output equalled only 350 million metric tons. This excess-capacity of 120 million metric tons was greater than the total real output (112.5 million metric tons) of the world’s second-largest steel-producing country, Japan. Even worse, problems of overaccumulation haunted the iron-alloy industry, where capacity-utilisation had slumped to a mere 40 per cent by 2005. And significant overcapacity plagued the auto-, aluminium-, cement- and coke-industries.72 Detailed studies suggested, for example, that by 2005 China’s home-appliance market had overcapacity-rates of 30 per cent in washing machines, 40 per cent in refrigerators, 45 per cent in microwave ovens and a mind-blowing 87 per cent in televisions.73

71. 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 per cent 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 Baker 2007. It is important to emphasise, however, that financial-sector debt in the US grew faster than consumer-debt during this period – a point to which I return below.
73. Lardy 2007, pp. 6–7.
So, with overcapacity again weighing down profit-rates,\(^74\) and signs of asset-bubbles forming in the US and other economies (notably the UK, Spain and Ireland), the capitalist world-economy was increasingly vulnerable to shock. Moreover – 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. Indeed, private investors started to move out of dollar-based investments from 2002 on.\(^75\) But, in 2007, the flow of capital out of the US turned into a torrent. As US profits peaked in the third quarter of 2006 and then entered a period of decline, private investors saw the writing on the wall. Private-capital flows into the US turned abruptly negative in the third quarter of 2007, with an annualised 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).\(^76\) 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, much of this investment was provided only after US president George Bush begged his Chinese counterpart, Hu Jintao, to keep up purchases of US bonds, and after then-US Treasury Secretary Hank Paulson succumbed to China’s withdrawal of investment in the debt of US government-agencies by effectively nationalising the mortgage-lenders Fannie Mae and Freddie Mac.\(^77\)

But private 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 overaccumulation – and it would also mean much larger falls in the US dollar. For this reason, short of a long slump that destroys huge amounts of capital, it will be extremely difficult for the

\(^74\) For estimates on the decline of profitability in China see O’Hara 2006, pp. 400–1.
\(^75\) Brenner 2006, p. 327.
\(^76\) Bureau of Economic Analysis. See the discussion in Turner, pp. 90–1.
\(^77\) Pilling 2008; Gapper 2008.
world-economy to find a new source of demand sufficient to restart sustained growth.

**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 was 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 mobilise. 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, that is, 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 securitisation – 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 enormous new industries devoted to currency-trading, and the related derivative-instruments – futures, options, swaps and the like – that have proliferated over the neoliberal era. 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 great polarisation of

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78. It is of course true 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 the move to floating exchange-rates in 1971–3.
incomes produced both a huge demand from the wealthy for interest-paying financial instruments, which was eventually met by the extension of gigantic 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 Collateralised 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 increasingly 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, a large proportion 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, customer 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, while others like Saab will go a similar route. 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, while the International Labour Organisation predicts job losses of 50 million by the end of 2009.79 With half that number or more (26 million) already accounted for by layoffs of migrant-workers in China, the odds are that the final number will be much higher. Meanwhile, as the slump in the ‘real economy’ continues to feed back into the financial sector, it is clear 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) – that is 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. Consider also the coming decline in commercial mortgages, as businesses, faced with falling sales and disappearing profits, cannot keep up their mortgage-payments on land 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 (at least for those whose lives can actually be insured), in the midst of a financial crisis default-rates are not. To make matters worse, 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. This is 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 thoroughly 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. And there are likely to be bigger CDS losses to come – both at AIG and elsewhere – as there may be as much as another $54 trillion in CDSs out there. Default on a small fraction of this could induce

another major financial-market collapse. Indeed, predicting losses for 2008 of $60 billion – a US corporate record – AIG is now facing further losses on a different set of Credit Default Swaps, those it sold on commercial (as opposed to residential) mortgages. Consequently, in February, it entered new talks with the US government for yet a third bailout. 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, ‘[w]e have no idea of the details of our derivatives exposure and neither do you’. That’s why, despite giant 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 all parties involved booking massive losses of the sort AIG keeps taking, or the state socialising these losses – the financial crisis will not be over.

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. 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. 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

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84. Guerrera and Bullock 2008. Gowan 2009 (p. 18) rightly emphasises the non-transparency of the pricing of CDOs as contributing to the ‘form’ of the financial crisis. As I emphasise in the next section, beyond the problem of non-transparency, there were fundamental and inherent flaws in the very models that have been used to price CDOs and other derivatives.
role in helping capitalist enterprises manage these risks. Indeed, they have become the key financial instrument for doing so.\textsuperscript{85} Moreover, as we have seen, along 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 nationalise 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 \textit{abstract risk}.\textsuperscript{86}

The central concept here is known as Value at Risk (VaR). First developed in the early 1990s, VaR has become the fundamental basis upon which financial institutions and investors assess the riskiness of their investment-portfolios. Indeed, over the past decade, it has also been the basis upon which banks establish their own capital-requirements. Using a set of models that share a common mathematical framework, VaR is supposed to measure literally any asset under any and all conditions. Crucial to the operation of VaR assessments is the assumption that all points in time are essentially the same and, therefore, that tomorrow will be just like yesterday and today. As a result, the timeframe upon which VaR measures are based rarely extend beyond a few weeks. Even ‘long-view’ assessments, known as ‘historical VaR’ deploy data that stretch only one or two years back. So, in the summer of 2007, for instance, such models utterly discounted the possibility that house-prices in the US might stop rising steadily, never mind decline. After all, they had not done so during the recent past, the time period whose data were plugged into the models.\textsuperscript{87} And so, time is reified, treated as a purely quantitative variable, and qualitative breaks or ruptures in a temporal continuum are ruled out.

One recognises here the logic of the value-form as analysed 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, further, in which all concrete labours must be treated as commensurable – that is, as quantities of \textit{abstract} human labour. But as the powers of money to do this pricing reliably – to provide relatively

\textsuperscript{85} It is the great merit of the work of Dick Bryan and Michael Rafferty (2006) to have attended to the significance of derivatives in late capitalism. I dissent from their view, however, that derivatives \textit{are} money in late capitalism. Instead, I interpret them as, in the first instance, financial instruments that are designed to overcome problems associated with inconvertible world-money by bridging the spatio-temporal ‘gaps’ in value measurement that characterise our era. In this sense, they perform some monetary functions, but by no means all.

\textsuperscript{86} See Li Puma and Lee 2004, pp. 143–50.

\textsuperscript{87} For a lay person’s introduction see Nocera 2009.
predictable measures of value – have declined (see Section 4 above), derivatives have increasingly filled in the gaps. Yet, by deploying reified, mathematical concepts of space and time, the models which guided derived pricing have effectively imploded. As a result, a classic crisis of capitalist measurement is manifesting itself, in part in the form of a breakdown in risk-measurement and derivatives-pricing.

During every crisis, value-measurement is radically disrupted and destabilised. Pressures of overaccumulation and declining profitability induce a destruction of values that re-organise 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.88 Today, as we have seen, 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 . . .89

As we have seen, 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 homogenisation of space and time assumes that what applied at any one spatio-temporal moment applies in principle at any other. 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’ – Collateralised Debt Obligations (CDOs), Asset Backed Commercial Paper, and much more. Lack of knowledge of ‘the details of… derivatives exposure’ is thus not a problem unique to Lehman Brothers; it is a systemic problem that will not quickly or readily be resolved. As a result of financialisation 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 overaccumulation, falling profits, and unsustainable build-ups in fictitious capitals.

Debt, discipline, dispossession: value-struggles and the crisis

Thus far, I have focused on developments on the side of capital, largely abstracted from its (mutually constituting) relation with global labour.90 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 re-organised, and in which new spaces of resistance can be pried open. They are also moments in which capital violates its own free-market nostrums and uses public resources to bail out the system, thus opening up space for debates about alternative uses of public powers. Systemic crises are, therefore, 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

90. 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 its labour-power. This includes the unemployed, the casualised, and the majority of those eking out an existence in the so-called ‘informal sector’.
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 that neoliberalism has been based on ‘the real subsumption of labour to finance’,91 the formulation does grasp the powerful disciplining effects of the increased financialisation of relations between labour and capital, of the ever-greater incorporation of workers into financial and credit-markets.

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’.92 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 Programmes imposed by the IMF have mandated privatisation of government-holdings. Similarly, as we have seen with the Asian Crisis of 1997, corporate debts can also be occasions for the transfer of such private assets. Moreover, there can be little doubt that capital in the North will attempt to use impending financial and currency-crisis 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. Moreover, as private-capital flows into ‘emerging market economies’ plummet by about two-thirds in 2009, rates of investment and job-creation will turn down sharply.93 Trade and currency-crisis may ensue, driving poor nations into the dreaded hands of the IMF. Already, Iceland, Hungary, the Ukraine, Latvia 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 mobilise 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.

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91. Bellofiore and Halevi forthcoming.
92. The term, of course, is David Harvey’s resonant reformulation of Marx’s concept of the ‘so-called primitive accumulation of capital’. See Harvey 2003, Chapter 4. There are some unclarities in Harvey’s deployment of this concept, however, as Ellen Meiksins Wood (2006, pp. 9–34) points out.
93. Institute of International Finance 2009. Of course, private-capital flows lead to displacement, exploitation and social inequality. The problem is that, in a capitalist context, their absence also produces joblessness and poverty.
thereby gaining capitalist access to oil, minerals, timber, lands for eco-tourism, and more – all the while swelling the global reserve-army of labour.\textsuperscript{94} Meanwhile, ‘natural disasters’, from Katrina to the tsunami, have provided ideal conditions for government-sponsored displacement-programmes in the US, Thailand, Sri Lanka, and Indonesia that re-enact the economic violence of ‘primitive accumulation’ as described by Marx.\textsuperscript{95}

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, and pitched battles against eviction have broken out in poor quarters of Cambodia’s capital, Phnom Penh as well as in the Dharavi district of Mumbai, which has been so absurdly depicted in the Oscar-winning film, \textit{Slumdog Millionaire}.\textsuperscript{96}

However much they can be derailed or diverted, all such struggles 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. Moreover, 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 and debts in the Global South. At the same time, it opens political space for mobilisations to use the massive funds designed to save banks in order instead to build social housing, repudiate the South’s debts to the North, socialise failing industries, convert them to green production, and preserve jobs.

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

\textsuperscript{94} See McNally 2006, pp. 96–108.
\textsuperscript{95} On Katrina see Dyson 2006. On displacement after the tsunami see Klein 2007, pp. 476–87.
\textsuperscript{96} Manthorpe 2008; Schiller 2009; Sengupta 2009.
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.97

But, while capital is indifferent to the concrete commodity in question, working people cannot be. 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. All of 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 Organisation.98 Yet, somehow, governments in the Global North have in short order come up with about $20 trillion to bail out financial institutions – nearly 10,000 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 Organisation now predicts that food-riots ‘could again capture the headlines’, the way they did in 2007 and early 2008.99 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.

**Looking forward**

We are, in sum, into 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 nationalisation of major corporations – especially in the auto- and electronics-industries and knock-on slumps in the service-sector. Unemployment will ratchet higher – much higher. And the ongoing collapse of sales and profits will topple (or lead to the nationalisation of) more financial institutions. While it is impossible to predict exactly how this crisis will play out and how long the slump will last, all the indications are that it will be deep and protracted. And some things are particularly clear.

First, the crisis will induce an enormous centralisation 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 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 GM and Chrysler or for their merger with other firms – moves which would close large numbers of plants and axe tens of thousands of jobs. At the same time, Volkswagen and

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BMW, smelling blood, are building new plants in the US in the hope of capturing market-share from the wounded Detroit Three. In Japan, a merger of electronics-giants Panasonic and Sanyo is also in the works. Meanwhile, China’s auto-industry is undergoing a planned consolidation under the leadership of Shangai Automotive, while Chinese firms in the resource-sector are on a buying spree, signing deals and gobbling up assets. As they centralise, by direct takeovers or by 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 longer-term will likely see the dollar come under renewed downward pressure, 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. Moreover, the Russian and Chinese governments have recently been severely critical of the dominant role of the dollar while they diversify their foreign reserves. And the Chinese government is now publicly discussing a move away from dollar-based investments once the crisis eases. 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 régime 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. Interestingly, elements of this have been grasped

100. Linebaugh 2009.
by the US National Intelligence Council, whose *Global Trends 2025* predicts a world order characterised by ‘multipolarity’ rather than simple US dominance.

Third, centralisation of capital and competition between blocs will also be played out by way of attempts to spatially re-organise capital, so that economies in the Global North can displace the effects of crisis onto ‘emerging market economies’ and nations in the Global 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. 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’.105

As sharp regional crises unfold, therefore, major conflicts between governments in the North and South may emerge (over loan-repayment, IMF conditions requiring greater liberalisation and privatisation and so on), with the capacity to ignite powerful social struggles. Already, the government of Iceland has been toppled as a result of a social upsurge against IMF-driven austerity. In Latin America, where a number of governments – Bolivia, Venezuela, Ecuador and Paraguay – 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-nationalisations 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, as has Canada, and others will surely follow. As businesses fail, factories close and unemployment mounts, protectionism – ‘Buy...

105. For an important discussion of these themes see Hanieh 2008.
American’, ‘British Jobs for British Workers’ – is likely to fuel xenophobia and immigrant-bashing. Government-officials and parties on the Right will continue 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’ 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. 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. 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 disorder, that another world really is possible.

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Apocalyptic Sublime: On the Brighton Photo-Biennial

Steve Edwards
Open University
S.J.Edwards@open.ac.uk

Abstract
Based on an account of the Brighton Photo-Biennial Memory of Fire: The War of Images and Images of War, curated by Julian Stallabrass in late 2008, this essay considers the photographic coverage of the recent imperialist interventions in the Middle East. Taking its cue from Stallabrass’s event, it reflects on the decline of documentary and photojournalism since the Vietnam War and the current attenuated politics of the media. It argues that the problem of the sublime extends beyond the current genre of ‘aftermath’-photography and asks what might constitute a more cognitively adequate politics of the image.

Keywords
Brighton Photo-Biennial: Memory of Fire; war; photography; sublime

We see a young man posing in front of his flashy red car; plumes of smoke rising over buildings; a wedding; spliced power lines and a chained-down generator; three bodies are glimpsed from a passing car-window; two young men are out swimming; barricades are strewn across a prosperous street; a group of youths play dominoes; there is a burnt-out room complete with destroyed piano and charred reproduction of an Assyrian frieze; a suspension-bridge has collapsed; people enjoy themselves at the fun-fair; here there are traffic-jams, there another body sprawls in the road; a Muslim family celebrate Christmas and a group of young men celebrate Eid; a volleyball-game takes place amid the palm-trees; a human skeleton lies in the gutter, its tibia detached; burnt-out vehicles are everywhere, rubbish is ubiquitous; two men drink beer, elsewhere food is served; a dog lounges in a sunny garden and, in defiance of it all, a man plants a small tree. We hear of an enormous refugee-crisis; of a man with two identity-cards – one Shia the other Sunni – just in case; of dispersed friends and relatives, some in exile, others in detention as ‘illegal immigrants’; yet others kidnapped or killed (including an uncle murdered under the previous régime for membership of the Iraqi Communist Party), but also of friends and hopes for the future. Geert van Kesteren’s digital
projection – *Baghdad Calling* – assembled from mobile-phone images taken by Iraqis and interviews with exiles provides a powerful image of everyday life under the occupation.¹

*Baghdad Calling* was one striking component of the recent Brighton Photo-Biennial – *Memory of Fire: The War of Images and Images of War* – curated by Julian Stallabrass.² With ten separate exhibitions across nine venues this was unquestionably an ambitious event. The theme of war-photography gave this biennial a coherence and a critical charge uncommon in events that frequently parade under catch-all titles such as *Dreams and Conflicts: The Dictatorship of the Viewer or Heaven*. In the short guide to the Biennial, Stallabrass tells us the occupation-forces ‘employ brutal and totalitarian methods’ as well as ‘Nazi tactics’. If the most media-saturated war in history has drawn so little public debate and failed to galvanise significant opposition, he suggests, we can only conclude that ‘something about our democracy is broken’.³ These themes ran through the exhibitions and the images on display. There were prominently sited photographs depicting torture, destroyed bodies and smashed social infrastructure. At some points, the Biennial engaged with the role of photography in shaping democratic debate and the transformation of photojournalism; at others, it confronted viewers with sheer horror. Stallabrass has staged an important exhibition that attempted to force public debate and reflection on the war and its presence (and absence) in the media.⁴ The Biennial and the issues it raised may be ignored in official channels and the attempt to create discussion might fall flat, but it will not have been for lack of effort.

The Biennial also raised significant questions about representation and knowledge; what can be learned from showing and seeing; what are the limits of photography as a cognitive form in a commodified culture; at what point does the image of death and destruction shade into mere image-flow – the sheer incontinence of the capitalist media – or, worse, into voyeuristic pleasures available at a secure distance? There are some old, if unsurpassed, questions at stake here, which relate to the few fragments of a Marxist engagement with war and photography. While there are extremely rich analysis of imperialism, the military-industrial state and the permanent arms-economy in the Marxist

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¹. For the book version, see Van Kesteren 2008. See also Abdul-Ahmed et al. 2005.
². This is the third Brighton Photo-Biennial, which ran from 3 October to 16 November 2008. At the outset, some media-professionals were disturbed at the theme and felt the event should be given over to celebrating (art-)photography.
³. Stallabrass 2008a, p. 60.
⁴. My thanks go to Iain Boal, Gail Day and Tom Hickey for stimulating discussions of *Memory of Fire*. The Biennal’s catalogue has yet to be published, but a number of the images discussed in this essay can be viewed on the Biennal’s website: <http://www.bpb.org.uk/2008/>. 
tradition, there has been remarkably little work on the impact of the key image-technology of the last hundred years. This situation effectively splits culture from imperialism or ‘military neoliberalism’. This fissured analysis has ceded important territory to postcolonial critics. The theoretical work that does exist belongs to two distinct moments of political struggle against imperialist war. The first important point comes from Bertolt Brecht, who noted, in an observation he attributed to the Marxist sociologist Fritz Sternberg:

> A photograph of the Krupp works or AEG reveals almost nothing about these institutions. Reality as such has slipped into the domain of the functional. The reification of human relations, the factory, for example, no longer discloses those relations. So there is indeed ‘something to construct’, something ‘artificial’, ‘invented’. Hence, there is in fact a need for art.

The fascist ‘aestheticising of politics’, observed by Walter Benjamin, is not simply a matter of spectacular display, but also of this ‘slippage’. The problem raised by Brecht and Benjamin of how to construct an adequate means for representing the capitalist military-industrial machine achieved its most powerful form in the work of left avant-gardists: in the montage-work of John Heartfield and in Brecht’s own brilliant scrapbook in which he recaptioned cut-and-pasted news-photographs of WWII. The Marxist critique of the image at war (in so far as it exists at all) has not got much beyond these few fragments and in important respects has shrunk back from them. One significant exception to this is O.K. Werckmeister’s valuable symptomatic reading of the neoliberal violence latent in mass entertainment, to which I shall return.

During the first half of the 1970s, a new generation of Marxist critics and artists took up this earlier critical work on photography. Victor Burgin, Martha Rosler, Allan Sekula and John Tagg – to name only the most prominent – began to critically interrogate the ideologies of photography, paying particular attention to unmasking the ideological claims for documentary neutrality and unmediated access to reality, summarised in the popular conception that ‘the camera never lies’. This powerful project of *Ideologiekritik* drew on a diverse range of intellectual resources: Marx and Lukács, Benjamin and Brecht, and often combined the work of these thinkers with new resources from semiotics,

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5. Brecht 2000. The same point occurs in two slightly different versions (pp. 164–6, 144). Benjamin cited it in a third variant in Benjamin 1999.
psychoanalysis and feminism. These concerns were increasingly read through the then-fashionable work of Althusser and Foucault. However, it would be a mistake to see this trend as homogenous: the Americans – Rosler and Sekula – were and remain to this day Marxist intellectuals and artists committed to the realist impetus of Brecht’s comment on the AEG. For them, the important question was the criticism of the dominant image-culture and the elaboration of new strategies or forms for revealing social relations. Both artists/theorists made important photo-works in which they sought to connect the violence of Vietnam with everyday life in the USA – Sekula’s photo-text work *Aerospace Folktales* and Rosler’s collage-series *Bringing the War Home: House Beautiful/In Vietnam* (recently remade for Iraq). Both have subsequently made photo-works concerned with war and the arms-industry. In addition, Sekula wrote a criticism of the way that the growing art-market in photographs repackaged WWI air-reconnaissance photographs as luxury commodities, on the basis that the commanding officer of the unit was Edward Steichen, a famous pictorialist art-photographer. Using this perverse example, Sekula was able to explore the role of the photographic image in war and to highlight the contradictions of the predominant formalist approach to art which claimed to be value-neutral. In contrast, the British – Burgin and Tagg – gravitated in a ‘postmodern’ direction. Working from a critique related to that of Rosler and Sekula, Tagg became preoccupied with the disciplinary apparatus of the photograph; Burgin with the production of desire. Both shifted from an initial engagement with Marxism to identity-politics and a suspicion of all truth-claims. The picture of choice for postmodern intellectuals concerned with photographs has been the staged or constructed image which makes a display of its artificiality and takes as its material the Subject imagined in advertising, fashion or cinema. Over the course of the last thirty years, there has been valuable analysis on the ideological work performed by photography and staged images have made a substantial contribution to this. However, it is worth observing two related problems: firstly, this critical agenda has largely squeezed out other forms of work with the photograph – documentary photographers are perceived as naïve at best, complicit with the structures of social power at worst; secondly, when stripped of the realist impulse that we find in Benjamin and Brecht, the commitment to the staged picture drifts towards a fascination with the pleasures of glossy ideologies. The ‘postmodern’ engagement with photography has thus come to play its own small part in

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shaping an intellectual formation inclined to ironic disengagement from the circuits of public-meaning production.

The medium may be particular, but this intellectual history should now be sadly familiar. The key point here is that a form of Ideologiekritik has transmogrified into a prevailing consensus deeply sceptical about any evidential claims for photography. As Sekula argues, in the contemporary ideological climate ‘[t]he old myth that photographs tell the truth’, at least for intellectuals and media-professionals, ‘has succumbed to the new myth that they don’t’.12 Without some kind of commitment to the truth-claim of the documentary image it is difficult to see how a critical analysis of the war of images can maintain any distance from the argument presented in Baudrillard’s The Gulf War Did Not Take Place, where Western viewers are depicted vicariously experiencing the devastation of the Middle East during the first Gulf War as if through a video-game.13 In the first essay in this book (published before the bombardment began), Baudrillard suggested that the talk and imagery of war substituted for conflict itself. In his final essay on the topic (written after the assault) he acknowledged this war was not entirely a mass-media fantasy and that large numbers of Iraqis had been killed, but he nevertheless stuck to the point that it was an unreal war in which combatants, strategists and the public were all trapped inside a virtual world of the media’s making. As Christopher Norris put it: ‘The main confusion in Baudrillard’s thought is his habit of equating what is currently, contingently “good in the way of belief” with the limits of what can possibly be known from a critical or truth-seeking standpoint.’14 We might add that it is a point of view predicated on looking at the world from Paris, rather than the backstreets of Baghdad and Basra. In the period between the onslaughts against Iraq of Bush père et fils, Baudrillard’s star has dimmed considerably. Now, critical intellectuals concerned with the media are likely to reach for Guy Debord and the analysis of the Situationist International. In itself, this turn registers a symptomatic shift in the intellectual mood.15 But, all too often, the cultural-studies industry gives us a depoliticised version of Debord, in which the spectacle shades towards Baudrillard’s idea of simulacra. Debord’s account is not without deep-seated problems – it often seems more like a poetical than a theoretical analysis – but he continued to link the potentiated fetish he calls the spectacle to the accumulation of capital (and its antithesis, the workers councils). In this sense, Retort’s Afflicted Powers makes a welcome intervention as a militant anticapitalist engagement with the

spectacular régime of ‘military neoliberalism’. Here, the spectacle is centrally a form of social violence. Retort’s book is important for initiating a debate about the ‘cultural logic’ of military neoliberalism. The Retort collective remind us that imperialism (a concept they would not use) is a matter of ideology and images as well as economics and politics; that social relations are inseparable from cultural forms. There is a great deal to be said about Retort’s book, but, here, I just want to note that, despite registering a certain crisis in the field of the spectacle, it frequently flattens out of image-work into a reflex of spectacular power and imaginary opposition.

_Memory of Fire_ is thus unusual in recent radical engagements with photography and the media in hinging so much of its critical import on documentary and photojournalism. Rosler and Sekula have kept plugging away and John Roberts has defended a critical-realist account of photography, but these have been marginal voices that have had little effect on the prevailing view. Finally, there are signs that, in response to the neoliberal offensive, the consensus that has held for so long is beginning to break apart. The work of Rosler and Sekula has received increasing attention in the last few years and two books have recently appeared that challenge the prevalent complacency. Robert Hariman and John Lucaites’s _No Caption Needed: Iconic Photographs, Public Culture and Liberal Democracy_ provides a compelling account of the part played by photojournalism in liberal democracy. The authors’ advocacy of market-individualism undoubtedly constrains this book, but their fierce defence of the public role of photography as a focus for democratic disputation unquestionably makes their work a significant intervention. Ariella Azoulay’s _The Civic Contract of Photography_ also presents a powerful, if somewhat baggy, case for photography as a civic witness to the ‘injury’ and ‘abandonment’ of Palestinians in the Occupied Territories. The author’s method drifts towards a politics of victimhood, where Palestinians and women appear as ‘weak’ or needing ‘protection’—a conundrum with its roots in her use of Schmitt and Agamben. What seems vital in this book, however, is Azoulay’s rejection of routinised critical reactions to the documentary mode. _Memory of Fire_ can be set alongside these works as an important contribution to this emerging critical view. It asked us to think seriously about the representability of imperialist war and the responsibilities of the media in the current world. This cluster of works demand serious engagement with documentary and photojournalism, not just as ideological material to be unmasked, but as a practice that has much to

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teach us about power. In each case, the evidential claims of photography appear as dialogic propositions that provide jumping-off points for public reflection on war and violence in advanced capitalism.

Iraq and Afghanistan were at the heart of *Memory of Fire*, but images from the current round of imperialist wars were located, or edged around, with five other exhibitions suggesting we think about war-photography as a genre or tradition. In mixing photographs of current wars with historical material, the Biennial invited its viewers to reflect on ‘the war of images’ as well as ‘images of war’. *Iraq Through the Lens of Vietnam*, at the University of Brighton Gallery, contrasted photojournalism from the Vietnam war with that produced during the current war in Iraq. In the foyer of the same gallery, *Designs for Solidarity*, curated by Catherine Moriaty from material in the University’s Design Archives, displayed copies of *Tricontinental* magazine and posters (some of the latter are modern reproductions) from Vietnam and Cuba in the 1960s and 1970s. The Brighton gallery Fabrica showed Thomas Hirschhorn’s *The Incommensurable Banner*, a montage of atrocity-photographs from Iraq, appropriated from the media, blown up and crudely printed on a large white banner; also in Brighton, Lighthouse exhibited two projects by one of the most critical photojournalists to have worked in Iraq – Van Kesteren’s *Why Mister, Why?* and *Baghdad Calling*. Prints from Philip Jones Griffiths’s moving book *Agent Orange* were on show at Pallant House Gallery, Chichester. The marvellous *Photography & Revolution: Memory Trails Through the Latin American Left*, mounted at Winchester Gallery, united iconic pictures by Tina Modotti, Susan Mieselas and Sebastião Salgado with less familiar images. In marked contrast to the situation in the Iraq and Afghanistan, the Left in Latin America from the time of the Mexican Revolution has welcomed photographic visibility. *Photographing the First World War* at Charleston Farm House, near Lewes, assembled montage-prints by the WWI Australian official war-photographer Frank Hurley. *The Sublime Image of Destruction* held at the De La Warr Pavilion, Bexhill on Sea, was composed of fourteen large-scale colour-pictures by Broomberg and Chanerin, Simon Norfolk, and Paul Seawright, in the mode currently known as ‘aftermath photography’. *War Memorial* at Aspex Gallery, Portsmouth, was an installation by artist Julian Germain made from albums and photographs by service-personnel from WWI to the present and Harriet Logan’s *Unveiled: Voices of Women in Afghanistan* was at the Independent Photographers Gallery, Battle.20

20. These last two exhibitions seem misjudged. While the material in War Memorial is an installation by artist Julian Germain made from albums and photographs by service-personnel from the First World War onwards. The material is engrossing, but the exhibition feels like a way of negotiating the problem, imagined or real, of how to confront the image of war in this navy
Iraq Through the Lens of Vietnam was the centrepiece of Stallabrass's Biennial. Here, photojournalistic coverage of the Vietnam War was paired with the picturing of war and occupation in Iraq. The two wars were connected by discreetly sited pictures that uncannily echo one another, depicting lines of bound prisoners led by American soldiers: in Vietnam, they move across the picture from right to left; in Iraq, the process is reversed. The first room focused on Vietnam and was composed almost entirely of black-and-white photographs. On display were Ron Haeberle’s image of the My Lai massacre and Nick Ut’s picture of the young Phan Thi Kim Phuc seared by napalm. There were also classic pictures by Tim Page, Larry Burrows, Philip Jones Griffiths and Don McCullin. Alongside these icons of Western photojournalism were less well-known pictures by North-Vietnamese photographers who worked along the Ho Chi Minh trail; these images were produced under extraordinary conditions, developed underground and washed by night in streams. There were also four fascinating albums of photographs and accompanying notes by members of the North-Vietnamese Army from the Archive of Modern Conflict. Many of these photographs were available to the Western media at the time, but, unsurprisingly, few appeared in print. The room ended with two chilling colour-photographs taken by Tim Page: a young black American soldier wearing around his neck a gold swastika and a small carving of an African-style head, and an US tank-reconnaissance operative holding an NVA arm-bone under his nose. Both depicted men meet the photographer/viewer with a smile or grin. These are pictures that seem to say: ‘welcome to the feast of cannibals’.

The final batch of colour, photographs in the first room represents a point of transition as documentary humanism begins to falter, passing over to a much more troubled vision that verges on misanthropy. As we move into the second room, humanism in black-and-white gave way to contemporary full-colour disillusionment; so many pictures from Iraq seem posed and arty.

town. The installation is a disaster. The photographs are displayed in a purpose-built, low-level cabinet, shaped in the form of a Christian cross as if war-memorial had cast its shadow obliquely across the floor. The cross is mistaken enough, but installed at near-ground level the viewer has little choice but to kneel in order to view the small photographs. The effect is portentously reverential. Logan’s Unveiled: Voices of Women in Afghanistan documents women’s struggle for dignity, autonomy and literacy under the Taliban and occupation. These are strong images recording appalling oppression and, in the accompanying texts, we encounter voices protesting against the occupation, but the exhibition is not framed carefully enough to avoid offering succour to liberal advocates of intervention. There is also something exoticising about this display, which is definitely not helped by the Afghani music wafting through the space; even Logan’s title unfortunately brings Orientalist connotations into play.

21. We owe Tim Page a great debt for collecting and publishing many of these photographs, thus ensuring that this other vision of the Vietnam War receives due attention.
Here, work by ‘embedded’ photojournalists (who were part of a military unit) and the ‘unilaterals’ (who work independently of military ‘protection’) was displayed alongside images from Abu Ghraib and a computer-screen showing pastiches or recyclings of these photographs; a series of pictures were copied and pasted from the website Albasrah.Net; alongside them were pictures by American-army photographers showing soldiers handing-out lollipops to children and gazing into the future beside military hardware. These are what Retort might call ‘idiot devices’ from a war conducted in the half-light cast by an atrophied media. Wall-space was shared with an enormous image recording the shocking and awful bombing of Baghdad.

The decision to exhibit some of these pictures in frames, while deploying others as low-grade images pasted in grids directly on to the wall was peculiar, because so many of the framed images are modern copy-prints from digital files. No doubt, the politics of this biennial has not proved conducive to sponsorship and Stallabrass may have wanted to retain something of the low-grade quality for pictures that were made with phones or cheap digital cameras and circulated by email or on websites; but many of the framed pictures also appeared in cheap newsprint-formats. The decision to enlarge some of these pictures for gallery-display is even more questionable. These curatorial decisions give the viewer too much of a moral steer at the cost of reducing the ‘war of images’ to one-dimensional ‘propaganda’; in the process, the Biennial’s neat chiasmic formulation breaks apart.

Nevertheless, the central thesis of *Iraq Through the Lens of Vietnam* should be taken seriously: Stallabrass asked viewers not only to look at photographs and to consider the events depicted, but also to reflect on the transformation of photojournalism that has taken place in the time between these two imperialist adventures. How is it that images from one war played such a central role in galvanising opposition, while those in our time have had so-little impact? Where are the iconic pictures from Iraq? What has happened to the media? Why did the Vietnamese National-Liberation Front foster and even protect journalists, whereas today’s Islamist fighters target them? These questions still run the risk of eliciting snug and smug postmodern responses – ‘we are all inside the picture now’ – but the point is pressing (over two hundred journalists have lost their lives in Iraq). We need to account for this shift in the structure of feeling: the politics of solidarity and humanism in the image seems to have given way to ennui. A combination of factors could be cited here: the crisis of organised socialist politics; state-imposed restrictions on reporting; the lack of interest in Western solidarity shown by Islamists, whose sophisticated and extensive image-network deliberately excludes the Left. These factors have all contributed to a situation in which there have been few serious attempts to
represent the current round of bloody Western interventions and even less exposure for those that do exist. These social changes need to be set alongside the transformation of the media themselves. Photojournalism has been in decline at least since the 1950s. The picture-magazines that once provided the institutional support for serious photojournalism were undermined by the commodity-form’s increasing colonisation of every-day life; television assumed the central place in disseminating news and Picture Post, Life and the rest were gradually displaced by the Sunday supplements, which are little more than glossy padded-out advertising (though, some projects still slip through: Logan’s work on women in Afghanistan originally featured in the Sunday Times Magazine).

Digital technology has speeded up this decline: it is now cheaper for the media to use video-grabs or amateur-made images than to employ journalists to undertake sustained work and only the spectacular eye-catching picture has a chance of halting the endless flow of photographs that pass across the picture-editor’s screen. In this changed configuration, documentary photographers have had little option but shift focus: a great deal of work is now disseminated through galleries and books. Critical work has atrophied under this conjuncture and what exists now appears in less publicly visible contexts.

The paradoxical effect of this change in the conditions of production and circulation of documentary and photojournalism has been a sort of cannibalising of war-photography by the mass media, discussed by the Marxist art-historian O.K. Werckmeister in Der Medusa-Effekt. Werckmeister calls attention to conditions of a ‘progressively brutalised image-culture’ that dishes up any amount of gut-wrenching violence in horror- and war-movies, while simultaneously sanitising wars and catastrophes. American visual strategies for imagining urban counter-insurgency – from satellite-surveillance to urban models and computer-games – imagine a depopulated space, occupied only by insurgents and occupying troops. Smooth space now joins Benjamin’s model of empty time. Donald Rumsfeld is supposed to have said that ‘death tends to encourage a depressing view of war’ and the media have certainly been playing its part in cheering everyone up, by sanitising the war. However, according to Werckmeister, the repressed conditions of social violence bubble to the surface in the sublimated imagery of death and horror that appears in films, comics and computer-games. The ‘Medusa-effect’ emerges from a relationship between image-technologies of social manipulation, and an

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25. Werckmeister 2005, p. 16. I would like to thank Andrew Hemingway for making his translation of this material available and for his comments on an earlier draft of this essay.
image-culture that serves to banish from view the terrors present in reality. The effect is a migratory movement in which capitalist violence reappears as displaced symptom and generalised anxiety. At the same time, it is important to see (and I do not think Werckmeister adequately captures this dialectical inversion) that classic Magnum-type humanist photographs from Vietnam provide the image repertoire for the new pictorial rhetoric. Images such as Larry Burrows’s picture of a wounded American soldier reaching back to a dead comrade in the mud undergird films like Apocalypse Now, Platoon and Saving Private Ryan. In the process, Hollywood realism annexes photojournalism as film-style. Under these circumstances it is difficult to produce an image that surprises or grabs attention. Whatever hardships and difficulties they faced, Jones Griffiths and Burrows did not have to confront the problem of today’s photojournalist working in the inside-out media-culture that developed after the Vietnam War. None of this requires us to collapse the different registers of images of war into the loose category of ‘infotainment’ or Baudrillard’s fast-and-loose suspension of the actuality of the first Gulf War – and there are still impressive projects of photojournalism represented in the Biennial by Ghaith Abdul-Ahad, Kael Alford, Ashley Gilbertson, Van Kesteren and others, but it is evident that the outraged humanist documentary of Vietnam has withered, giving way to professional perspectives and fragmentary purviews. Today, photographers feel compelled to compete for attention by adopting the stylistic modes of action-movies. In her contribution to the exhibition-guide, Sarah James suggests that the universalism that characterised coverage of the former conflict has flipped over into the perspectivalism typical of multiculturalism. She has a point, though the formal dialectic of her argument somehow makes the former responsible from the latter. Left humanism, however, does not come out of this contrast too badly, and universal values certainly look necessary to any claim for justice and human integrity in Iraq.

If the Biennial was a large exhibition, it was not an especially well-funded one and this left its mark. A bigger problem stemmed from the curatorial decision to disperse the Biennial outside Brighton in the six venues around the south of England. Regional politics makes this an increasingly fashionable strategy for the biennial industry, as numerous institutions all lay claim to their share of exposure and tourist-revenue. However, few viewers were likely to commit the three days, and much trouble, that it took to see Memory of Fire in its entirety. This is a great pity, because the critical effect depended on totalising the individual components. The size and geographic spread, consciously or not, raised a substantive matter. The spread of the Biennial confounded the viewer, posing the problem of how to see war; how to represent, not the partial views, but the larger picture.
The problem of representation and knowledge, of how to represent capitalism’s recent round of wars, appeared consciously in *The Sublime Image of Destruction*. Seemingly cool and detached, the large-scale pictures in this exhibition were made for the gallery-wall, rather than designed for newsprint; they are highly aesthetic images, often modelled on pictorial forms from the seventeenth to the nineteenth centuries; and, instead of recording the frontline of conflict, they document the aftermath of destruction in incredible detail. In the accompanying gallery-handout, Stallabrass suggests this ‘aftermath photography’ represents a subset of Kant’s categories of ‘ungraspable magnitude’ and ‘ungraspable force’, which he characterises as the ‘military sublime’.26 For Kant, the sublime exceeds human powers of sensuous apprehension. It exists as the extreme outer edge or limit-point of reason’s capacity to comprehend it.27 In the work of Burke, the sublime is an aesthetic mode characterised by immensity that gives rise to sensations of astonishment, death and power.28 All of these features apply to the photographs in question (the central difference is that, for Burke, the most powerful causes of the sublime lie in nature). It is not clear whether Stallabrass intended to restrict the problems raised by the sublime to the aftermath-photographs or if this was a problem that he sees as running through all representation in an age of spectacle – his argument seems to shade in both directions. James equally worries over this aestheticisation of war and destruction as ‘a process that sublimates the seduction of beauty into the horror of violence’.29 This concern with the transmogrification of conflict into aesthetic contemplation – whether the sanitised pleasures of the museum or the full-blooded fun of the mass media – is now a familiar reflex in leftish cultural theory. During the 1970s, many Marxists working on the image came to intensely distrust aesthetic thought, with its prominent themes of disinterest, beauty and objective taste and turned to seemingly more concrete engagements with history or politics. For many left critics, there seems to be something inherently suspect about aesthetic or artistic engagement with violence, as though the issues are compromised by the art-world context and hollowed out through the process of on-going commodification. As Stallabrass notes:

There seems something wrong about, at the extreme end of what I do, arranging photographs of corpses and the wounded in a way that makes cogent sense, or judging how they may best be arranged to produce a coherent formal ensemble.30

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27. Kant 1952.
30. Stallabrass 2008c.
This is an inescapable problem of form-giving. Pace Benjamin, Adorno and Debord we now need to rethink what has become an off-the-peg critique. Exposing the charades of power is always a vital task for socialists, but there is presently a danger that the critics of the Left – worried about their own role in the commodification of culture and concerned about the spectacular image of violence – are playing a role in imposing silence around war, instead of taking the opportunity that pictures like these offer for public debate and putting oppositional representations into circulation. At the moment, nurturing the critical impulse is probably more significant than hunting the commodity-form back to its numerous lairs.

Adorno is a key figure for James, but she turns away from an engagement with aesthetics to a sociology of forms and also argues the ‘contemplative sublime’ can register neither ‘flesh, bodies or selves’. This is a doubtful reading: from the time of Kant and Burke, the sublime has been understood as an aesthetic mode that figures the threat to the viewer as embodied subject. James rightly argues that Lyotard’s account of the sublime has provided a ‘hiding place for postmodernists’, but Lyotard’s aesthetic of incommensurable language-games is not the only way to think about the sublime.31 In the hands of Burke, the sublime was a reactionary aesthetic, but all aesthetic modes are the sites of struggle and shift in the context of social upheaval. We might be better off employing Morton Paley’s category of the ‘apocalyptic sublime’ for aftermath-photography.32 Paley argued that eighteenth-century sublime prospects represented a moral challenge to Whig potentates and the architects of empire, threatening impending doom and catastrophe – think of Francis Danby’s Opening of the Sixth Seal (c.1828), which conjured up ideas of revolutionary apocalypse for contemporaries. It seems as good a way as any other to view these photographs as revealing a symptomatology for modern moral and social collapse.

The Biennial admitted the problem of sublimity with the aftermath-photographs in the De La Warr Pavilion, but it also tried to contain the problem to this batch of explicitly aesthetic photographs. However, in mutating forms, the sublime problem of representing capitalism and war ran throughout Memory of Fire. The sublime might even be said to be the problem for Marxist work on the image in late capitalism.33 Stallabrass cites the photojournalist Michael Kember to good effect:

Today in Iraq there’s so many things we can’t photograph any more. Car bombings and suicide bombings are now off limits, it’s actually illegal to photograph these scenes. We can’t photograph wounded soldiers without their consent. We can’t photograph dead soldiers, coffins of dead soldiers. . . . We can’t photograph battle-damaged vehicles, we can’t photograph hospitals, morgues are off limits now. So pretty much everything that gives evidence that there’s a war going on is almost impossible to photograph.34

Add to this the sheer danger of working in Iraq and you can see why Van Kesteren, in a talk given as part of the Biennial’s opening events, expressed the opinion that there had been no independent journalism from the war during the last four years. In this sense, the iconic image of the Iraq war may be Thorne Anderson’s photograph *Picking through the Wreckage of Najaf* (2004), which depicts a group of men seen through the shattered windscreen of a car. How then to represent the seemingly unrepresentable? Van Kesteren’s solution is to turn away from photojournalism and assemble *Baghdad Calling* from mobile-phone images taken in Iraq and circulated among exiles.35 Aftermath-photographers pursue a different strategy: their work is almost a hypertropic extension of the dominant media-strategy. Arriving late, when the bodies have been carried away, they focus on the figural traces of the war – destroyed buildings, shrapnel-damage, spattered blood, abandoned or rusting military hardware. Paul Seawright’s *Valley* can be seen as a manifesto for this vision of military and political expenditure. *Valley* depicts a batch of spent artillery-shell cases lying in the dust of an Afghan valley. In near-monochromes, *Valley* suggests something of the absurdity involved in fighting an ‘asymmetrical war’, but it also directly invokes Roger Fenton’s photograph *The Valley of the Shadow of Death* (1855). Fenton’s image from the Crimea was one of the first war-photographs. Due to the technical limitations of his bulky, slow camera and the military injunction against photographing the dead and wounded, he opted for a metonymic mode – focusing on cannon-balls strewn across the floor of a valley. In this way, he made a haunting image that fetishistically substitutes munitions for smashed bodies as a way of conveying the effects of war. As with *Iraq Through the Lens of Vietnam*, Seawright gives us one war through the lens of another. In the process, humanist photography appears as a period-bound practice confined between these two moments of moral

34. Stallabrass 2008a. The current administration has decided to allow pictures of coffins, provided consent is attained from the family.

35. Prints from *Why Mister, Why* are framed on the wall and convey only a little of the complex narrative of the book (I am not even sure this display was finished at the time I saw it), but *Baghdad Calling* shown as a video-projection and sound-loop worked exceptionally well and is a deeply affecting image of ordinary life in a society shattered by imperialist intervention.
blindness. Hurley’s carefully constructed photos from WWI can be seen as an attempt to capture something of the grandeur and effect of historical battle-painting. These fascinating pictures of military engagement and life in the trenches were produced by complicated montages from multiple negatives and/or posed scenes. They caused some controversy at the time as ‘faked’, but they also emerge from the (technical) problem of depicting modern warfare. Shells simply did not explode where and when needed for pictures. Their inclusion in *Memory of Fire* provided an opportunity to reflect on lineages for contemporary aftermath-imagery. Jones Griffiths’s work represents aftermath-photography of a different kind. These pictures, in incomparable fashion, call us to witness the genetic damage caused by the American use of defoliants in South-East Asia. Where recent aftermath-photographers give us an aesthetic of destruction and the merest traces of destroyed bodies, he depicts aborted foetuses and malformed children as a way of depicting the after-effects of war.36 Jones Griffiths focuses on the horrendous damage to children’s lives, showing, with as much dignity as possible, individuals living with these terrible after-effects. In many ways, this is archetypical humanist photography: small-format, black-and-white, close-up images focused on innocent victims. Even for those familiar with this work, in the low light of the print-room, these images can only be described as distressing.37 However, no one would want to claim that Jones Griffiths’s prints are any less ‘aesthetic’ than the work of Norfolk or Seawright. The real difference between these types of aftermath-work is that between small- and large-format cameras, black-and-white and colour-pictures; close-up and middle or distant perspectives; and absence or presence of the human body. These are different aesthetic choices for how to convey politics, rather than an opposition between an aestheticising vision and some more political or immediate encounter.

Hirschhorn’s *The Incommensurable Banner* lies at the opposite end of the spectrum from the aftermath-photographers. The work leans against the wall defying us to confront the horror of it all, while seeming as if it is intended to be carried on some monstrous parade of the damned. Hirschhorn’s banner is ‘hot’ where aftermath photographs at Bexhill on Sea appear ‘cool’, it is close-up rather than distant, but it may be equally caught in the problem of the

36. Ashley Gilbertson is also finding a way around the restrictions by producing aftermath-pictures in his study of the bedrooms of American soldiers who died in Iraq or subsequently killed themselves as a result of their experience.

37. Stallabrass reminded us in the wall-caption that the US required Vietnam to pay for the cost of munitions and chemicals used by America in the war a condition of admittance into the neoliberal trade set-up. First the war, then reparations, then neoliberalism – Vietnam has been made to pay three times over for its defiance of imperialism.
sublime. Hirschhorn makes his gruesome display from photographs of heads without bodies and bodies without heads; torn flesh; splattered brains; one image depicts a man with his heart ripped out; there is a picture of a head in a bucket and what seems to be flayed human skin hanging over a barrier or wall. Images of this type spread out across an expanse invoking the idea of unending atrocity. This work offers an appalling reminder of the consequences of ‘humanitarian intervention’ in Iraq and stands as a wider indictment for imperialist violence. It is illuminating that, while these pictures could easily be grabbed from some horror-movie, we instinctively know they are not. This poses significant questions to a view of the war overly focused on spectacle or the media. There is a prevalent criticism of Hirschhorn for his seemingly naïve belief in the critical impact of images of horror and violence. It is fair to say that the liberal Left is quite hostile to any work that foregrounds violence and body-parts, but particularly so towards Hirschhorn, often scattering around terms like ‘pornography’. Peter Campbell’s account of the Biennial in *New Left Review* seems mired in this general perspective.

I am deeply suspicious of this type of criticism: it seems like standing on one’s virtue while tidying out of sight the disturbing horrors of capitalist violence. As Azoulay notes in another context, contemporary criticisms of disaster-representations are contradictory: these images are said, on the one hand, to be invisible, with critics claiming that the media perpetuate a ‘sterile field of vision’, and, on the other, the spectator is said to be ‘blinded’ or anaesthetised by routine exposure to them.38 For these critics, there are both too many and too few atrocity-photographs. In this manner, Hirschhorn can be depicted as simultaneously naïve and a flagrant exhibitionist. This criticism certainly has the feel of an ideological symptom and is too convenient a way to dismiss such a powerful challenge to the scrubbed-down coverage of the war. The problem is different, in my view; *The Incommensurable Banner* appears like an illustration of the trauma induced by photography outlined by Roland Barthes: the consequence of his famous, if deeply problematic, account is ontological silence and the absence of cultural meaning.39 Hirschhorn’s forthright insistence on facing the impact that modern munitions have on human bodies leads again to the sublime. Stallabrass recognises that the problem of representation, form and the sublime are at the heart of war-photography, but, in *Memory of Fire*, the war of images keeps toppling over into images of war.

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The problem of representing war in photographs or any other medium is only partly a technical issue to do with embedding or military restrictions; primarily, this is a conceptual problem involving form-giving to pictures, books and exhibitions. My point is not to suggest that we remain trapped in the sublime mode, whether that of advanced by Lyotard, Paley or anyone else; I certainly do not intend to argue that the sublimity of war is equivalent to the Lacanian ‘Real’. However, Memory of Fire was hooked on the horns of a dilemma: in order to raise the visibility of the current wars in Afghanistan and Iraq, and thereby create a space for dispute and debate, Stallabrass placed most emphasis on those images that reveal the direct effects of military intervention and occupation. This is a significant critical achievement, but bringing these wars to visibility requires more than evoking the direct effects of the conflict. It also calls for visualising war: for finding ways to represent the imperialist drive for super-profits, the geopolitics of oil, the arms-industry, and the media’s abject pandering to the political consensus. It requires considering the neoliberal strategy of opening up the space of war to possibilities for capital-accumulation: these involve the use of private military- and security-contractors, contracting-out training and intelligence, construction-work, and research and production of video war-game technology. Some of this is hinted at: the pictures by Broomberg and Chanarin take us inside the mocked-up urban training sites of the IDF; the politics of oil figures in one image as a graffito. Perhaps these issues will surface in the awaited catalogue-essays, but they also need to be given form in the exhibitions.

With the collapse of postmodernist textualism, we need again to return to the politics of representation. This will mean once more thinking about what might count as an adequate representation of capitalism and what resources we have to begin this work. We can begin by trying to live up to the critique begun by Brecht and Benjamin that was at once modernist and realist. Brecht’s point holds for the current round of wars as it did when it was written, provided we recognise that ‘something constructed’ and ‘art’ need not exclude the low-plane vision of the documentary mode, which should be understood as an active process of cognition and form-giving. Brecht’s own work frequently turns on this low-plane conception and it is worth remembering that Benjamin’s ‘optical unconsciousness’ was elaborated around the documentary image. One model for this work is to be found in the complex narrative layering of the photo-book or the ‘horizontal montage’ practised in different ways by Chris Marker, Allan Sekula and Van Kesteren.40 What is certain is that any new

40. See Van Kesteren 2008; the films of Chris Marker; Sekula 1995. Sekula’s Fish Story, in words and photographs, documents the central, if barely visible, place of the sea in the modern global economy by bringing together images from the world’s port-cities.
politics of visualisation would have to measure itself against the ‘cultural turn’ in US military thinking. The multiple venues that made up Memory of Fire offered the possibility for building up this kind of picture, and there are a lot of photographic projects that could have been employed: one example is George Osodi’s Delta Nigeria project. This approach seemed occasionally to emerge, but it was probably inhibited by a perspective overly focused on combating neoliberal hegemony, at the expense of confronting the social relations of capitalism and imperialism. ‘Unrestrained capitalism’ is the term Stallabrass employs in his text. I am unconvinced that there is any such thing, or that the curtailed or fettered version is necessarily any better for those at the sharp end of imperialism. However, this is also an unavoidably aesthetic problem of finding a form for rendering visible the contemporary forms of domination. Marxists can not shy away from confronting this problem.

References


41. For a fascinating account of the ‘cultural turn’ in US military thinking see Gregory 2008; and on Israel, Weizman 2007.


Editorial Introduction to the Symposium on the Global Financial Crisis

Sam Ashman
University of the Witwatersrand
Samantha.Ashman@wits.ac.za

Abstract
The current global economic crisis is historically unprecedented in that it began when poor groups in the United States defaulted on their mortgage-payments and spread fear of 'toxic debt' through an internationalised financial system, bringing the banking system close to collapse and highlighting the very individualised nature of contemporary financial relations. The symposium explores contemporary finance and banking practices in the context of Marxist political economy seeking to develop the notion of financialisation and arguing that banks' increasing reliance on individual households as a source of profits amounts to a form of financial expropriation or additional profit generated in the sphere of circulation.

Keywords
financial crisis; financialisation; financial expropriation; contemporary capitalism

‘I’ve a feeling we’re not in Kansas anymore,’ said Dorothy after a tornado dropped her, her house and dog in the land of Oz. The world of the past three decades has gone. Where we end up, after this financial tornado, is for us to seek to determine.

Martin Wolf, Financial Times, 8 March 2009

The worst financial crisis in history has spread throughout the ‘real’ economy and opened up a profound, systemic crisis. The economic crisis is the most serious of the postwar world-economy, the most severe since the 1930s, and some even suggest it could rival that depression in its scope and intensity. As with other capitalist crises, it is impossible to know exactly where we are going, but the impact on jobs in both manufacturing and services has already been enormous and is far from over; a number of developing countries have been forced to the IMF and more will follow as falling prices precipitate drops in export-earnings; as demand falls, the WTO predicts world-trade will follow suit and sink by 9% by the end of the year, the first fall since 1982, and others predict that global output will shrink this year for the first time since the
It further seems likely that this will only add additional pressure to the banking system, so producing more bail-outs in addition to the massive state-intervention (nationalisation) which has already been necessary to rescue a banking system close to collapse and which is very far from being out of the woods. So the crisis is deep. But it is not only that it is deep. It is historically unprecedented, in the sense that it started when poor whites, blacks and Latinos in the US – groups previously denied access to credit – defaulted on their mortgage-payments and spread fear about ‘toxic’ debt across the banking system internationally.

Thus finance, financialisation, and the individualisation of financial relations are at the core of the issues discussed in this issue of the journal: how finance has changed, its relation to accumulation, and its effect on the system as a whole.

Marx is often wheeled out at such moments as offering suddenly relevant analysis. So too, in this crisis, has been Keynes, rediscovered by neoliberals seeking rescue by the state. Those who only yesterday were ardent de-regulators, are all Keynesians now. Thus Martin Wolf – one of the most prominent and consistent advocates of free-market capitalism – has discovered Keynes, the inadequacies of the efficient-markets hypothesis, and the ‘Minsky moment’ when financial mania turns to panic. Of course, ideology is always one thing, reality (and policy) quite another. The US has been on a ‘Keynesian’ turn for some time, it is just that it was what might be called privatised Keynesianism or what Robert Brenner has called ‘asset-price Keynesianism’.

Alan Greenspan may have been an ideological admirer of libertarian fantasist Ayn Rand, but the US policy of keeping interest-rates low encouraged borrowing in order to invest in financial assets and so fuelled a series of asset-price bubbles in the US, particularly the housing and stock-market bubbles of the late 1990s and then the housing and credit-market bubble from the early 2000s on. Asset-prices soared, corporations and households increased their wealth (on paper) and borrowed more and more, funding both investment and consumption. In this way, private deficits replaced public deficits as engines of growth and household-debt increased for working-class families enduring stagnant wages. Financial institutions funded this debt and, as Dymski analyses in this issue, as competition in the financial-services sector intensified, it led to the search

1. The Economist, 26 March 2009.
2. For example a cartoon in The Economist of 4 October 2008 showed the rather unlikely sight of France’s President Sarkozy gleefully reading Capital while Wall Street collapsed behind him.
for new markets and debt-financing spread to poorer groups, once excluded by financial institutions. Low US interest-rates were paid for by the rest of the world as East-Asian states purchased dollars to keep their currencies down and US imports of their goods up. A root cause of the current crisis is thus the profound debt-overhang emanating from the United States.

So, in the wake of the ‘return’ of the state, of intervention and of state-ownership, is neoliberalism over? Has the world of the past three decades gone up in smoke? It is tempting, but surely mistaken, to answer positively. Yet it is difficult to answer this adequately without adding a further question: what is neoliberalism? Indeed, to add a third, did it ever exist?4 Much current debate and policy demonstrates capital and state exercising time-honoured ideological flexibility in a situation of crisis – indeed, there is little choice but to call on the state to rescue the banks (as in previous financial crises), to curb the now politically unpalatable excesses of Wall Street (etc.), to concede a little more regulation, to save markets (from themselves), all in the hope that they can carry on as before, using state-power to promote the market.5

We do not yet know the precise reconfigurations that will emerge out of the crisis. But, if neoliberalism is slippery as a term, what of that term now often associated with it, namely financialisation? How do we best develop this often inadequately specified notion to help understand the crisis and contemporary capitalism? The term is often used loosely to point to the general proliferation of financial markets, financial institutions and financial actors since the collapse of Bretton Woods, including the shareholder-value revolution; the rise of incomes from financial investment; non-financial companies diversifying into and gaining increasing profit from financial activities; individual households increasing debt; the importance of institutional investors and, in particular, pension-funds; the expanding range of financial activities and their overall weight in the economy; the proliferation of financial instruments linking fictitious capital to productive investment.6 Financialisation thus denotes the integration of a wider range of agents into financial markets – productive and commercial capital, but working-class households too – and, further, it suggests a redistribution of surplus-value away from productive and commercial to the advantage of money-capital.

Capitalism as a mode of production is, of necessity, heavily dependent upon finance in the form of interest-bearing capital to expand production for profit. The financial system emerges out of real accumulation. For Marx, interest-bearing capital is money made available to investors to expand industrial

4. For elaboration, see Castree 2006.
6. For a review of the use of the term, see Stockhammer 2008.
circuits of capital which, on successful completion of the circuit, will produce and realise surplus-value, but this is, as we know, a process by no means guaranteed of completion. Interest-bearing capital gives rise to what Marx calls fictitious capital traded in financial markets, paper-claims to the ownership of rewards yet to be realised. Loanable money-capital is Marx’s term for the totality of credit-relations.\footnote{For a summary of Marx’s analysis of finance in \textit{Capital}, see Fine 2008.} The credit-system, for Marx, can then, potentially, garner capital for investment and also act as a powerful lever bringing about the restructuring of capital, but it can also intensify capital’s crises, as it did most starkly in 1929. Today, the proliferation of fictitious capital during the credit-boom is clear, and has intensified the depth and breadth of crisis. This leads to the now common assertion that neoliberalism represents the reasserted power or hegemony of finance over other forms of capital. But what do such statements actually mean? McNally, in his contribution earlier in this issue, argues that financialisation must be set in context, alongside and interacting with, capital’s offensive against labour to raise the rate of exploitation. New waves of accumulation particularly in East Asia then took place in the context of the transformation of money and finance, creating greater financialised relations both between capitals and between capital and labour. Massive credit-expansion, as outlined above, then acted to stave off crisis whilst further increasing the financialisation of relations between capital and labour. McNally thus rejects notions of the return of the rentier, or of neoliberalism as financial coup, preferring instead analysis in terms of the structural transformations of a particular conjuncture.

Lapavitsas also rejects the return of the rentier thesis, arguing that, whilst a rentier layer can be identified, banks are not parasitic on the profits of industrial capital but provide services in the sphere of circulation. He discusses the strengths and limitations of Hilferding’s conception of finance-capital and its connection with imperialism, although not arguing for a return to Hilferding, as ‘financialisation… does not amount to dominance of banks over industrial and commercial capital. It stands for the increasing autonomy of the financial sector’. Banks have been forced to turn to providing individual financial services to workers as capital has chosen to fund investment either through retained profits or by borrowing on open markets. Banks’ turn to individual financial services has posed problems of its own, not least that mortgage-lending is long term and raises liquidity issues. But the securitisation of mortgages (breaking them up into small amounts, putting them in larger bundles and selling them on as new securities) seemed, for a time, to successfully address such a problem and so commercial banks have combined making
profits through individual financial services with the increasing use of investment-bank practices.

Lapavitsas, Dymski and Dos Santos all emphasise that a key feature of financialisation is its direct and individualised nature – the drawing of personal financing into the system; of banks and finance-agencies accruing greater profit from interest-repayments on mortgages and credit-cards; the proliferating variety of bank-charges. In these ways, finance has become integrated into the economic and social reproduction of (Western) working-class households. Dymski’s emphasis is on the background to the subprime explosion and on the history of racial inequality in access to finance which has moved from denial in provision, through ‘redlining’, to the offering of finance on a highly predatory basis. Sub-prime lending grew 900% between 1993 and 1999 while other forms of mortgage-lending declined. Dos Santos, explores – through empirical material drawn from nine major banks – the shift by top banks to individual lending. All agree that the ability of banks successfully to turn to personal revenue as a source of profit cannot be separated from other general features of the period and is only possible in conjunction with them – the decline of social housing and spread of home-ownership necessitating mortgage-lending; stagnant real wages made up for by high levels of borrowing which boost living standards and, for periods, maintain demand; the decline in the value of the state-pension and the increase in private-pension provision; the introduction of fees and loans for higher education.

All three authors therefore argue that profit made by financial institutions out of the personal income of workers is a form of financial expropriation, seen as additional profit generated in the realm of circulation. It clearly differs from exploitation in production and relates to flows of existing value, not new surplus-value, but which, despite this, nevertheless has an exploitative aspect. Clearly, subjects of debate for future issues of the journal will include to what extent the contributors succeed in using the notion of financial expropriation to develop the concept of financialisation; whether a concept such as expropriation is appropriate to the sphere of circulation; and, if the claim is that there has been a changing and increasing role in the appropriation of surplus-labour via interest-payments, how does it link to the financial crisis beyond the expansion of risky lending? What is its relationship with the ongoing accumulation of capital? In what sense is credit, earning fees, fictitious? On these questions, and many others, we hope to publish further discussion in future issues and we thus appeal for contributions to what we hope will be an ongoing stream in the journal on financialisation, the crisis, and contemporary capitalism.
References

Fine, Ben 2008, 'Looking at the Crisis Through Marx: Or Is It the Other Way About?', available at: <https://eprints.soas.ac.uk/5921/1/isrfin.doc>.
Glossary of Technical Terms

**401(K) plan**: Savings plan in the United States that allows an employee to save for retirement without having to pay taxes on investment-earnings until the withdrawal of funds from the plan. Savings may be channelled into a range of different types of investment, including mutual funds investing into equity, bonds and money-market investments.

**Adjustable-Rate Mortgage (ARM)**: Broadly, any mortgage-loan with changing interest-rates. In many economies, such as Britain, most mortgages have rates that vary according to market interest-rates. The recent real-estate bubble and subprime frenzy in the United States saw very different types of ARM develop. Mortgages with ‘teaser rates’ offered borrowers temporarily low initial rates and monthly payments, which would automatically increase a couple of years into the loan. As with negative amortisation-mortgages, this type of ARM sought to exploit the widely documented tendency of ordinary borrowers to focus exclusively on monthly repayments when considering a loan.

**Arbitrage**: The practice of seeking to make a profit by taking advantage of price-misalignments across a number of markets. If the dollar is trading for 100 yen in Tokyo, while the pound sells for 150 yen in London and 1.48 dollars in New York, there is an arbitrage opportunity. An arbitrageur can make a profit by spending 1.48 dollars to buy a pound in New York, selling it in London for 150 yen, and then selling the yen for 1.50 in New York. The actions of the arbitrageur will help change market-prices to eliminate both the price-misalignment and the profit-opportunity. According to mainstream financial theory, arbitrageurs fulfill a socially valuable function in capital-markets as their actions help to ensure that asset-prices take into account all relevant information. This view neglects the fact that only investors who are well informed, funded and connected can make such profits in most markets. It also ignores the possibility that profits may be made through deliberate manipulation of prices by influential groups of investors.

**Basle II capital-adequacy framework**: Framework developed by the Basle Committee on Banking Supervision aimed at creating a new single international standard for the amount of capital that banks must set aside to guard against unforeseen asset-losses. The central innovations of the new framework include making mandatory capital-reserves highly sensitive to the estimates of asset-risk by a range of financial firms. This allows some of the more ‘sophisticated’ international banks to use their own internal ‘risk-management’ systems to calculate their minimum levels of capital-reserves.

**Bond**: A form of debt where the terms of repayment by the borrower are specified in a standardised financial contract that can be bought and sold in capital-markets. Lending through bonds allows lenders to get their money back at short notice (by selling the bond) without having to call in the borrower’s loan.

**Brokerage**: The financial function of mediating between sellers and buyers of securities. For its services, a broking firm charges fees. When a broking firm buys or sells securities for itself and not a client, it is said to be undertaking principal or proprietary trade.

**Capital gain**: A gain made by an investor in a financial asset when its current price exceeds the price at which it was bought. The investor may choose to realise the gain by trading the asset, or keep the gains unrealised by holding on to the asset, typically in the hope of further price-increases. Capital-losses are defined in equivalent fashion.
**Capital markets**: Markets where equities as well as private and public bonds are traded.

**Capitalisation** or **market cap**: refers to the total value of a corporation's outstanding equity.

**Collateralised Debt-Obligation (CDO)**: A structured financial asset promising holders a series of payments that are funded from a bundle of debt-instruments, such as bonds or mortgages. The CDO’s structure takes the repayments on the bundled bonds or mortgages (or other debt-service payments) and forwards them to its holders according to a prioritised ranking. Holders of more senior tranches of the CDO are paid first, followed by holders of mezzanine-tranches, and finally equity-tranches. As a result, holders of equity-tranches suffer the first losses arising from defaults, followed by mezzanine-holders and senior holders. Originally devised for the junk-bond market in the United States in the late 1980s, CDOs became widespread in US secondary-mortgage markets in the first half of this decade.

**Commercial banking**: The type of banking that involves raising funds through current, savings, or time-deposits, subsequently to allocate them into loans as well as public and corporate securities. Commercial banking is distinct from investment-banking, which involves brokerage and other direct participation in the trading of corporate securities in capital-markets, as well as the raising of funds not from depositors but also directly from capital-markets.

**Corporate securities**: Fungible and tradable financial claims on a corporation. They include corporate equity and bonds.

**Credit-Default Swap (CDS)**: A contract between two parties in which the buyer makes regular payments to the seller in exchange for a payoff in the event that an underlying credit-instrument (such as a bond) defaults. In essence, it is a form of insurance against default on debt, except that the holder is not required to own the insured asset. CDSs were introduced by JP Morgan Chase in the late 1990s as a vehicle to shift the risks of holding credit instruments, such as bonds, onto other parties.

**Credit-scoring**: A quantitative estimate of a borrower’s creditworthiness. It is calculated by lenders on the basis of proprietary models, developed through statistical inference, that estimate the relationship between a range of borrower-characteristics and the likelihood they will make debt-repayments on time. Credit-scoring has been an instrumental technology in the recent rise of mass lending to individuals, as it allows lenders to obtain quick and cheap estimates of the creditworthiness of a borrower.

**Derivatives**: Financial assets whose value directly depends (or derives) from the value of another asset (referred to as the underlying asset). A basic insurance-contract (for instance, homeowners’ insurance) can be understood as a derivative, as the value of the contract depends on whether or not a house becomes damaged. The recent explosion in derivatives-markets has involved derivatives linked to financial assets and payments, such as stock-options or swaps.

**Equity**: An ownership-claim on a corporation that can be traded in capital-markets. Holders of the most general forms of corporate equity own a share of the corporation and are entitled to proportional shares of dividend-payments made by the corporation to equity-holders.

**Equity-buyback**: Capital-market operation through which a corporation buys back some of its own shares from shareholders, leaving fewer shares outstanding. Corporate managers may buy back shares of their corporations if they believe shares are currently undervalued, if they wish to signal such a belief to other capital-market players, or if their salaries and bonuses depend on the corporation's earnings per outstanding share.

**Fictitious capital**: Marxist term used most generally in relation to all tradable paper-claims to future wealth. In relation to capital-markets, the term refers to corporate equity, market-capitalisation, and their attendant social relations. A corporation’s market-capitalisation corresponds neither quantitatively nor qualitatively to the value of the corporation’s capital in circulation and production. Rather, it reflects the aggregate money-value that investors would presumably be willing to pay in order to secure claims to the corporation’s future earnings. Its level depends on a
range of factors, including the creditworthiness of the corporation, the liquidity of its securities, and the general confidence investors have in the corporation's future. This money-value takes the appearance of a capital stock because of the general capitalist tendency to conceive of every regular flow of value (in this case dividend payments) as a yield on capital. Yet, it is only the price that investors are willing to pay today for a claim on the value that will be appropriated by the corporation tomorrow. In this sense, it is a purely fictitious form of capital.

**Finance-capital**: Term advanced by Rudolph Hilferding to describe the amalgamation of industrial, merchant- and banking capital. For Hilferding, finance-capital arose as a natural result of long-run secular developments inherent to the process of capitalist competition: Competition gives rise to monopolies and to a growing reliance by industrial capital on bank credit to finance investment in fixed capital. As a result, banking and industrial capital tend to merge into finance-capital and control ever growing spheres of the economy.

**Founder’s profit**: Term also advanced by Hilferding (sometimes incorrectly rendered as promoter’s profit) to describe the profits realised by a corporation’s founders when they first issue equity in an IPO. For Hilferding, this profit arises because competition among the buyers of equity ensures that the price of shares renders expected future dividend payments equivalent to a return on the share-outlay that is equal to the rate of interest. However, the corporation’s productive assets yield the average rate of profit, which is generally higher than the rate of interest. As a result, a firm's market-capitalisation at issue is higher than the net value of its assets, yielding a peculiar form of profit to the founders of a public corporation. Hilferding further argued that founder’s profit is the future profit of enterprise that accrues as a lump-sum to the founder.

**Fund-management**: Service provided by banks and other financial intermediaries involving the management of pooled investments like mutual and hedge-funds.

**Futures-contract**: A standardised, exchange-traded contract to buy or sell a specified quantity of a particular commodity or asset at a certain future date. Examples include oil-futures, through which trading parties agree to buy or sell oil for delivery at future dates. Most trading in futures does not involve parties seeking to obtain or sell the actual commodity or asset in the future. They involve parties either seeking to speculate on particular price-movements between the present and the contract’s maturity, or to build a particular risk-profile for their asset-portfolio.

**Hedge-fund**: A particular type of investment-fund open to a limited range of investors and permitted by regulators to undertake a much broader range of investments and trades than ordinary investment-funds. Notably, hedge-funds are allowed to take very risky derivative positions, as well as undertake short-selling transactions through which gains can be made from falls in asset-prices. Hedge-funds generally charge high levels of fixed and ‘performance’ fees. They are very selective and open only to wealthy and institutional investors.

**Individual Retirement-Account (IRA)**: Private retirement-plan in the US in which contributions are often tax-deductible and all earnings are tax-exempt. Holders are liable for tax-payments on withdrawals, which are generally treated as income.

**Individual Savings Account (ISA)**: Private savings plan in Britain through which savers may undertake investments with tax-free earnings. Contributions into ISAs are subject to an annual cap.

**Investment-bank**: A financial intermediary that provides corporations with the range of services necessary to raise funds in capital-markets. Investment-banking functions include underwriting the issue of corporate securities, brokerage services, and various forms of corporate advisory services. Investment-banks also raise funds directly in capital-markets as well as undertaking proprietary investments in capital-markets.

**Initial Public Offering (IPO)**: The original sale of a corporation’s shares (equity) to investors. It secures revenues for the corporation, which can be used for various investment-projects. This is in contrast to the subsequent secondary transactions involving shares, in
which one investor buys shares from another, with no direct effect on the corporation.

**Institutional investors**: Organisations that pool large amounts of money for investment. They include pension-funds, mutual funds, insurance-companies, and hedge-funds. They generally invest on behalf of their clients, who have claims on particular funds managed by the institutional investor.

**Leverage**: The use of borrowed money in the pursuit of an investment. Leverage is used in attempts to augment the profitability of an investment. As long as an investor is borrowing at a rate lower than that which she is receiving on the investment, leverage can greatly increase the returns realised. Conversely, if the realised return on the investment ends up lower than the rate paid for borrowed funds, the losses facing investors are also augmented.

**Leveraged Buyout (LBO)**: A financial operation in which investors acquire a controlling stake in a corporation and a substantial part of the operation is financed through borrowing or leverage. By pledging the assets of the acquired corporation as collateral for the loans used to finance the purchase, the investors carrying out the LBO place the debt burden onto the corporation. This often facilitates dramatic cost-cutting measures, which become necessary to ensure that the corporation does not default on the new debt.

**London Interbank Offered Rate (LIBOR)**: A set of daily reference interest-rates at which banks are making unsecured loans to each other in the London interbank money-market. The rates are published by the British Bankers Association.

**Mortgage-backed security**: Any debt-security where payments to holders originate in the repayment of mortgages. They include CDOs, as well as much simpler instruments that have been used in secondary US home-mortgage markets since the late 1930s.

**Moral hazard**: A term originally coined in the insurance-industry to refer to a situation in which an individual protected against risk may become more likely to engage in risky behaviour. In the archetypical example, the owner of a bicycle may become more careless about taking costly measures to ensure its safety, thus making theft more likely, if she has full insurance-cover against theft. In relation to banking, the term is often used to refer to the possibility of a borrower acting against the interests of a lender, as well as the possibility that state-bailouts and other interventions to save failing banks may encourage banks to engage in high-risk behaviour in the future.

**Mutual fund**: A collective investment-scheme where the funds of many investors are pooled and typically invested into corporate securities, short-term debt, or government-bonds. Investors become shareholders of the fund, and have a proportional claim on the value of its investments. Mutual funds are widely used by retail-investors as a means to build retirement-savings.

**Negative-amortisation mortgage**: A mortgage where initial monthly repayments are lower than the interest accrued on the total loan during the month. As a result, the total amount outstanding rises over time. Clearly, monthly payments will have to rise significantly over the life of the loan if it is to be repaid. As with teaser-rate ARMs, these loans were used to entice borrowers into mortgages they were very unlikely to afford.

**Over-the-counter trading**: Trading of financial assets that takes place directly between two parties without use of a trading exchange that regulates, standardises, polices, and lists prices for transactions.

**Proprietary investment and gains**: Terms that refer to investment (and possible associated gains) undertaken by an investment-bank on its own behalf, as opposed to investments undertaken on behalf of client-investors.

**Redlining**: The common practice by financial intermediaries and other businesses of denying (or increasing the cost of) services or goods in certain areas, typically those with a strong presence of racial or ethnic minorities or poor residents.

**Retail-banking**: Banking that involves the provision of services directly to individuals as opposed to corporations or other businesses. This includes commercial-banking services such as individual savings, current or savings accounts. It may also include the provision of services more closely associated with investment-
banking, such as investment-, retirement- or related funds supplied to individual clients.

**Special Purpose Vehicle/Special Investment Vehicle** a.k.a. ‘bankruptcy-remote entity’: An autonomous organisation whose operations are limited to the acquisition and issuance of certain assets, typically a subsidiary of another corporation. They became notorious during the Enron scandal in the early 2000s because they were used to hide losses and fabricate earnings. SPVs were more recently used widely by banks to facilitate the creation and issuance of mortgage-backed CDOs. They allowed banks to devolve risks associated with CDOs away from their own balance-sheets, reducing the need to set aside capital-reserves against possible losses associated with those instruments.

**Securitisation**: Financial process of pooling and repackaging assets that produce cashflows into securities that are then sold to other investors. This includes CDOs and mortgage-backed securities, but can also involve very different structures and underlying assets.

**Subprime mortgage**: A housing loan to borrowers who do not meet ‘prime’ or top-level mortgage-underwriting guidelines. Subprime borrowers are generally more likely to default or fall behind in repayments than ‘prime’ borrowers.

**Thrifts or Savings and Loan Association**: US term for financial intermediaries specialised in taking savings deposits and making mortgage-loans. Equivalent to old British building societies.

**Treasury Bills (T-Bills)**: Short-term government-debt issued by the US Department of Treasury. T-Bills are sold in denominations of US$1,000 and have maturities from four to 52 weeks.

**Usurer’s profit**: Profits realised through usury, or money-lending. The term is typically used to denote precapitalist lending relations, where lending was not associated with productive activity, or had very high interest-rates.

**Value at Risk**: Method prominently adopted by JP Morgan in 1994 to quantify estimates of the risk of a given portfolio-position. Most commonly, it estimates the maximum possible portfolio-loss in the following 24 hours on the assumption that market-outcomes over that period will not be extreme.

**World-money**: Money that functions in world-markets as an internationally acceptable means of payment and hoarding.
Financialised Capitalism:
Crisis and Financial Expropriation

Costas Lapavitsas
School of Oriental and African Studies, London
cl5@soas.ac.uk

Abstract*
The current crisis is one outcome of the financialisation of contemporary capitalism. It arose in the USA because of the enormous expansion of mortgage-lending, including to the poorest layers of the working class. It became general because of the trading of debt by financial institutions. These phenomena are integral to financialisation. During the last three decades, large enterprises have turned to open markets to obtain finance, forcing banks to seek alternative sources of profit. One avenue has been provision of financial services to individual workers. This trend has been facilitated by the retreat of public provision from housing, pensions, education, and so on. A further avenue has been to adopt investment-banking practices in open financial markets. The extraction of financial profits directly out of personal income constitutes financial expropriation. Combined with investment-banking, it has catalysed the current gigantic crisis. More broadly, financialisation has sustained the emergence of new layers of *rentiers*, defined primarily through their relation to the financial system rather than ownership of loanable capital. Finally, financialisation has posed important questions regarding finance-capital and imperialism.

Keywords
financialisation, crisis, *rentier*, bank, financial expropriation

1. Introduction: several dimensions of financialisation
The storm that has gradually engulfed the world-economy since August 2007 is a fully-fledged crisis of financialised capitalism. The crisis did not spring directly out of a malaise of production, though it has already caused major disruption of accumulation. It was precipitated by housing debts among the poorest US workers, an unprecedented occurrence in the history of capitalism.

* Earlier drafts of this paper were presented at a workshop at Kadir Has University, March 2008, as well as at a conference at SOAS, in May 2008. Thanks for comments are due primarily to members of Research in Money and Finance at SOAS. I am also grateful to several others, but far too many to mention individually.
Thus, the crisis is directly related to the financialisation of workers’ personal income, mostly expenditure on housing but also on education, health, pensions and insurance.

The crisis became global because of the transformation of banks and other financial institutions in the course of financialisation. Commercial banks have become more distant from industrial and commercial capital, while adopting investment-banking and turning toward individual income as source of profits. The combination of investment-banking and financialised personal income resulted in an enormous bubble in the USA and elsewhere during 2001–7, eventually leading to disaster.

During the bubble, it became clear that the sources of financial profit have changed significantly as mature capitalist economies have been financialised. Extracting financial profit directly out of the personal income of workers and others has acquired considerable importance. This may be called financial expropriation. Such profits have been more than matched by financial earnings through investment-banking, mostly fees, commissions, and proprietary trading. To an extent, these also originate in personal income, particularly from the handling of mass savings.

Profits from financial expropriation and investment-banking correspond to changes in the structure of society. They have accrued to managers of finance and industry, as well as to functionaries of finance, such as lawyers, accountants, and technical analysts. This trend appears as the return of the rentier, but modern rentiers draw income as much from a position relative to the financial system as from coupon-clipping. Extraordinary payments take the form of remuneration for putative services, including salaries, bonuses, and stock-options. Contemporary rentiers are the product of financialisation, not its driving force.

Further, the institutions of economic policy-making have changed significantly in the course of financialisation. Central banks have become pre- eminent, buttressed by legal and practical independence. They have cast a benign eye on speculative financial excess, while mobilising social resources to rescue financiers from crisis. But the limits to their power have also become apparent in the course of the crisis, requiring the intervention of the central state.

Financialisation has also deepened the complexity of imperialism. Developing countries have been forced to hold vast international reserves that have resulted in net lending by the poor to the rich. Private capital has flown into developing countries earning high returns, but it has been more than matched by reverse flows aimed at accumulating reserves by developing countries, which earn little. These anarchic capital-flows have benefited primarily the USA as issuer
Financialisation, finally, has allowed the ethics, morality and mindset of finance to penetrate social and individual life. The concept of ‘risk’ – often nothing more than a banal formalisation of the financier’s practices – has become prominent in public discourse. Waves of greed have been released by the transformation of housing and pensions into ‘investments’, dragging individuals into financial bubbles. To be sure, there has also been resistance and search for social alternatives. But finance has set the terms across the world.

This paper is a step toward analysis of financialisation and its attendant crises. Guidance has been sought in the work of Marx and the classical-Marxist debates on imperialism at the turn of the twentieth century. The paper starts with a brief discussion of the US financial bubble and its burst in Section 2. It is shown that this was an unprecedented event, caused by the financialisation of personal income combined with the rise of investment-banking. To obtain a better understanding of the roots of the crisis, therefore, Section 3 briefly considers the historical and institutional background of financialisation.

On this basis, Section 4 analyses the process through which extraction of financial profit has led to global economic turmoil. It is shown that interaction between financial expropriation and investment-banking has exacerbated the tension of liquidity and solvency for commercial banks. Several of the largest have effectively become bankrupt, thus crippling real accumulation. The focus of analysis is on the USA as the original site of the crisis, but broader structural trends are demonstrated across key capitalist economies. Section 5 of the paper then turns to the implications of financialisation for class-composition by discussing contemporary rentiers. Section 6 concludes by considering the relevance of the Marxist concept of finance-capital to the current period.

2. Brief anatomy of a crisis of financialisation

2.1. Housing, securitisation and the swelling of the bubble

The immediate roots of the current crisis are to be found in the financialisation of workers’ housing in the USA. Mortgage-lending increased rapidly from 2001 to 2003, subsequently declining but remaining at a high level until 2006:
The explosion of mortgage-lending in 2001–3 met housing demand from households on significant income. When this demand was sated, subprime-mortgage lending rose rapidly (particularly during 2004–6) amounting to $1.75tr, or 19.5% of originations. Borrowers were from the poorer sections of the US working class, often black or Latino women. They were frequently offered Adjustable Rate Mortgages (ARM), typically with an initially low rate of interest that was subsequently adjusted upwards. Total ARM came to $4.3tr during 2004–6, or 47.6% of originations.

Thus, during the bubble, financialisation of personal income reached the poorest sections of the US working class. At the time, this appeared as a ‘democratisation’ of finance, the reversal of ‘red-lining’ of the poor by banks in previous decades. But solving housing problems through private finance eventually became a disaster, putting millions at risk of homelessness.

The subprime market, despite its growth, is not large enough directly to threaten US, and even less global, finance. But it has had a massive impact because of the parallel growth of investment-banking, particularly through mortgage-securitisation: $1.4tr of subprime mortgages were securitised during 2004–6, or 79.3% of the total. This was considerably higher than the average securitisation-rate of 63.9% for the whole of originations. Simply put, securitisation involved parceling mortgages into small amounts, placing them into larger composites, and selling the lots as new securities. Particles of subprime debt, therefore, became embedded in securities held by financial institutions across the world.

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1. See Dymski 2009.

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**Table 1: US mortgage-lending, 2001–6, $bn**

<table>
<thead>
<tr>
<th>Year</th>
<th>Originations</th>
<th>Originations</th>
<th>Subprime</th>
<th>Subprime</th>
<th>Subprime</th>
<th>ARM</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Securitisation</td>
<td>Securitised</td>
<td>Securitised</td>
<td>Rate (%)</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>2215</td>
<td>60.7</td>
<td>160</td>
<td>96</td>
<td>60.0</td>
<td>355</td>
</tr>
<tr>
<td>2002</td>
<td>2885</td>
<td>63.0</td>
<td>200</td>
<td>122</td>
<td>61.0</td>
<td>679</td>
</tr>
<tr>
<td>2003</td>
<td>3945</td>
<td>67.5</td>
<td>310</td>
<td>203</td>
<td>65.5</td>
<td>1034</td>
</tr>
<tr>
<td>2004</td>
<td>2920</td>
<td>62.6</td>
<td>530</td>
<td>401</td>
<td>79.8</td>
<td>1464</td>
</tr>
<tr>
<td>2005</td>
<td>3120</td>
<td>67.7</td>
<td>625</td>
<td>508</td>
<td>81.3</td>
<td>1490</td>
</tr>
<tr>
<td>2006</td>
<td>2980</td>
<td>67.6</td>
<td>600</td>
<td>483</td>
<td>80.5</td>
<td>1340</td>
</tr>
</tbody>
</table>

Source: Inside Mortgage Finance; Mortgage Origination Indicators, Mortgage Originations by Product, Securitization Rates for Home Mortgages.
On the back of the housing boom, there was intensification of other forms of financialisation of personal income. As house prices rose, home-owners were encouraged to re-mortgage and use the proceeds for other purposes. This so-called ‘equity extraction’ was a key feature of the bubble:

### Table 2: US mortgage refinance, 2000–7

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Originations ($tr)</td>
<td>1.1</td>
<td>2.2</td>
<td>2.9</td>
<td>3.8</td>
<td>2.8</td>
<td>3.0</td>
<td>2.7</td>
<td>2.3</td>
</tr>
<tr>
<td>Refinance (%)</td>
<td>20.5</td>
<td>57.2</td>
<td>61.6</td>
<td>66.4</td>
<td>52.8</td>
<td>52.0</td>
<td>48.6</td>
<td>49.8</td>
</tr>
</tbody>
</table>


A parallel result was collapse of personal savings, which approached zero as percentage of disposable income (Table 3). The decline in personal savings is a long-term aspect of financialisation, reflecting the increasing involvement of individuals in the financial system and the concomitant rise in individual debts. From 9–10% of disposable income in the 1970s and early 1980s, personal savings have declined steadily throughout the period. But the drop in the USA to 0.4% is remarkable, and historically unprecedented for a mature capitalist country.

### Table 3: Personal savings, USA, 2000–7

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings ($bn)</td>
<td>168.5</td>
<td>132.3</td>
<td>184.7</td>
<td>174.9</td>
<td>181.7</td>
<td>44.6</td>
<td>38.8</td>
<td>42.7</td>
</tr>
<tr>
<td>Savings as % of Disposable Income</td>
<td>2.3</td>
<td>1.8</td>
<td>2.4</td>
<td>2.1</td>
<td>2.1</td>
<td>0.5</td>
<td>0.4</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Bank, Flow of Funds, various.

### Table 4: Balance of trade deficit, USA, 2000–7, $bn

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>379.5</td>
<td>367.0</td>
<td>424.4</td>
<td>499.4</td>
<td>615.4</td>
<td>714.6</td>
<td>762.0</td>
<td>708.6</td>
<td></td>
</tr>
</tbody>
</table>

Source: Federal Reserve Bank, Flow of Funds, various.
As savings collapsed, the balance of trade-deficit of the USA, already very large, expanded to an enormous $762bn in 2006. Such were the foundations of the apparent period of growth and prosperity in the USA during 2001–7.

2.2. Credit feeding the bubble

Monetary policy contributed directly to the bubble and its burst. On the wake of the new technology-bubble of 1999–2000, the Federal Reserve cut interest rates rapidly and kept them low. The gradual rise of interest-rates after 2004 eventually put an end to the bubble:

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6.24</td>
<td>3.88</td>
<td>1.67</td>
<td>1.13</td>
<td>1.35</td>
<td>3.22</td>
<td>4.97</td>
<td>5.02</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Bank, Interest Rates, various.

In addition to cheap credit from the Fed, several developed and developing countries found themselves in possession of large trade-surpluses (excess of domestic savings over investment) around the middle of the 2000s. The counterpart was trade-deficits and a shortfall of savings relative to investment in the USA and the UK (and less so in France, Italy, and elsewhere):

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>−4.2</td>
<td>−5.1</td>
<td>−5.5</td>
<td>−6.0</td>
<td>−5.9</td>
<td>−5.1</td>
</tr>
<tr>
<td>UK</td>
<td>−1.6</td>
<td>−1.3</td>
<td>−1.6</td>
<td>−2.5</td>
<td>−3.9</td>
<td>−4.9</td>
</tr>
<tr>
<td>Germany</td>
<td>2.0</td>
<td>1.9</td>
<td>4.3</td>
<td>4.6</td>
<td>5.0</td>
<td>5.6</td>
</tr>
<tr>
<td>Japan</td>
<td>2.9</td>
<td>3.2</td>
<td>3.7</td>
<td>3.6</td>
<td>3.9</td>
<td>4.8</td>
</tr>
<tr>
<td>Developing</td>
<td>2.4</td>
<td>2.8</td>
<td>2.6</td>
<td>4.1</td>
<td>5.9</td>
<td>6.8</td>
</tr>
<tr>
<td>Asia</td>
<td>6.4</td>
<td>6.3</td>
<td>8.3</td>
<td>8.6</td>
<td>7.4</td>
<td>4.5</td>
</tr>
<tr>
<td>Commonwealth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of Independent</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Countries (CIS)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle East</td>
<td>4.8</td>
<td>8.3</td>
<td>11.8</td>
<td>19.7</td>
<td>20.9</td>
<td>19.8</td>
</tr>
<tr>
<td>Africa</td>
<td>−1.7</td>
<td>−0.4</td>
<td>0.1</td>
<td>1.8</td>
<td>2.8</td>
<td>0.3</td>
</tr>
</tbody>
</table>

Source: IMF, World Economic Outlook 2008
To defend exchange-rates and as protection against sudden reversals of capital-flows, the surplus-holders sought reserves of dollars as quasi-world-money. The strategy of reserve-accumulation was also imposed on developing countries by international organisations, above all, the International Monetary Fund. The result was accumulation of foreign-exchange reserves even by impoverished Africa.²

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>800.9</td>
<td>895.8</td>
<td>1072.6</td>
<td>1395.3</td>
<td>1848.3</td>
<td>2339.3</td>
<td>3095.5</td>
<td>4283.4</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>168.9</td>
<td>216.3</td>
<td>292.0</td>
<td>409.0</td>
<td>615.5</td>
<td>822.5</td>
<td>1069.5</td>
<td>1531.4</td>
</tr>
<tr>
<td>Russia</td>
<td>24.8</td>
<td>33.1</td>
<td>44.6</td>
<td>73.8</td>
<td>121.5</td>
<td>156.5</td>
<td>296.2</td>
<td>445.3</td>
</tr>
<tr>
<td>India</td>
<td>38.4</td>
<td>46.4</td>
<td>68.2</td>
<td>99.5</td>
<td>127.2</td>
<td>132.5</td>
<td>171.3</td>
<td>256.8</td>
</tr>
<tr>
<td>Middle East</td>
<td>146.1</td>
<td>157.9</td>
<td>163.9</td>
<td>198.3</td>
<td>246.7</td>
<td>351.6</td>
<td>477.2</td>
<td>638.1</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>35.0</td>
<td>35.5</td>
<td>36.0</td>
<td>39.9</td>
<td>62.3</td>
<td>83.0</td>
<td>115.9</td>
<td>144.9</td>
</tr>
</tbody>
</table>

Source: IMF, World Economic Outlook 2008

Forming reserves meant that central banks systematically bought US state-securities. Hence, a large part of the surpluses eventually flowed to the USA, despite relatively low US interest-rates and the possibility of capital-losses, if the dollar was to fall. Developing countries thus became net suppliers of capital to the USA, keeping loanable capital abundant during 2005–6, exactly as the Fed started to tighten credit.

2.3. Burst of the bubble and shortage of liquidity

The crisis emerged after the exhaustion of the US housing boom in 2006. House-prices fell by 5–10% in 2007, the fall accelerating throughout 2008. In the fourth quarter of 2007, 2.1 million people were behind with their payments. The epicentre of this collapse was subprime ARM: 7% of total mortgages but 42% of all foreclosures. Prime (better quality) ARM were also vulnerable: 15% of total mortgages but 20% of foreclosures. In the second quarter of 2008, foreclosure-rates rose to unprecedented levels: 6.63% on

² See Painceira 2009. Rodrik 2006 has put forth a widely used estimate of the social cost of reserves.
subprime and 1.82% on prime ARM.3 Thus, the housing-market crisis started in subprime mortgages but then spread to the prime sector. The plain mechanics of market-collapse are clear: rising interest-rates and falling housing-prices forced ARM holders to default in increasing numbers.

The most important feature of the burst, from an analytical perspective, was the mutual reinforcement of the problems of liquidity and solvency for banks, which made the crisis progressively worse. This was a direct result of the financialisation of personal income combined with the spread of investment-banking. The tension between liquidity and solvency became severe for commercial banks due to widespread adoption of investment-banking practices. Independent investment-banks, meanwhile, succumbed en masse to the pressures.

Financial turmoil began as a liquidity-shortage in the inter-bank money-market in August 2007 and gradually became a solvency-crisis.4 The reason was that US and other banks held large volumes of mortgage-backed securities, or were obliged to support financial institutions that held them. As mortgage-failures rose, these securities became progressively unsaleable, thus also putting bank-solvency in doubt. Banks preferred to hoard liquid funds instead of lending them to others.

Liquidity-shortages can be captured as the divergence between the three-month LIBOR (interbank lending) and the three-month Overnight Indexed Swap rate (risk-free rate key to trading financial derivatives among banks). These are normally very close to each other, but, after August 2007, they diverged significantly, the LIBOR exceeding OIS by 1% and even more in late 2007 and early 2008.5 But this was as nothing compared to the magnitude reached by the divergence in September/October 2008.

The burst of the bubble thus led to an apparent paradox, much exercising the economic weather-experts of the press: markets were awash with capital but short of liquidity. Yet, this phenomenon is neither paradoxical nor new. In financial crises, money becomes paramount: the capitalist economy might be replete with value, but only value in the form of money will do, and that is typically not forthcoming due to hoarding.6 This condition prevailed in the global financial system in 2007–8. Loanable capital was abundant but there was shortage of liquid means to settle obligations – i.e. money – because of hoarding by financial institutions.

4. For analysis of the money-market from the standpoint of Marxist political economy, see Lapavitsas 2003, Chapter 4, and Lapavitsas 2007.
2.4. Bank-solvency and state-intervention

Central banks have led state-efforts to confront the persistent liquidity-shortage. Extraordinary methods have been used by the Fed and other central banks, including ‘Open Market Operations’, discount window-lending, ‘Term Auction Facilities’, direct lending to investment-banks, swapping mortgage-backed for public securities, and purchasing commercial paper from industrial and commercial corporations. Weak collateral has been taken for some of this lending, thus shifting credit-risk onto central banks. At the same time, central-bank interest-rates were progressively cut throughout 2008, approaching 0% in the USA. Lower rates operated as a subsidy to banks by lowering the cost of funds.

But liquidity-injections alone were incapable of dealing with the aggravated malfunctioning of financialised income and investment-banking. The crisis went through two peaks in 2008 resulting from the tension between liquidity and solvency, while also showing the limits of state-intervention. The first was the collapse of Bear Sterns in March, a giant investment-bank that held $12.1tr of notional value in outstanding derivatives-instruments in August 2007. The bank found it impossible to borrow in the money-market, while its mortgage-backed assets made it insolvent. The Fed, together with the US Treasury, managed its collapse by forcing a takeover by JP Morgan, which received a loan of $29bn for the purpose. Crucially, bondholders and other creditors to the bank received their money back.

Bear Stern’s bankruptcy typified the failure of combining investment-banking with financialised personal income. The US state controlled the shock waves of the bank’s collapse, but failed to appreciate the deeper failure of the mechanisms of financialisation. Compounding the process was the steady decline of stock-markets after December 2007, as share-buyers eventually realised what was afoot. The Dow Jones stood at roughly 11,300 in August 2008, down from 13,300 in December 2007. As their shares collapsed, banks found it increasingly difficult to obtain private capital to support losses in mortgage-backed and other securities. The combination of liquidity- and solvency-problems proved fatal for banks.

The second peak occurred in September–October 2008, a period that has already found its place in the annals of capitalist banking. Rising defaults in the US housing-market led to the near collapse of Fannie Mae and Freddie Mac. These government-sponsored agencies partake of roughly half the annual transactions of mortgage-backed securities in the USA, and typically buy only prime quality. But, during the bubble, they had engaged

in riskier investment-banking, including subprime mortgages, thus forcing the state to nationalise them. Barely a few days later, Lehman Brothers, another giant US investment-bank, found itself in a similar position to Bear Sterns. This time, the Treasury, with the connivance of the Fed, allowed the stricken bank to go bankrupt, both shareholders and creditors losing their money.

This was a blunder of colossal proportions because it removed all remaining vestiges of trust among banks. Money-market participants operate under the tacit premise that what holds for one, holds for all. Since Bear Sterns' creditors received their money back but Lehman Brothers' did not, the grounds for interbank-lending vanished. Worse, the collapse of Lehman confirmed beyond doubt that combining investment-banking with the financialisation of personal income had failed irretrievably. Lehman might have been very aggressive, but it had done nothing qualitatively different from other banks.

The aftermath of the Lehman shock was not surprising, but its magnitude was historic. Liquidity disappeared completely, bank-shares collapsed and genuine panic spread across financial markets. The divergence between LIBOR and OIS even approached 4%, making it impossible for banks to do any business. The remaining US investment-banks, Merrill Lynch, Goldman Sachs, and Morgan Stanley, ceased to exist in an independent form. Forced bank-rescues and takeovers occurred in the USA and across Europe. For once, it was not an exaggeration to say that the global financial system was peering into the abyss.

The Lehman shock showed that state intervention in finance is neither omnipotent nor omniscient. The state can make gigantic errors spurred by wrong theory as well as vested interests. Faced with disaster, the US state rapidly altered its stance and effectively guaranteed banks against further failure. This involved the advance of public funds to deal with the problem of bank-solvency. By the end of 2008, the USA had adopted the Troubled Asset Relief Program (TARP), committing $700bn, while similar plans had been adopted in the UK and elsewhere.

By then, however, it had become clear that a major recession was unfolding across the world. Contraction of credit by banks and open markets forced enterprises to cut back on output and employment. Consumption declined as worried and over-indebted workers rearranged their expenditure. Export-markets collapsed, particularly for automobiles and consumer-electronics. Developing countries also suffered as capital-flows became problematic, necessitating emergency-borrowing. A crisis that had began as a financial shock had mutated into a global recession.

To recap, a fully-fledged crisis of financialisation commenced in 2007. Unlike major capitalist crises of the past, it arose due to the financialisation of
personal income, particularly mortgage-lending to US workers, even the poorest. This was combined with the spread of investment-banking practices among financial institutions, above all, securitisation. The crisis paralysed the financial system and progressively disrupted real accumulation. Central-bank intervention has been pervasive but not decisive, forcing governments to intervene to rescue banks and ameliorate the recession.

To go beyond the proximate causes of this crisis, therefore, it is necessary to consider the transformation of the financial system in the context of capitalist development, thus also specifying the content of financialisation. To engage in this analysis, Marxist political economy needs to develop its concepts and broaden its approach. The preceding discussion has shown that the crisis did not emerge because of overaccumulation of capital, though it is already forcing capital-restructuring on a large scale. Rather, this is an unusual crisis related to workers’ income, borrowing and consumption as well as to the transformation of finance in recent decades. In short, it is a crisis of financial expropriation and associated financial mechanisms. The subsequent sections analyse the relevant trends and economic relations.

3. Financialisation in historical perspective

Financialisation has resulted from the epochal changes that followed the first oil shock of 1973–4. That crisis signalled the end of the long postwar-boom and ushered in a long downturn punctuated by repeated economic crises.8 During this period, there has been a technological revolution in information-processing and telecommunications, with a pronounced effect on the sphere of circulation.9 Furthermore, during the same period, there has been profound institutional and political change, above all, deregulation of labour-markets and the financial system, while neoliberalism has replaced the Keynesianism of the long boom.10

Three aspects of these processes are particularly relevant to financialisation. First, productivity-growth has been problematic from the middle of the 1970s

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8. There is extensive political-economy literature on this issue. The most recent, and widely discussed, contribution is by Brenner 1998 and 2002, who essentially argues that the downturn is due to intensified global competition keeping profitability low.

9. The political-economy literature on these issues is extensive, including the debate on flexible specialisation as well as the debate on post-Fordism associated with the French regulation-school.

10. Two recent prominent political-economy contributions that discuss the rise of neoliberalism are Duménil and Lévy 2004 and Glyn 2006.
to the middle of the 1990s, most significantly in the USA. New technology did not generate significant gains in productivity-growth for two decades. After 1995, there were significant gains in the microprocessor-industry and eventually a broad basis was created for faster productivity-growth across the US economy. Productivity-growth picked up even in the services-sector, including in financial trading (though not in banking). During the bubble of 2001–7, however, labour-productivity growth appears to have slowed down again. Moreover, other major capitalist economies, including the UK, have not registered similar gains. The relationship between new technology and productivity-growth, therefore, remains unclear.

Second, the process of work has been transformed, partly due to technological and regulatory change, and partly due to bouts of unemployment at key junctures of the period. Casual labour and entry of women into the labour-force have had a strong impact on work-practices. It is likely that there has been a rebalancing of paid and unpaid labour, while information-technology has encouraged the invasion of private time by work, as well as growth in piece-work and putting-out practices. In Marxist terms, it is probable that labour has been intensified, and unpaid labour stretched. From the extensive literature on job-satisfaction, for instance, it transpires that work-intensification associated with new technology is a key reason for dissatisfaction with work in developed countries, together with loss of discretion over work-choices.

Third, global production and trade have come to be dominated by multinational enterprises created through successive waves of mergers and acquisitions. The bulk of foreign direct investment (FDI) takes place among developed countries, but there has also been substantial flows to developing countries since the mid-1990s, rising significantly after 2000. Competition has intensified globally, but without formal cartels or zones of exclusive trading-and investment-rights. The rise of the multinationals has been accompanied by a shift of the most dynamic sites of production-growth away from the West – above all, toward China. There have even appeared sizeable South-South flows

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11. The measurement of productivity is a conceptual minefield, particularly in services. In this article, mainstream-measurements are used as reference points for discussion.
12. There has been intense mainstream-debate on this issue but a consensus has emerged along these lines. See Oliner and Sichel 2000, 2002; Jorgenson and Stiroh 2000; Gordon 1999, 2004.
To be sure, Germany and Japan continue to earn large manufacturing surpluses. Nonetheless, in the West, typically in the USA and the UK, there has been a general shift of capitalist activity toward financial and other services.

Financialisation should be understood against this background of hesitant productivity-growth, altered work-practices, and global shifts in productive capacity. Since the late 1970s, real accumulation has witnessed mediocre and precarious growth, but finance has grown extraordinarily in terms of employment, profits, size of institutions and markets. There has been deregulation, technological and institutional change, innovation, and global expansion. Finance now penetrates every aspect of society in developed countries while its presence has grown strongly in the developing world. While real accumulation has been performing indifferently, the capitalist class has found new sources of profits through the revamped mechanisms of finance. Perhaps the most significant development in this respect has been the rise of financial expropriation of workers and others.

The economic aspects of this complex transformation are examined below, focusing primarily on commercial banks, the pivot of the credit-system. Analysis proceeds within the framework of Marxist political economy, deriving fundamentally from the work of Marx. Nonetheless, the output of subsequent Marxist political economy, especially Hilferding, is at least as important, and, in some respects, superior.

4. Economic aspects of financialisation: financial expropriation and investment-banking

4.1. Commercial banks turn to the individual: the rise of financial expropriation

Commercial banks have been greatly transformed in the course of financialisation. The driving force of this transformation has been declining reliance of large corporations on bank-finance. Corporate enterprises in developed countries have been financing investment (on a net basis) primarily through retained profits. As far as external finance is concerned, they have relied increasingly on direct borrowing in open markets. Consider the following for the USA, Japan and Germany:

17. UNCTAD 2006.
There are differences among countries in this respect. US corporations, for instance, rely more heavily on issuing bonds. These differences reflect the bank-based character of the German and Japanese financial systems as opposed to the market-based character of the US system, briefly discussed in Section 6. But the trend is not in doubt.

Put in Marxist terms, monopolies have become less reliant on banking credit to finance fixed capital. Circulating capital, on the other hand, continues to rely on trade- and banking credit. Even there, however, monopolies have gained direct recourse to financial markets, particularly by issuing commercial paper. Monopolies, therefore, have become increasingly implicated in finance, even to the extent of maintaining separate departments for operations in trade-credit and financial securities. In short, they have become financialised, while relying less on banks.

The deeper reasons for this fundamental development are probably associated with the nature of information- and telecommunications-technology, and the corresponding lumpiness (or not) of fixed capital. Also important are changes in the internal organisational structure of modern corporations as well as variations in turnover-time. Irrespective of these deeper reasons, traditional opportunities for banks to lend to large corporations have shrunk.

The process of financial deregulation since the late 1960s has drawn on the increasing distance between large corporations and banks. Large corporations have boosted open financial markets, actively by-passing controls over interest-rates and quantities of credit, thus preparing the ground for deregulation. Once deregulation occurred, commercial banks lost the captive deposits that had previously sustained their activities. The scope for conventional commercial banking narrowed even more.
The responses of banks to narrowing profit-opportunities have been manifold, but two stand out. First, banks turned to the personal revenue of workers and others as source of profit. Second, banks focused on financial-market mediation, i.e. they have increasingly acquired investment-banking functions. These developments are closely related to each other; the former is analysed in this section, the latter in the next.

The turn of banks toward personal revenue as field of profitability exhibits significant variations among advanced countries according to their own historical and institutional development. But the general trend is beyond dispute:

**Figure 2. Lending to consumers and real estate as proportion of total bank-lending, USA**

Source: Flow of Funds Accounts, USA, Federal Reserve

**Figure 3. Lending to individuals as proportion of total bank-lending, Japan**

Source: Bank of Japan, Assets and Liabilities of Financial Institutions
This fundamental trend presupposes increasing involvement of workers in the mechanisms of finance in order to meet elementary needs, such as housing, education, health, and provision for old age. Only then would banks be able to extract significant profits directly from wages and salaries. Once again, there are major differences among developed countries in this respect, reflecting history, institutions, and plain custom. Still, the increasing ‘financialisation’ of individual worker-income is clear, in terms both of liabilities (mostly borrowing for housing) and assets (mostly pensions and insurance):

Source: Financial Accounts for Germany

Source: Flow of Funds Accounts of the USA, Financial Accounts for Germany, OECD
Widespread implication of workers in the mechanisms of finance is the basis of financial expropriation. However, the proportion of worker-income that accrues to banks and other financial institutions is hard to measure on an aggregate scale. Yet, from the perspective of large banks, there is no doubt at all that lending to individuals has become increasingly important for bank-profits.\footnote{See the article by Dos Santos in this issue.} Moreover, the USA offers some evidence about recent trends at the aggregate level:

\begin{figure}
\centering
\includegraphics[width=\textwidth]{Figure6.png}
\caption{Household-liabilities as proportion of GDP USA, Japan, Germany}
\end{figure}

Source: Flow of Funds Accounts of the USA, Financial Accounts for Germany, OECD

\begin{figure}
\centering
\includegraphics[width=\textwidth]{Figure7.png}
\caption{Mortgage-, consumption-, auto- and other loan-payments plus insurance- and other housing-related payments as proportion of individual disposable income, USA}
\end{figure}

Source: Household Debt Service and Financial Obligation Ratios, Federal Reserve Bank
Financial expropriation, then, is a source of profit that has emerged systematically during the recent decades. It should be clearly distinguished from exploitation that occurs in production and remains the cornerstone of contemporary capitalist economies. Financial expropriation is an additional source of profit that originates in the sphere of circulation. In so far as it relates to personal income, it involves existing flows of money and value, rather than new flows of surplus-value. Yet, despite occurring in circulation, it takes place systematically and through economic processes, thus having an exploitative aspect.  

In Marxist theory, the sphere of circulation is not natural terrain for exploitation since commodity-trading is typically premised on *quid pro quo*. Only if traders happened to be misinformed about values, or extra-economic force was applied, could exploitation arise. That would differ in kind from regular capitalist exploitation, which is both systematic and economic in character. However, financial transactions are about dealing in money and loanable money-capital, rather than in produced commodities. They typically involve the exchange of promises and obligations based on trust, instead of direct *quid pro quo*. The final transfer of value between finance counterparties depends on institutional framework, legal arrangements, information-flows and even social power. 

Advantages in information and power make it possible for financial institutions to deal with individuals differently from capitalist enterprises. The latter have reasonable access to information and are not inferior to financial institutions in social and economic power. The financial services they obtain are necessary for the production and circulation of value and surplus-value. Charges for these services generally fall within limits that are determined in every period by the availability of loanable capital and the profitability of real accumulation. If it were otherwise, capitalist enterprises could, in principle, bypass existing financial mechanisms, for instance, by relying more on trade-credit or by setting up alternative mechanisms *ab ovo*. To put it differently, capitalist users of finance engage in economic calculus that is dictated by the logic of the circuit of their own capital. As a result, and on average, the remuneration of financial enterprises in their dealings with productive and commercial enterprises complies with the dictates of the total social capital. 

In contrast, finance directed to personal revenue aims to meet basic needs of workers and others – housing, pensions, consumption, insurance, and so on.

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20. In draft versions of this article, financial expropriation was called ‘direct’, or ‘financial’, exploitation. However, the term ‘financial expropriation’ better conveys the pivotal role of financial mechanisms, while avoiding confusion with exploitation at the point of production. This does not preclude the existence of exploitative processes in circulation.
It differs qualitatively from finance directed to capitalist production or circulation. Individuals focus on obtaining use-values, while enterprises aim at the expansion of value. Consequently, the financial actions of individuals are driven by different objectives, motives, information, access to alternatives, and ability to ‘economise’ compared to enterprises. Moreover, individual workers and others who seek to meet basic needs through finance – particularly in the context of limited social provision – have few options in by-passing, or replacing, the mechanisms of the financial system. Hence, individual income can become a target for financial expropriation.

Profit from financial expropriation is reminiscent of usurer’s profit. The latter typically arises as production becomes commercialised, thus making (non-capitalist) producers dependent on money as means of payment. It also arises as consumers (especially of luxury commodities) come to depend on money as means of payment. Interest received by the usurer derives from monetary returns accruing to both producers and consumers, and can even eat into the minimum necessary for reproduction. It is different from interest received by financial institutions for lending to productive capitalists, which derives from profit systematically generated in production. By the same token, advanced financial institutions differ from usurers. But, in times of crisis, the former can become usurious, extracting interest out of the capital of the borrower, rather than out of profit.

In financialised capitalism, the ordinary conditions of existence of working people have come increasingly within the purview of the financial system. Individual dependence on money as means of payment (not only as means of exchange) has become stronger as social provision has retreated in the fields of housing, pensions, consumption, education, and so on. Access to money increasingly dictates the ability to obtain basic goods, while also rationing supply. Thus, the usurious aspect of advanced financial institutions has been re-strengthened, except that financial profits are now generated not only by interest but also by fees.

The more that individual workers have been forced to rely on financial institutions, the more the inherent advantages of the latter in information, power, and motivation have allowed them to tilt transactions to their own benefit. Elements of supremacy and subordination are present in these relations, though there is no direct analogue with exploitation in production.

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23. Marx 1976, p. 1027, thought of these as fundamental to exploitation.
Still, financial expropriation draws on a fundamental inequality between financial institutions and working people accessing finance.

4.2. Banks turn to financial-market mediation: the advance of investment-banking

The growth of open financial markets, involving primarily shares, bonds and derivatives, has presented banks with further opportunities for profit-making. Share- and bond-prices result from discounting future payments, using the rate of interest (adjusted for risk) as benchmark.\textsuperscript{24} Marx called this process the formation of ‘fictitious capital’, thus capturing its distance from value-creation in production.\textsuperscript{25} Derivatives-markets allow participants to make bets aimed at managing risk, or simply speculating.\textsuperscript{26} Their prices have a fictitious element, but that derives from institutional practices and norms of trading. The rise of the Black and Scholes model (or variants) in the course of financialisation has given to derivatives-prices an air of objective reality.\textsuperscript{27}

Open financial markets are natural terrain for investment-banks, which differ substantially from commercial banks.\textsuperscript{28} Investment-banks are financial-market mediators that mobilise short-term funds to invest in securities. They do not take small deposits, and their liabilities do not function as money. By the same token, they lie outside the regulatory framework of commercial banks, including deposit-insurance and capital-adequacy. Investment-banks derive profits from fees and commissions to facilitate securities-transactions (providing information about counterparties, placing securities with buyers, reducing transactions-costs, underwriting securities, and so on) as well as from proprietary trading. These activities can be called financial-market mediation.

Investment-bank profits pose difficult problems for political economy. Hilferding suggested that they are part of ‘promoter’s’ or ‘founder’s’ profit, that is, of the value of shares discounted at the rate of interest minus their value.

\textsuperscript{24} Hilferding 1981, Chapter 8, advanced the original, and still most powerful, analysis of share-prices within Marxist political economy.
\textsuperscript{25} Marx 1981, Chapter 29.
\textsuperscript{26} Very little guidance on derivatives can be found in the corpus of Marxist political economy. Some steps in forming an analytical framework were taken by Bryan and Rafferty 2007, though they erroneously treat derivatives as money.
\textsuperscript{27} Penetrating sociological analysis of this process has been provided in a series of papers by MacKenzie 2003, 2004, for instance, and MacKenzie and Millo 2003.
\textsuperscript{28} They are also natural terrain for insurance companies, money-trusts, unit-trusts, money-funds, hedge-funds and pension-funds. These intermediaries differ critically from banks, since their liabilities are not money, and nor do they lend directly for production purposes. They have grown in recent years partly because the state has retreated from welfare-provision, particularly pensions. Their growth has been felicitously called ‘pension fund capitalism’ by Toporowski 2000.
discounted at the (higher) rate of profit. This difference, he postulated, is the future profit of enterprise accruing as a lump-sum to the seller of equities at the time of an Initial Public Offering. But Hilferding’s analysis needs to be rethought, since different rates of discount could hardly be applied to the same flow of expected returns without financial markets becoming segmented. Moreover, the future profits of enterprise are likely to accrue to those who continue to run the enterprise, not to the sellers of shares.

It is more plausible that investment-bank profits result from the division of loanable money-capital (and plain money) mobilised through open financial markets. The available idle money is mobilised either indirectly through banks, or directly through open financial markets. But direct mobilisation is still facilitated by banks and other financial institutions, which are remunerated through a share of the sums traded. Since this process takes place on the basis of fictitious prices, it is susceptible to sentiment, rumours, and manipulation.

Two fundamental trends have encouraged the adoption of investment-banking functions by commercial banks since the late 1970s. First, successive waves of mergers and acquisitions have taken place among ‘financialised’ corporations. Stock-markets have not been significant sources of finance for fixed investment in recent years, but they have certainly facilitated the concentration and centralisation of capital through IPOs, leveraged buy-outs and similar transactions.

Second, the savings of workers and others have been directed toward open financial markets through state-policy. The introduction of regulation 401K in the USA in 1978 made pension-savings available for stock-market investment. Similar processes have occurred in the UK through Personal Equity Plans (PEP), Tax-Exempt Special Savings Accounts (TESSA), and Individual Savings Accounts (ISA). These are integral elements of the ‘financialisation’ of workers’ income.

The turn of commercial banks toward financial-market mediation in the USA was confirmed and promoted by the abolition of the Glass-Steagall Act in 1999. The Act had been in place since the great crisis of the 1930s, preventing commercial banks from formally engaging in investment-banking. The formal separation of functions reflected the inherent difference in liquidity- and solvency-requirements between the two types of banking. Commercial banks

30. For further analysis of this, see Lapavitsas 2000.
31. This has raised important issues of corporate governance and ‘shareholder value’, see Lazonick and O’Sullivan 2000. This debate has a long pedigree and originates partly in Marxist literature, particularly Marx 1981, pp. 512–14, and Hilferding 1981, Chapter 7. But since the focus of this article is on banks, there is no need to consider it further.
rely for liquidity on a mass of money-like deposits, while investment-banks borrow heavily in open markets. Analogously, commercial banks need capital to confront losses from lending on production-projects, while investment-banks typically need less since they invest in securities held for relatively short periods of time.

Mixing the two types of banking could result in disaster, particularly as deposit-holders could be scared into withdrawing their funds from commercial banks that have engaged in investment-banking. This was one of the contributory causes of the Great Depression of the 1930s. In a related way, discussed below, it has contributed to the current crisis.

4.3. The lethal mix of financial expropriation and investment-banking

The destructive interplay of liquidity and solvency that has marked the current crisis has its roots in the trends outlined above. Commercial banks are intermediaries that essentially borrow short to lend long – they are heavily ‘leveraged’. Hence, they need to keep some reasonably liquid assets to deal with deposit-withdrawals; they must also maintain a steady inflow of liquid liabilities to finance their own lending; finally, they must hold significant own capital to take losses on lending and avoid default. These requirements are costly, forcing commercial banks to walk a tightrope between liquidity and solvency. Financialisation has profoundly disrupted this process.

Consider first the lending, or asset-, side of banking. For commercial banks, engaging in financial expropriation means primarily mortgage- and consumer-lending. But, since mortgages typically have long duration, heavy preponderance would have made bank balance-sheets insupportably illiquid. The answer was securitisation, i.e. adoption of investment-banking techniques. Mortgages were originated but not kept on the balance-sheet. Instead, they were passed onto Special Purpose Vehicles (SPV) created by banks, which then issued mortgage-backed securities. The creditworthiness of these securities was ascertained by ratings-organisations, and they were also guaranteed (‘credit enhanced’) by specialist credit-insurers. Once they were sold, banks received the original mortgage-advance and could engage in further lending afresh. Mortgage-payments

32. This is as old as banking itself and was discussed by classical political economists. Steuart, for instance, 1767, Book IV, Part I, Chapter I, stressed solvency because he advocated banks making long-term, largely illiquid loans. Smith 1789, Book II, Chapter II, on the other hand, stressed liquidity because he saw banks as suppliers of short-term circulation-funds. The balance is determined in each historical period by the needs of real accumulation, institutional structure, law, and customary bank-practices.
accrued as interest to securities-holders, while all other parties, including the originators of mortgages, earned fees.

For commercial banks, therefore, the adoption of investment-banking practices turned lending (to earn interest) into mediating the circulation of securities (to earn fees). Securitisation was naturally extended to other assets, such as credit-card receivables, automobile-loans, home-equity loans, and so on. In this vein, independent investment-banks created ‘Collateralised Debt Obligations’ (CDOs) by securitising a broad mix of underlying assets, including mortgages, consumer-credit, regular bonds, and even mortgage-backed securities. Banks appeared to have found a way of keeping the asset-side of their balance-sheet permanently liquid, while constantly engaging in fresh lending. This wonderful discovery was called the ‘originate-and-distribute’ banking model.

Commercial and investment-banks might have been spared the worst had they been able to keep away from the witches’ brew they were concocting and selling to others. But, during the bubble, mortgage-backed securities paid high returns and credit was cheap. Thus, banks began to set up ‘Structured Investment Vehicles’ (SIVs), that is, financial companies that raise funds in the money-market to purchase securitised assets, including CDOs. Banks also lent (or set up) a host of other financial institutions (including hedge-funds) for the same purpose.

Bank-assets, finally, grew through the investment-banking practice of trading in ‘Credit Default Swaps’ (CDS). These are derivatives in which one party (the seller) promises fully to reimburse the other (the buyer) for the value of some underlying debt, provided that the buyer pays a regular premium. At the peak of the bubble, their growth was astonishing:

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Source: BIS various

CDSs are similar to insurance-contracts, thus appearing to offer banks cover for their expanding assets. But they are also excellent vehicles for speculation if, say, the underlying debt is the bond of a company which a bank thinks might go bankrupt. Speculation became the prime purpose of trading in CDSs, adding to the destructive force of the crash.

Consider now the implications of these practices for the liability-side of bank balance-sheets. To sustain expansion through securitisation, banks
needed access to wholesale liquidity, that is, borrowing in the money-market. Independent investment-banks led the trend through ever-greater reliance on issuing paper in the money-market. Inevitably, they were joined by commercial banks.\textsuperscript{33} This was why the crisis first burst out in the money-market.

The implications for solvency were equally profound. Investment-banks have traditionally operated with lower capital-requirements than commercial banks owing to the different nature of their business. During the bubble, they drove their capital to extremely low levels, falsely believing that their expanding assets were safe for reasons explained in the next section. This was very profitable while it lasted, but, ultimately, contributed to their downfall as they could not take the eventual losses.

Commercial banks, on the other hand, typically keep higher capital-ratios, which are also closely regulated. Basle I regulations, formalised in 1988, stipulated that internationally active banks should maintain own capital equal to at least 8\% of their assets. Basle II, which began to take shape in the late 1990s, allowed banks that use modern risk-management methods (discussed in the next section) to have a lower ratio, if certain of their assets had a lower risk-weighting. The aim of the regulations evidently was to strengthen the solvency of banks. The actual outcome was exactly the opposite.

For, capital is expensive for banks to hold. Consequently, commercial banks strove to evade the regulations by shifting assets off the balance-sheet as well as by trading CDSs, which lowered the risk-weighting of their assets. Therefore, Basle II effectively promoted securitisation. By engaging in investment-banking practices, commercial banks could continually ‘churn’ their capital, seemingly keeping within regulatory limits, while expanding assets on and off the balance-sheet. In this marvellous world, banks appeared to guarantee solvency while becoming more liquid.

When the housing-bubble burst, it became clear that these practices had created widespread solvency-problems for banks. As mortgage-backed assets became worthless, independent US investment-banks were rendered effectively bankrupt in view of extremely low capital-ratios. For the same reason, commercial banks found themselves in a highly precarious position. Even worse, as the crisis unfolded, Basle regulations forced banks to restore capital-ratios precisely when losses were mounting and fresh capital was extremely scarce.

The roots of the disaster that has befallen the world-economy are now easier to see. The ultimate bearers of mortgages in the USA were workers, often of Japanese banks were very fortunate in that they had only just started to engage in the new practices when the bubble burst. Hence they have maintained a large flow of deposits relative to their assets.
the poorest means. Real wages had not risen significantly throughout the bubble even for workers on higher incomes. Thus, the source of value that would ultimately validate both mortgages and mortgage-backed assets was pathetically weak. On this precarious basis, the financial system had built an enormous superstructure of debt, critically undermining its own liquidity and solvency.

Once defaults on subprime mortgages started in full earnest in 2006, securitised assets became very risky. They could not be easily sold, and their prices declined. For SIVs and hedge-funds, this meant that their assets worsened in price and quality, making it impossible to borrow in the money-market. Confronted with bankruptcy, they had to call on the banks that had funded them. Consequently, banks began to take losses, making it necessary to replenish their capital as well as restricting their credit. Naturally, they also became extremely reluctant to lend to each other in the money-market, further tightening liquidity. Fear led to falling stock-markets, which made bank solvency even more precarious. The destructive interplay of liquidity and solvency led to bankruptcy, collapse of credit, shrinking demand, and emerging slump.

4.4. The mismanagement of risk, or what role for banks in financialised capitalism?

The disastrous performance of banks in the course of the bubble poses broader questions regarding their role in financialised capitalism. The classics of Marxism thought that banks play an integrating role in the capitalist economy by collecting information, transferring resources across society, and facilitating the equalisation of the rate of profit.34 But financialisation has changed things significantly.

Banks evidently need information about their borrowers in order to assess risk and to keep appropriate levels of capital. Mainstream-economics postulates that banks acquire information in qualitative (‘soft’) and quantitative (‘hard’) ways.35 The former involves regular contact with borrowers, personal relations, visiting the site of borrower-operations, and placing staff on company-boards. The latter involves analysis of quantitative data on companies as well as on markets and the economy as a whole.

Financial expropriation combined with investment-banking has changed the focus of banks from ‘soft’, ‘relational’ methods towards ‘hard’, statistically-driven

34. Lenin 1964, p. 223, thought that banks had become institutions of a truly ‘universal character’ in capitalist society, while Hilferding 1981, p. 368, imagined that the German economy could be controlled through ‘six large Berlin banks’.

35. These are clumsy terms, but their meaning is clear. See Berger and Udell 1995; Berger, Klapper and Udell 2001.
techniques. More specifically, to advance mortgages and consumer-loans, banks have adopted ‘credit scoring’. These are ‘arms-length’ techniques that collect numerical information (income, age, assets, etc.) to produce an individual score that can be manipulated statistically. Loans are advanced if the individual clears a given threshold. Subprime mortgages were precisely loans for which the threshold was low.

Banks have also begun to estimate the risk of default of their assets by applying mathematically-based models that utilise historical rates of default. These estimates are largely extrapolations from past trends, stress-tested within limits indicated by data. Banks have similarly learnt to apply ‘Value at Risk’ methods, which rely on correlations between asset-prices (estimated historically) and on volatility (estimated from stock-market prices).

On this basis, banks estimate their ‘Daily Earnings at Risk’ (DEAR), that is, the probability that the value of their assets would decline below a certain level on a daily basis. Consequently, they can re-adjust the mix of their assets to bring DEAR within acceptable bounds. To this purpose, bank-assets must reflect current market-valuations, rather than historical prices. For this reason, the accounting practice of ‘marking to market’ has prevailed in the course of financialisation.

Inference-based computationally-intensive techniques of risk-management appear ‘hard’ and have a scientific air. They also fit well with the investment-banking functions acquired by commercial banks. During the bubble, it was universally claimed that banks had become experts in ‘slicing, packaging and pricing’ risk. Through securitisation they apparently allowed risk to be held by those who truly wanted it, thus increasing financial stability.

Inference-based management of risk by banks has proven calamitous. For one thing, it uses past prices to calculate correlations, which hardly works in times of the unprecedented co-movements of prices that characterise crises. Furthermore, these techniques may have increased the homogeneity of decision-making by financial intermediaries, thus exacerbating price-swings and general instability.

More fundamentally, the techniques appear to have led to failure by the whole of the financial system to collect necessary information properly to

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37. For standard analysis see Saunders and Allen 2002, pp. 84–106; Duffie and Singleton 2003, pp. 31–42.
38. Allen and Santomero 1998 and 1999 have argued that these changes showed that the deeper function of banks in contemporary capitalism is to manage risk in formal ways.
39. It goes without saying that the change would have been impossible without the widespread adoption of information-technology by banks. See Lapavitsas and Dos Santos 2008.
Mortgages were advanced on the basis of ‘credit scoring’ and on the understanding that they would be rapidly securitised. The mortgage-backed securities were assessed by credit-rating organisations, which were paid by banks and thus had a vested interest in awarding excellent grades to securities to ensure rapid sales. Moreover, their assessment of risk was also based on inference-based techniques. The buyers then acquired the new securities on the blind assumption that all was fine.

At no point in the process was there genuine due diligence done on the original loans and subsequent securitisations. Banks imagined that they were shifting risk onto others through securitisation. In effect, they were simply giving a different form to risk as loans to SIVs, hedge-funds and so on. When mortgage-defaults started, the true extent of risk became apparent, and banks were ruined.

Put differently, the turn of banks toward financial expropriation and financial-market mediation has resulted in loss of capacity to collect information and assess risk on a ‘relational’ basis. Banks have acquired some of the character of the broker, while partially losing that of the financial intermediary. This has created problems in assessing borrower-creditworthiness in a socially valid way. For, in a capitalist economy, this task has traditionally been undertaken through partly ‘relational’ interactions of banks with other institutions and markets in the financial system.

The picture that emerges for commercial banks is bleak. They are no longer major providers of investment-finance to corporate enterprises; their capacity to collect information and assess risk has been compromised; and their mediation of workers’ needs has been catastrophic. But, then, what is their future in the capitalist economy? To be sure, they still play a vital role in creating money and operating the payments-mechanism. Yet, this is not a specifically banking activity, and could be taken over by other institutions, such as the post-office. Is there a future banking role for the enormous banks of financialised capitalism? This is one of the most complex problems posed by the current crisis, and the answer is far from obvious. Needless to say, it immediately raises the issue of public ownership and control of banks, a long-standing socialist demand.

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41. To call this ‘mispricing of risk’ is uncharacteristically lame of Goodhart 2008. The real issue is systemic failure to apprehend risk altogether.
42. See Lapavitsas 2003, Chapter 4.
5. Social aspects of financialisation: the return of the rentier?

It was shown above that the current crisis is a result of financialisation, which is a systemic transformation of the capitalist economy pivoting on the financial system and involving new sources of profit. In the rest of this article, the preceding analysis is placed in a broader context by considering social and political aspects of financialisation. This section, then, considers the renewed prominence of *rentiers*, who are often associated with income and wealth accruing through the financial sector and have contributed to the rise of inequality during this period. Is financialisation a new era of the *rentier* and, if so, in what way?

Much of the literature on financialisation assumes (sometimes tacitly) that the ascendancy of the idle *rentier* characterises contemporary capitalism. This is, at heart, a Keynesian approach arguing that the *rentier* slows down the rhythm of accumulation either by depriving the active capitalist of funds, or by raising interest-rates. It is shown below that there are significant problems to analysing financialisation by counter-posing idle *rentier* to functioning capitalist.

Analysis of the *rentier* can be found in Marxist political economy, with the occasional reference coming directly from Marx. The strongest impact was made by Lenin’s discussion of ‘parasitical rentiers’ in his classic theory of imperialism. Lenin took the idea from Hobson, the liberal critic of imperialism. The bulk of Lenin’s economic analysis, on the other hand, drew on Hilferding, in whose work there is no mention of the ‘parasitical rentier’. Hilferding did not relate finance to *rentiers* but – basing himself on Marx – argued that the financial system emerges necessarily out of real accumulation. Informed by German capitalism, he also had no truck with the notion that real accumulation runs into difficulties because idle *rentiers* constrain active industrialists.

Underpinning Marxist views on the *rentier* is the concept of interest-bearing (or loanable) capital. However, there is some ambiguity in Marx’s analysis of the sources of interest-bearing capital, which matters for the analysis of *rentiers*. At times, Marx treats interest-bearing capital as belonging to ‘moneyed’ capitalists, who are a subsection of the capitalist class. ‘Moneyed’

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44. For instance Marx 1981, Chapter 22.
45. Lenin 1964, pp. 276–85.
46. Hobson 1938, Chapter 4.
47. Introduced by Marx in 1981, Part 5.
capitalists lend capital to others, and are satisfied with interest which is a share of profits. Though Marx did not use the term in this context, ‘moneyed’ capitalists are essentially rentiers, in contrast to active capitalists who borrow capital to generate profits.

At other times, however, Marx suggests that loanable capital arises out of idle money generated in the normal course of the operations of industrial and commercial capital.49 Thus, loanable capital does not belong to a distinct subsection of the capitalist class, but is constantly recreated in the course of real accumulation. The main function of the credit-system is to mobilise idle funds, transforming them into loanable money-capital and channelling them back to accumulation. Along these lines, Hilferding specifies the sources of idle money as well as the complex ways in which it becomes loanable capital.50

One merit of the latter approach is that it cuts through some of the confusions surrounding the current debate on rentiers and financialisation. For, the income of those who might be categorised as contemporary rentiers does not arise merely from possession of loanable capital. The managers of hedge-funds, for instance, draw extraordinary incomes typically from fees and percentage of the annual profits. These incomes derive from using the money of others to speculate on financial assets. Remuneration often takes the form of further financial assets, bringing capital-gains and evading taxation. Similarly, industrial managers draw incomes in the form of stock-options and other financial mechanisms, often masquerading as salaries. Substantial incomes, finally, accrue to accountants, lawyers and others who provide the technical support necessary for financial operations.

Such incomes are due in part to position and function of the recipient relative to the financial system, rather than simply to ownership of loanable money-capital, or even of idle money. Modern rentiers, in other words, are not plain money HOLDERS who avoid the grubby business of production. They frequently own loanable capital, but their ability to command extraordinary income is also mediated by position relative to the financial system. Indeed, they do not even have to function within the financial system, as is clear, for instance, for industrial and commercial managers.

The rentier as owner of loanable capital at loggerheads with the industrial capitalist is of limited relevance to contemporary capitalism. This is even more apparent in relation to institutional investors. Pension-funds, insurance-companies, investment-funds, and so on, collect idle money leaked from the

income of broad layers of working people. They provide scope for financial intermediaries to generate profits through handling such funds. But they also generate returns for ‘financialised’ individuals across social classes. They certainly do not distribute their earnings to a well-demarcated social group of *rentiers*.

Similarly, it is erroneous to treat the aggregate profits of financial institutions as a measure of *rentier*-income. Financial institutions – above all, banks – are not parasites subsisting on the profit-flows of industrious productive capitalists. In principle, they are capitalist enterprises offering necessary services in the sphere of circulation. They are thus subject to competition and tend to earn the average rate of profit. Financialisation has entailed a turn toward financial expropriation and financial-market mediation. But there are no grounds for treating financial institution profits as proxy for *rentier*-income.

To recap, insofar as a *rentier*-layer can be identified today, it has resulted from the development of the financial system. It draws income from position relative to the financial system as well as from ownership of loanable capital. More broadly, the ability to extract rent-like income through financial operations is a by-product of the transformation of finance rather than its driving force. The ascendancy of finance has systemic origins, and its outcomes are far more complex than industrialists being presumably squeezed by *rentiers*. By the same token, confronting financialisation does not mean supporting hard-working industry against idle finance.

### 6. Instead of a conclusion: is financialisation a new era of finance-capital?

The final issue to be considered in this article is the analogy between financialisation and the ascendancy of finance at the turn of the twentieth century. The latter was, of course, analysed in the classical-Marxist debates on imperialism. Hilferding put forth the pivotal concept of finance-capital, capturing the epochal change that resulted from the altered relationship between industrial and banking capital. For Hilferding, as the scale of production grows, monopolistic industrial capital relies increasingly on monopolistic banks for investment-finance, until the two become amalgamated, with banks in the ascendant. This is finance-capital, which dominates the economy, progressively restricting competition and ‘organising’ the economy to serve its interests.

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Hilferding analysis provided foundations for Lenin’s subsequently canonical formulation of the concept of imperialism. Bauer had already established that cartels demanded aggressive tariffs to create exclusive trading areas for themselves. Hilferding argued that cartels also exported money-capital to less developed countries to take advantage of lower wages. This was the end of British ‘laissez-faire’ capitalism, replaced by German and US finance-capital. The late developers relied on the power of the state, hence spurring militarism and imperialism, with attendant racism. Lenin’s theory stressed monopoly more strongly, also introducing parasitical rentiers and the territorial re-division of the world among imperialist powers. But the underlying economics came from Hilferding.

Hilferding’s and Lenin’s analysis of finance-capital and imperialism is a masterpiece of political economy, shedding light on the ascendancy of finance and its implications for economy, society and politics. The analysis looked somewhat frayed during the long postwar-boom, since finance was strongly regulated, the USA subsumed imperialist divisions under its struggle against the Soviet Union, and a wave of liberation-movements destroyed the old empires. But the rise of financialisation appears to have injected fresh life into it. Does financialisation represent a return of finance-capital? The short answer is no, but the analogy casts light on the current period for the following reasons.

First, as was shown above, banks and large industrial or commercial enterprises have not come closer together in recent decades, and nor is there evidence that banks hold the upper hand in relations with industry. Large corporations have become more distant from banks, while independently engaging in financial transactions. Banks have sought profits in ‘financialised’ personal incomes as well as in mediating transactions in open financial markets.

Second, the character of financial systems has changed in ways incompatible with the theory of finance-capital. All financial systems have common elements but the balance between them depends on stage of development, history, institutional structure, law and politics. A typical distinction is between market-based, or Anglo-American, and bank-based, or German-Japanese financial systems. Broadly speaking, in market-based systems, the weight of open financial markets is greater, while banks and industry have arms-length relations. In contrast, bank-based systems have prominent credit-systems and

54. In contrast to Luxemburg 1951, who ignored finance-capital in her analysis of imperialism.
55. Also used in mainstream-economics, for instance, Allen & Gale 2001.
close relations between banks and industry, often involving exchange of personnel and mutual share-holding.

Hilferding’s theory of finance-capital is one of the earliest analyses of bank-based financial systems. Implicit in his theory is that financial systems become progressively bank-based as finance-capital emerges. However, the rise of open financial markets, and the transformation of banks in recent decades are not consistent with such a trend. On the contrary, there has been a global shift toward market-based systems, drawing on the US model, though bank-based systems have not disappeared by any means.

Third, for both Hilferding and Lenin, exclusive trading zones are vital to the emergence of territorial empires. But financialised capitalism has not produced phenomena of this type; instead, there have been pressures for lower tariffs and a homogeneous institutional framework of trading. To be sure, the process has been uneven and contradictory, typically involving discrimination against less-developed countries. States have also created trading blocs (above all, the European Union and NAFTA), though these are not generally exclusive. In all, there has been nothing comparable to the competitive imposition of tariffs that characterised the era of finance-capital.

Fourth, Hilferding’s theory has little to say on the systematic intervention of the state in the sphere of finance, despite his predilection for ‘organised’ capitalism. But the state has been pivotal to the rise of financialisation. For one thing, the state has pursued financial deregulation. For another, the state is the power behind the central bank both through supplying it with bonds and through declaring central-bank liabilities to be legal tender. Without the state’s backing, central banks would have been much less effective during the crises of financialisation. More broadly, the state has emerged as the ultimate guarantor of the solvency of large banks and of the stability of the financial system as a whole.

Finally, fifth, financialisation has been accompanied by extraordinary turbulence in the international monetary system. Gold – the world-money of Hilferding’s and Lenin’s day – has become marginal to the international monetary system, a reserve of last resort. In the absence of a genuine anchor, the US dollar has gradually emerged as quasi-world-money. It was shown above that developing countries have been forced to accumulate enormous dollar-reserves in recent years. This has benefited primarily the USA since poor countries have supplied with loanable capital, thus allowing it to sustain substantial trade-deficits. But the leading imperialist country has also paid a price as the housing-bubble intensified, leading to the current crisis.

56. The same holds for Bukharin 1972, despite his strong emphasis on ‘organised’ capitalism.
Financialisation, in short, does not amount to dominance of banks over industrial and commercial capital. It stands rather for increasing autonomy of the financial sector. Industrial and commercial capitals are able to borrow in open financial markets, thus becoming heavily implicated in financial transactions. Financial institutions have sought new sources of profitability in financial expropriation and investment-banking. Meanwhile, workers have been increasingly drawn into the realm of private finance to meet basic needs, including housing, consumption, education, health and provision for old age. This has been an era of unstable and low growth, stagnant real wages, and frequent financial bubbles. The current crisis represents a gigantic concatenation of the imbalances, tensions and exploitative aspects of financialised capitalism. The need for alternative economic organisation that is crisis-free while serving the interests of working people is apparent.

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Racial Exclusion and the Political Economy of the Subprime Crisis

Gary A. Dymski
University of California Center Sacramento (UCCS)
gary.dymski@ucop.edu

Abstract
This paper develops a political economic explanation of the 2007–9 US subprime crisis which focuses on one of its central causes: the transformation of racial exclusion in US mortgage-markets. Until the early 1990s, racial minorities were systematically excluded from mortgage-finance due to bank-redlining and discrimination. But, then, racial exclusion in credit-markets was transformed: racial minorities were increasingly given access to housing-credit under terms far more adverse than were offered to non-minority borrowers. This paper shows that the emergence of the subprime loan is linked, in turn, to the strategic transformation of banking in the 1980s, and to the unique global circumstances of the US macro-economy. Thus, subprime lending emerged from a combination of the long US history of racial exclusion in credit-markets, the crisis of US banking, and the position of the US within the global economy. From the viewpoint of the capitalist accumulation-process, these loans increased the depth of the financial expropriation of the working class by financial capital. The crisis in subprime lending then emerged when subprime loans with exploitative terms became more widespread and were made increasingly on an under-collateralised basis – that is, when housing-loans became not just extortionary but speculative.

Keywords
subprime crisis, racial exclusion, housing-credit, redlining

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1. Introduction

Most economists’ explanations of the roots of the 2007–9 global financial crisis have focused on greed, myopia, and overreach by financial firms and homeowners, and on credit-rating agencies’ moral hazard.¹ These diagnoses suggest that this crisis has the same root causes as the 1982 Latin-American crisis, the 1980s savings- and loan-crisis, and the 1997 Asian crisis: moral hazard due to flawed institutional design, combined with regulatory failure.² So, this latest crisis apparently demonstrates that, when incentives and information are asymmetrically distributed, and when financial markets are inadequately unsupervised, then myopic, risk-taking, or incompetent borrowers and lenders can generate huge economic and social losses.³ This implies that policies to offset loan-losses would be counterproductive: financial markets have to be taught about down-side risk yet again.⁴

Admittedly, financial crises are a hardy perennial in the capitalist garden. But the depth of the still-evolving economic meltdown that has resulted from this crisis suggests that its history should be interrogated carefully, not written out of the story.

This paper argues that a key element in the 2007–9 subprime crisis was the transformation of racial exclusion in US mortgage-markets. Until the early 1990s, racial minorities were systematically excluded from participation in mortgage-finance due to banks’ practices of redlining and discrimination. From that point forward, however, racial exclusion in credit-markets was transformed. Racial minorities were no longer denied mortgage-credit altogether. Instead, they were increasingly given access to housing-credit under terms far more adverse than were offered to non-minority borrowers.

The emergence of these subprime loans is linked, in turn, to banks’ strategic transformation of banking in the 1980s in response to their own difficulties at the dawn of the neoliberal era. Banks, having shed their traditional roles as risk-absorbers, were seeking out ever more ways to generate net income. They created financial assets designed to provide services to different segments of their customer-base in different ways, generating substantial fee-based income along the way. Their successful direct and indirect forays into higher-risk loans for lower-income and minority markets, together with the emergence of new

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outlets for higher-risk debt, opened up the subprime mortgage-markets. Boom regional housing-markets in the US then created opportunities to spread subprime instruments to new homeowners well beyond the boundaries of segregated urban neighbourhoods. The apparently endless supply of low-cost liquidity, linked to the US’s unique global macroeconomic position, provided the fuel for the large-scale manufacture and distribution of mortgage-based investment-vehicles.

As long as subprime loans were fully collateralised by underlying housing-assets, banks could use loans to boost their profits with little increase in risk. From the viewpoint of the capitalist accumulation-process, these loans increased the depth of the financial expropriation of the working class by financial capital. The conditions for crisis emerged when lenders began issuing subprime loans on an under-collateralised basis. This happened when subprime-loans were increasingly used to cover over the growing gap between median earned incomes and housing-prices. As this happened, these housing-loans became not just extortionary but speculative. Mortgage-brokers and lenders heightened this shift, because so doing maximised their fee-based income. Finally, crisis emerged when the housing-price/credit-pyramid grew larger than the income-flows of financially fragile homeowners could support.

The approach developed here emphasises that economic crises unfold in particular historical and institutional conjunctures of global capitalist processes. Financial processes are understood here as key sources of contemporary capitalist crises. Instability and accumulation-problems can arise from financial dynamics both due to fundamental uncertainty in financial processes and due to the emergence of speculative credit-flows within the economy.5 Banks and financial relations are not passive elements in accumulation processes, simply facilitating exploitation in production; they are active elements that independently impact the trajectory of crises. In the case examined here, lenders’ innovation of providing minority-households with access to mortgage-finance via predatory loans was an independent root of the current crisis.6

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6. Throughout this paper, we refer to subprime loans as being predatory and involving financial exploitation and expropriation. These terms all refer to the fact that these loans require higher-than-average interest-rates and fees to be paid. Exploitative relations in the credit-market should not be confused with the exploitation of labour from labour-power. The question of the relationship between these lender-borrower relations and Marxian exploitation theory is addressed in Lapavitsas’s article in this issue. On the links between racial exclusion and exploitation-theory, see also Dymski 1992 and 1996a.
2. Racial exclusion in US credit-markets

The postwar-period is often celebrated as a period of generalised prosperity for the working class in the US and in Europe. In this Fordist era, the real wage rose for many categories of worker, permitting a substantial increase in living standards. Previously scarce consumer-goods became widespread and residential homes became larger and more comfortable. This increased housing consumption was accomplished in the US (not in every country) largely through expanded homeownership. The rise in homeownership-rates from the 1950s through the mid-1980s, then, provides one measure of relative household-prosperity. Of course, linking increased housing and domestic-appliance consumption to home-building and homeownership also opened up important new venues to market-competition. Housing-construction became even more pro-cyclical than durable and non-durable investment-expenditures. Further, those workers who were homeowners gained an interest in the maintenance of regulatory and economic-stabilisation policies that generated higher home-prices.

But it must be emphasised that this generalised prosperity existed alongside substantial racial inequality. Until the 1970s, most cities in the US had de facto, and sometimes de jure, prohibitions on where racial minorities could live. Most minorities moved to urban areas from the rural South in the labour-shortage periods accompanying World Wars I and II. They were prohibited from home-ownership in most areas of cities by racial covenants – contractual agreements between prospective home-buyers and home-sellers that the homes in question would neither be sold nor resold to minorities. These social arrangements forced minorities to crowd into available, largely rental, housing in restricted portions of the city. Landlords could charge higher rents than would otherwise have been possible, and to expropriate an extra share of minorities’ wages and salaries.

So, the Golden Age never crossed the race line: African-Americans and other minorities largely functioned as a labour buffer-stock, spatially segregated in lower-income neighbourhoods with low home-ownership rates. Federal housing policy was partly to blame for these patterns of spatial segregation and low home-ownership. Since its founding in the 1930s, the Federal Housing Administration’s guidelines precluded the funding of homes from minority or
mixed neighbourhoods. This reinforced segregation and racial wealth-disparities. Depository institutions were also to blame: they did not locate branches in minority-neighbourhoods or make loans there. In reaction, African-Americans and other minorities established minority-owned banks in many cities. However, most financial services and credit were provided in these areas by local stores and informal providers – check-cashing stores, finance-companies, and pawn-brokers. Some were franchises and some were locally owned; virtually all charged exploitative fees. The political momentum of the Civil Rights movement forced some changes in this situation. Two new laws, the 1968 Fair Housing Act and 1974 Equal Credit Opportunity Act, extended the anti-discrimination principles of civil-rights law to housing- and credit-markets, respectively.

Then a new trend emerged: the emergence of ‘white flight’ from some urban neighbourhoods, in the 1960s and 1970s. This destabilised racial boundary lines, as minority-households began to move into formerly all-white areas. Banks and thrifts reacted by reducing mortgage-lending throughout the inner city. Ironically, this led to the creation of a multi-racial community-based movement opposing lenders’ ‘redlining’. This movement created the political pressure that led to the Home Mortgage Disclosure Act (HMDA) of 1975 and the Community Reinvestment Act (CRA) of 1977. Respectively, these acts provided a mechanism for monitoring bank loan-making, and precluded ‘redlining’ – the implicit or explicit refusal of lenders to make mortgage-credit available to neighbourhoods with large minority-populations.

The CRA required banks to meet the credit-needs of their entire market-areas, and prevented banks from claiming market-areas that excluded minority- and low-income populations. HMDA required all depository institutions to report annually on the distribution of their mortgage-loans by census-tract. Academics and community-activists used HMDA data to prove in city after city that bank home-ownership loans were made much less frequently in minority and lower-income areas than elsewhere. For example, a 1991 study of banking, race, and income in Los Angeles found that banks made home-mortgage loans five times more frequently in low-minority than high-minority census-tracts, controlling for income.

Community advocates used the leverage provided by such studies to frame their demand for ‘reinvestment’. Mortgage-finance was central to these advocates’ demands, as it would permit more minorities to engage in wealth-accumulation through homeownership. Depository institutions argued that

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they did not redline: there was low demand for home-purchases in these areas, which were in any event highly risky. These assertions were supported by economists, and by logic: insofar as the mortgage-market is competitive, lenders in that market would not leave ‘money on the table’. In any event, HMDA data were not rich enough to resolve this dispute.

The crisis of the savings-and-loan (thrift) industry in the 1980s made it clear that lenders in the mortgage-market had not performed optimally in deciding on which mortgages to make and under what terms. The locally-based thrift-industry was perceived as having failed in large part because moral hazard had dominated profit-and-loss considerations in its loan-making. In exchange for the federal assistance provided to clean up the mess, the mortgage-market was opened to new lenders. And, to permit new entrants into the supply-side of the mortgage-market, rules on bank-holding company-purchases of non-bank lenders were loosened. Due to pressure from CRA advocates, the 1989 bailout-bill also required more extensive reporting by mortgage-lenders under HMDA.

From 1990 on, lenders had to report annually on mortgage-loan applications, denials, and loans made, including information about applicants’ race, gender, income, and loan-size. These data permitted researchers to test econometrically for racial discrimination in mortgage-markets. These tests almost uniformly found minority-applicants to have a systematically lower probability of loan-approval than white applicants. What such results meant was contentious. For some, this racial disadvantage demonstrated that lenders’ racial animus toward borrowers outweighed other factors. For others, it represented ‘rational discrimination’ based on the greater risks associated with loans made to minorities and to minority-areas.

From the perspective of capital-accumulation, the result that minority-status per se affected loan-market decisions represented a paradox: why would profit-seeking firms not set aside racial bias and make profitable loans? This racial exclusion would reduce profits, all things equal. Two responses suggest plausible explanations of this paradox. First, while lenders seek profits, most lending institutions and lending officers are non-minority, and thus susceptible to perceptual racial bias (despite their commitment to profit-maximisation). Second, the perceived risks associated with lending in minority-areas and to minorities are sufficiently great to deter lending.

17. Dymski 2006 reviews the theoretical discrimination-models and these extensive econometric debates.
18. Calomiris, Kahn, and Longhofer 1994, for example, characterise rational discrimination as appropriate lender-behaviour.
This situation was about to change. To understand how, we need to review the strategic transformation of US banking.

3. **US banking from the Golden Age to the neoliberal age**

After being reorganised during the 1930s Depression era, the US banking system consisted of a tightly controlled set of specialised institutions that provided different categories of credit to different economic sectors. Housing-credit was provided primarily by savings- and loan-companies and savings-banks (‘ thrifts ’), which attracted longer-term consumer-savings.

The evolution of US housing-finance in the postwar-period reflected the federal government’s commitment to expanded homeownership. The Federal Housing Administration provided almost half of all US mortgage-funding in the 1949–59 period, and guaranteed a portion of the remaining mortgages. Further, federal deposit-insurance underwrote the deposit-holdings that supported most outstanding mortgages. The homeownership-rate climbed from 44 per cent in 1940 to 61 per cent by 1960, to 63 per cent a decade later, and then to 66 per cent in 1980.

After having been a source of economic instability in the Great Depression, the segmented US banking system – including the housing-finance subsystem – was very safe. Bank-failures virtually never occurred from the 1940s until the 1980s. Consequently, the Federal Reserve used the banking system as a key lever in stabilising the macroeconomic growth-path. In the 1950s and 1960s, the Federal Reserve would reduce inflationary pressure by engineering credit-crunches whose point of impact was the banking system. This would slow economic growth; expanding the availability of reserves, in turn, would stimulate more economic activity by way of increased housing finance (and other forms of lending).

Because of its susceptibility to credit-crunches, and because potential home-buyers’ incomes vary pro-cyclically, housing finance is highly sensitive to the business-cycle. Housing construction outlays are more volatile over the cycle than durable or non-durable investment-spending. Figure 1 shows that fluctuations in mortgage-debt outstanding were more volatile than fluctuations in real GDP. Further, Figure 2 demonstrates that the ratio of unsold houses relative to home-sales varies over the cycle as well – this ratio rises when the economy slows.

Figure 1. Growth-rates of real GDP and mortgage-debt outstanding, US, 1971–2006 (%)

Source: Office of Policy Development and Research, US Department of Housing and Urban Development

Figure 2. Homes on the market at year-end as a percentage of homes sold, existing and new homes, 1970–2007

Source: Flow of Funds Accounts, Federal Reserve
Until the mid-1970s, banks and thrifts navigated these chronic cyclical downturns without significant institutional stress. But, then, stresses started to emerge. The trigger was a shift in the global position of the US macro-economy. A decade of instability in the 1970s undercut the stable, low-inflation, high-growth period that had prevailed under the Bretton Woods system. By the late 1970s, macroeconomic turmoil had broken out: stagflation and interest-rates well above banks’ regulatory maxima led to systematic disintermediation – the loss of depositors to innovative savings-outlets, such as money-market instruments. Banks’ credit-supply to non-financial businesses was threatened; large non-financial corporations responded by creating the modern commercial-paper market and vastly expanding the scope of corporate bond-markets.

Depository institutions, short of sufficient deposits to cover their asset positions, were forced to borrow at high nominal rates. The inverted yield-curve caused substantial losses from realised liquidity-risk, especially in the thrift-industry. Thrifts, originators of most US mortgages, were hit especially hard, because their asset portfolio was dominated by fixed-rate, illiquid mortgages.

These banking and thrift-crises led to the passage in 1980 and 1982 of federal legislation designed, respectively, to deregulate commercial banks’ liability-instruments and to free thrifts to undertake more asset-side activities. This legislation unleashed a period of competitive deregulation between federal and state-regulators of thrifts. This led some states’ thrifts to undertake ill-advised speculative investments in the mid-1980s, including equity-participation in speculative housing development. As a result, the problem of thrift-illiquidity was transformed into a pandemic of failed investments and non-performing assets.

Consequently, some of the post-deregulation thrifts crashed, often spectacularly. Federal legislation in 1989 then provided the funding for cleaning up the savings-and-loan crisis. The size of the thrift-sector was vastly reduced: many insolvent thrifts were merged into commercial banks. The macro-instability in the early 1980s also precipitated the Latin-American debt-crisis and a crisis of commercial-bank solvency in several ‘oil-patch’ states. These events led to substantial commercial-bank losses, and to several US money-centre bank-failures.

Banks’ survival was threatened. Banks reacted in part by developing new business-strategies. Banks’ first strategic shift involved the creation of upscale retail-banking strategies, which focused on selling financial services to consumer- and business-customers with stable incomes and positive wealth-positions. These strategies saw banks concentrating in upper-income areas, and systematically avoiding lower-income, African-American and Latino areas. These new strategies shifted the balance from net earnings based on interest-margin to net earnings based on fees for financial services.

These shifts toward desirable up-market customers and fee-based services were mutually reinforcing: the customers most sought by banks are targeted
for the marketing of standardised financial services – credit-cards, specialised deposit- and investment-accounts, and mortgage-loans. Both strategic shifts led to bank-mergers aimed at market-expansion: so, over time, a shrinking number of ever-larger banks were serving ever more of the US banking market.

4. Securitisation and the mortgage-market

As Figure 3 shows, the overall homeownership-rate in the US, which had risen secularly in the 1970s, began a decline from a 1980 peak of 65.6 per cent to a 1986 level of 63.8 per cent. However, the early-1980s thrift-collapse did not lead to a meltdown of mortgage-finance in those years. Mortgage-debt outstanding did turn negative (Figure 1). But this 1980s event was no deeper a downturn than the mid-1970s recession, and GNP growth slowed even more. One factor in this downturn was the sensitivity of mortgage-backed securities-rates to balance-sheet risk – a characteristic of the market until a 1989 federal act bailed out savings-and-loan depositors and owners.22 As Figure 2 above shows, the ratio of unsold-to-sold new homes rose, but to a slightly lower peak than in the mid-1970s.

This profound institutional crisis had a muted effect for two reasons. First, the housing market adjusted rapidly to the income downturn. Between 1974 and 1979, real household median income grew modestly (0.84% annually), while real median housing-prices climbed 3.6 per cent per annum; see Table 1.

<table>
<thead>
<tr>
<th>Year Range</th>
<th>Real Median Household Income</th>
<th>Real Housing Price (New &amp; Existing)</th>
<th>Housing-price to Income Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974–1979</td>
<td>0.84</td>
<td>3.55</td>
<td>2.71</td>
</tr>
<tr>
<td>1980–1982</td>
<td>−2.02</td>
<td>−1.81</td>
<td>0.22</td>
</tr>
<tr>
<td>1983–1984</td>
<td>2.28</td>
<td>0.25</td>
<td>−1.96</td>
</tr>
<tr>
<td>1985–1990</td>
<td>1.75</td>
<td>2.15</td>
<td>0.39</td>
</tr>
<tr>
<td>1991–1994</td>
<td>−0.19</td>
<td>0.93</td>
<td>1.15</td>
</tr>
<tr>
<td>1995–1999</td>
<td>3.08</td>
<td>2.77</td>
<td>−0.30</td>
</tr>
<tr>
<td>2000–2005</td>
<td>−0.21</td>
<td>4.97</td>
<td>5.20</td>
</tr>
<tr>
<td>2006–2007</td>
<td>0.04</td>
<td>−3.05</td>
<td>−3.09</td>
</tr>
</tbody>
</table>

Source: Department of Commerce, Bureau of Economic Analysis.

When real incomes were declining 2 per cent annually in the 1980–2 period, real housing-prices fell almost as fast. When real incomes began rising significantly again in 1983 and 1984 (2.3 per cent per annum), housing-prices remained stable, so that housing affordability (measured by the housing-price/income-ratio) declined. For the remainder of the 1980s, both variables rose, housing somewhat faster than income.

Second, the 1980s thrift-crisis had such a restrained impact because it only accelerated a trend already in motion for US housing finance: from an intermediary-based to a securities-market-based system. As noted, lenders previously held mortgages to maturity, exposing them to both default and liquidity-risk. The new norm involved making mortgages so as to sell them to the securities-markets. The process of originating, servicing, and holding mortgages was split into its constituent parts, with each part priced and performed separately. One immediate implication is that commercial banks, mortgage-companies, and others could compete for fees from originating mortgages and from bundling and servicing them.

Securitising housing finance depended on the commodification of mortgages. In the 1980s, securitisation necessitated standardised eligibility-criteria. The criteria that emerged privileged customers with minimal default-risk. This risk aversion had several sources. First, the computational challenges embodied in combining multiple dimensions of riskiness – and especially in calculating

![Figure 3. US homeownership-rate and real median household income, 1970–2008 (% of all housing units occupied year-round)](chart.png)
default risk on a given bundle of mortgages that were also subject to pre-payment risk – required that default-risk *per se* be standardised to the extent possible. Second, two federally-chartered agencies, FNMA (the Federal National Mortgage Association) and FHLMC (the Federal Home Loan Mortgage Corporation) were buying an increasing share of mortgage-debt. These entities accounted for just 16 per cent of all mortgage-debt outstanding in 1979; but their share surpassed 25 per cent by 1986, and grew steadily until it reached a peak of 43 per cent in 2003. Most agency-bought debt was then at least implicitly guaranteed and sold onto the market.23 The agencies then insisted on low-risk ('plain vanilla') mortgages, which set minimal levels for down-payment/loan-ratios and for mortgage-payment/income-ratios. This leads to the third factor: a large share of the customers for agency-backed mortgage-securities were overseas wealth-holders, who were relatively risk-averse.

These changes rescued the mortgage-finance system by transforming it from a system with localised savings-circuits provided by numerous thrifts making decisions autarchically, to an increasingly national market dominated by lenders using market-wide criteria. The ‘relationship’ lending at the heart of the postwar-system was replaced: credit-allocation no longer relied on lenders deciding which borrowers’ micro-characteristics and motivations warranted risk-taking, but, instead, involved identifying which prospective borrowers met globally-established thresholds. These thresholds marked dividing lines among borrowers with different generalised default-risk profiles. In effect, growing macro-uncertainty and institutional and technological innovations resulted in the repositioning of risk-assessment on the basis of standardised macro-parameters, not micro-decisions.

With a growing population of mortgage-originators generating standardised credit and a growing demand to hold this mortgage-debt, loan-making was separated from risk-bearing. This market was initially structured in such a way that both default- and liquidity-risk were systematically reduced. Depository institutions could make long-term mortgages without absorbing liquidity-risk. In turn, the funds and firms buying mortgage-debt could, if they held longer-term payout-commitments (such as insurance- or pension-funds), match the maturity-dates of these liabilities with those of their assets (the mortgages they bought). So, liquidity-risk could be transferred and substantially ameliorated. And, given a stable interest-rate environment and cautious lending criteria, the default-rate would remain low and predictable.

From the mid-1980s to the mid-1990s, most mortgages were conforming conventional loans, underwritten by the quasi-governmental agencies, FNMA

23. What governmental guarantee exists for FNMA paper is unclear; see note 10.
and FHLCC, and held in these agencies’ portfolios until, in most cases, they were sold off. These agencies accommodated the need for more securitised mortgages by creating more pass-through securities, that is, securities whose share-holders have claims on the underlying mortgage cash-flows. These agencies’ efforts were supplemented by the expanded efforts of private mortgage-insurers; these private companies specialise in loans that are ‘non-conforming’ because they exceed FNMA loans – ‘jumbo’ loans, larger than are allowed under FNMA. In any case, the upward limit for FNMA-qualifying loans was increased by 63 per cent between 1979 and 1985, after rising just 22 per cent in the previous four years. In sum, maintaining the strength of US housing finance did not require the invention of new institutions in the 1980s – only an adjustment of these institutions’ parameters, and a market for the financial paper these institutions had to sell.

This returns us to a key point. What kept mortgage-flows relatively resilient was the unique position of the US within the global neoliberal régime. As noted, a crisis in the global economy – and in the position of the US within it – spurred the change in banking strategy, and necessitated a transition to a new housing-finance mechanism. What made this transition relatively seamless vis-à-vis US housing finance (Table 1) was that much of the rest of the world was caught in low-growth traps or crises. Since the US was the principal global source of reserve-currency and had huge current-account deficits, it needed systematic capital-account inflows.

The fact that the US appeared to be a global safe haven was then triply fortuitous. Mortgage-backed securities responded to the needs of offshore-investors: securities implicitly backed by the government, paying more than Treasuries, and denominated in the world’s reserve-currency during a period of global financial disorganisation. Further, the US macro-economy needed overseas buyers for its securities, so as to maintain cross-border balances. And, finally, these savings-inflows permitted the US to re-establish low nominal interest-rates. Low rates minimised the implicit financial risks on the mortgages being packaged and traded in secondary markets. In time, these risks would be exposed.

24. Whether these agencies have implicit governmental backing is, and remains, contentious. FNMA was removed from the federal budget in 1968; and FHLCC was created as a separate entity to facilitate secondary-market sales of mortgage-backed securities in 1970. Both now operate as independent, wholly-private entities. However, the notion that these entities are implicitly backed by the US government is widely held. See, for example, The Economist 2007a.

25. Dymski 2008 develops the argument about the US role within the international system at length.
This triple global financial conjuncture was eventually unwound, in part, because this safe-haven situation invited excessive risk-taking. To understand how this happened, we must first unfold the next step in the evolution of racial exclusion in US credit-markets.

5. Racial exploitation: from redlining to predatory lending

As we have seen, the 1980s forced the rethinking of long-established banking processes: how housing is financed and how banks generate earnings. The steady deepening of wealth- and income-inequality, combined with strong competition for upscale customers, led banks to develop strategies to capture and hold business from lower-income and minority-customers. One magnet for banks was the astronomically-growing market for cross-border remittances, of which banks initially had a tiny share (about 3% in the early 2000s).26

A particular challenge in accessing lower-income financial markets was the high proportion of unbanked people in that market-segment. According to the General Accounting Office (2002), 28 per cent of all individuals and 20 per cent of all households lack bank-accounts, and thus were ‘unbanked’. Minorities are overrepresented among the unbanked; but more than half of unbanked US households are white. This segment offered large potential profits. Underbanked and unbanked households generate $6.2 billion in fees — an annual average of $200 per household, even for the very poor.27

So, racial exclusion – the refusal to make loans to minority credit-applicants – was partly replaced by extortionary racial inclusion – providing access to credit to those formerly excluded from it, but only at terms and conditions that are predatory, that is, which involve far higher costs and penalties for non-compliances than ‘normal’ loans. Banks have moved into these markets by acquiring subsidiaries and then designing special instruments aimed at lower-income and minority-customers they had previously overlooked. These banks then marketed, originated, and distributed these predatory loan-instruments. Since the mid-1990s, these instruments have been growing at a frenetic pace in neighbourhoods historically subject to financial exclusion. These loans often have led to excessive rates of household and firm non-payment, and thus to foreclosures and personal financial distress – well before the 2007 mortgage-market meltdown. There are two principle categories of these loans: income-based payday-loans and housing-based subprime loans.

The payday-loan: lower-income US households have more volatile incomes than do other households, and hence need credit to close income-expenditure gaps more frequently than other households.\textsuperscript{28} But, in obtaining credit, many such households lack the financial track-record to be fundable for credit-cards or loans.\textsuperscript{29} This volatility provides the payday-loan market with its rationale.

The practice of advancing workers a portion of the money they stand to earn from their paychecks has become a common check-cashing service. This form of credit has spread very fast, as has the infrastructure of lenders disbursing it. Unheard of in 1990, now some 22,000 store-locations offer payday-loans. These loans have a market-volume of $40 billion in the 37 states that allow this practice.\textsuperscript{30} The average fee for a $100 check is $18. In 2001, there were 15,000 stores in the US offering payday-loans, with 70 million transactions and $2.6 billion in fees – $37 per transaction, on average, with $173,310 in fees per store-location. Fees from this market reached $4.4 billion in 2005.

Some financial firms are now developing new sources of information which could qualify households for higher levels of credit, over longer time-frames. However, the absence of this information has not inhibited the growth of these credit-markets. The reason it has not is the structural transformation of the markets for lower-income – and ultimately for lower-income and higher-risk – collateralised loans in the US economy.

Why has the payday-loan sector grown so rapidly? On the credit-supply side, financing is often provided by large bank-holding companies, by investment-banks- and hedge-funds (through intermediaries) interested in bringing structured investment-vehicles (see below) to market. On the demand-side, several factors have converged. One is the falling real value of workers’ wages, and the increased volatility of wage-earnings. Among payday-customers, some 29 per cent earn less than $25,000 per year, and 52 per cent earn $25–50,000 per year. African Americans and military families are overrepresented. Some 41 per cent are homeowners. There is recurrent use; most customers access payday-loans 7–12 times per year. A second, related factor is the ready availability of credit in recent years; this has encouraged even lower-wage workers to take on debt to meet living expenses or to acquire durable consumables.

A final demand-factor concerns changing banking practices. Note that the customer-base for payday-loans does not include the unbanked; payday-loans require checking accounts. Banks are charging increasingly high fees for returned (not sufficient funds or NSF) checks. Combined with these charges

\textsuperscript{28} Gosselin 2004.
\textsuperscript{29} Information Policy Institute 2005.
\textsuperscript{30} The payday-lending statistics in this subsection are drawn from Bair 2005.
are the increasingly high late fees for rent, credit-card, and utility-payments. Some $22 billion in NSF fees and $57 billion in late fees were collected in 2003.\textsuperscript{31} That is, the increasing probability of very high fees for being late due to an overdrawn checking account pushes workers toward payday-loans.

\textit{Subprime lending}: this originated when lenders created predatory mortgages – that is, mortgages with excessively high fees, penalties, and interest-rates – and began to market them to higher-risk households who had restricted access to other sources of credit, especially low-cost credit. Lenders’ marketing of these loans focused on redlined areas, and on households that had traditionally been denied access to credit.\textsuperscript{32} Initially, most subprime loans were second mortgages. These were attractive to borrowers because they permitted owners of modest homes to gain access to money for whatever financial contingencies were being faced. Funds that could be pulled ‘out of a house’ ameliorated the deteriorating economic fortunes of worker-households, especially the minority-households hit disproportionately hard by deindustrialisation.

Soon, subprime loans were marketed to those seeking to acquire homes. From the viewpoint of community-advocates, these loans’ terms and conditions were predatory; for bank-apologists, they were legitimate responses to some home-seekers’ special risk-characteristics. In any case, many households formerly excluded from access to longer-term credit – especially lower-income and minorities – were now offered credit on exploitative terms. In 1998, for example, subprime and manufactured housing-lenders accounted for 34 per cent of all home-purchase mortgage-applications and 14 per cent of originations. In this same year, subprime and manufactured housing lenders made a fifth of all mortgages extended to lower-income and Latino borrowers, and a third of all those made to African-American borrowers.\textsuperscript{33} Subprime lending grew 900 per cent in the period 1993–9, even while other mortgage-lending activity actually declined.\textsuperscript{34} A nationwide study of 2000 HMDA data found that African Americans were more than twice as likely as whites to receive subprime-loans, and Latinos more than 40–220 per cent more likely.\textsuperscript{35}

A set of specialised – and often predatory – lenders emerged, using aggressive business-practices to sell loans. This new class of lenders reflected the drastic changes in this sector. The largest subprime lender, Ameriquest Mortgage Company, began life as Long Beach Savings in 1979. It moved to Orange County, California in 1991, and gave up its banking licence in 1994 and

\textsuperscript{31} Bair 2005.
\textsuperscript{32} See, for example, California Reinvestment Committee 2001.
\textsuperscript{33} These statistics are drawn from Canner et al. 1999.
\textsuperscript{34} ACORN 2000.
\textsuperscript{35} Bradford 2002. See also Staten and Yezer 2004 and McCoy and Wyly 2004.
focused instead on retail and wholesale sales of subprime mortgages. In 1999, Long Beach Savings split into two: a public subsidiary, which was sold to Washington Mutual in 1999, becoming that bank’s subprime trading-arm; and a privately-held subsidiary, Ameriquest, which was forced to settle a consumer-protection lawsuit for $325 million in January 2006 (based on practices in 49 states). A Washington Post account of this settlement indicates the character of abuses under subprime lending:

Under the agreement, Ameriquest loan officers will be required to tell borrowers such things as what a loan’s interest rate will be, how much it could rise and whether the loan includes a prepayment penalty. Loan officers who do not make that disclosure will be subject to discipline. The company would also be forbidden from giving sales agents financial incentives for pushing consumers into higher-interest loans or prepayment penalties.

The subprime mortgage-loans and payday-loans already had some common structural features that later opened the door to the broader subprime markets of the 2004–6 period: (1) they were based on some collateral (homes and paychecks), which had value no matter the income-based cash-flows of the economic units to whom these loans were made; (2) they represented higher-risk assets, whose holders could anticipate higher returns in compensation for these risks; (3) the lenders originating these loans needed to move this paper systematically off their balance-sheets.

What this new set of financial market needed to grow precipitously were customers that would readily buy securities comprised of highly risky loans. The requisite customer-growth would soon come.

6. Pressures and strategic adaptations in 1990s consumer-credit and housing markets

For banks, doing business systematically with lower-income and previously-excluded households required a new consumer-banking business-model. The core concept in this model is that riskier customers can be supplied with credit if the combination of fees and attachable assets is sufficient to permit the overall transaction to pencil out. Since equity in homes represents most households’ primary asset, the logic of subprime mortgage-lending is readily grasped. The logic underlying the payday-loan industry is similar – next month’s paycheck serves as a guarantee against loss. The success of this new model is evident in

the Survey of Consumer Finances: data for the period 1989–2004 shows that households in the two lowest-income quintiles have had surging levels of debt, not paralleled by proportionate increases in asset-levels.

Much of the pressure for debt build-up in this period stemmed from forces in the housing market. The trajectory of federal housing policy for lower-income households was increasingly biased toward home-ownership. The central public housing programme in the 1980s and 1990s was Section 8 housing, which provided housing rental vouchers to selected qualifying households but did nothing for the supply of affordable rental housing. After 2000, the Bush Administration pushed the idea of universal home-ownership, in part through converting formerly public rental housing into owner-occupied units. The scale of both public low-income rental and homeowner-programmes was far less than the potentially eligible populations. Both the creation of new lower-income credit-channels and the absence of federal programmatic capacity led US households toward market-based innovations in homeownership-practices.

This growth in the demand for homeownership is evident in the empirical evidence. As Figure 3 shows, after the crisis years of the 1980s, US median household-income rose until 1990; it then declined through 1994, and then

Figure 4. Housing price-to-income ratio and new-home/existing-home price-ratio, 1972–2008

grew rapidly again until 2001. Housing prices were also rising; but, as Figure 4 shows, the ratio of median home-purchase price-to-median income rose only slightly between 1983 and 2000. Table 1 shows that, as in the 1980s, aggregate real housing prices were at least partially responsive to real-income trajectories. In the 1991–4 period, real median household-incomes fell; real median housing prices rose, but by less than 1 per cent per annum, must more slowly than in the later 1980s. When real incomes grew again in the 1995–9 period, housing prices did too, but a somewhat lower rate.

The US homeownership-rate grew from 64 to 69 per cent between 1994 and 2004 (Figure 3). Figure 5 illustrates, in turn, that while whites’ homeownership-rates increased systematically from the mid-1980s onward, African-American and Latino homeownership-rates grew at slightly faster than that for whites. Trends in new-home construction moved the entire market upscale in the 1980s: Figure 4 shows that new-home prices, which were almost at parity with existing-home prices in 1982, rose rapidly to a premium of 28 per cent by 1990. After the early-1990s recession – that is, during the period of minorities’ homeownership-rate rising as fast as whites’ – the new-home premium fell below 10 per cent.

The increasing strength of housing demand – spurred into hyperdrive by the extortionary inclusion of African-American and Latino homeowners – is

Figure 5. US homeownership-rates by race/ethnicity, 1996–2007 (percent of all households who are homeowners)

traced out in Figure 2. The percentage of existing-houses-for-sale to existing-houses-sold fell systematically from a peak of 68 per cent in 1991 to a low of 33 per cent in 2004; that for new homes fell from 64 to 35 per cent in the same time-period. Subprime mortgages shaped this ever-hotter market: the rise of minority homeownership-rates coincided with a declining new-home premium; and the housing shortage created an environment in which it became as easy to sell an existing home as a new one. The construction-industry boomed, and existing homeowners experienced rapid equity-gains.

So much for the demand-side. But how about supply? The subprime lending sector has grown so explosively in the past several years precisely because the links required to connect loan-making with the securitisation of diverse, and often risky, credit-claims were put into place. This riskiness, due to ever more adventurous house-price-to-income ratios, paled in comparison with the apparently ceaseless upward rise of housing prices. Wall Street investment-banks channelled an ever-increasing amount of funds to subprime lenders: securitisations in this market already averaged $80 billion annually by 1998 and 1999. Further, Wall Street insurers backed the mortgage-backed securities that subprime lenders sold off into the markets.38

The large fees to be made in the loan-origination and securitisation-process, and the ready availability of low-interest money-market funds – linked, in turn, to the macro-economic capital-account dependency of the US economy – attracted many supply-side players to these markets. This supplier-influx has led to ever more interpenetration between major banking corporations, finance-companies, and subprime lenders. Major banking corporations have undertaken or attempted numerous acquisitions. Some bank-holding companies purchased subprime lenders. Citicorp acquired Associates First Capital Corporation, which was then under investigation by the Federal Trade Commission and the Justice Department. In another case, First Union Bancorp bought the Money Store in June 1998 – and then closed it in mid-2000 after it generated massive losses.39 In 2003, HSBC bought Household International, parent of Household Finance Company, after settling charges that it had engaged in predatory lending. Associates First represented a step toward Citi’s goal of establishing its Citifinancial subsidiary as the nation’s largest consumer-finance company.40 In any event, this consumer-lending subsidiary helped to stabilise Citi’s cash-flow during a period in which most megabanks’ earnings slumped.41

So, the 1990s prepared the way for the subprime crisis a decade later. The initial premise of securitisation was the homogenisation of risks. Securitisation centred on borrowers whose risk was low and who were expected to pay. Federal agencies’ underwriting underlay a large share of the market. Then, due to heightened financial competition, more relaxed attitudes about risk-taking, and increases in computability, this premise was systematically punctured. Lenders originated and sold off heterogeneous housing-based loans, sometimes to borrowers whose longer-term payment prospects were doubtful. The combination of high fees and penalties, along with sufficient pledged collateral, made these loans profitable.

But what the 1990s brought was not just a new housing-finance instrument, the subprime loan, but an increasingly efficient pipeline for originating and distributing risk. Subprime lenders at one end of this pipeline made mortgage-loans and then sold them to banks, which, in turn, manufactured securities that could be held or sold to investors. Before, the mortgage-backed securities built from ‘plain vanilla’ mortgages had attracted buyers more interested in risk-aversion than return-maximisation. But the structured investment-vehicles (SIVs) into which subprime mortgages were made created higher-risk, higher-return options.

Many different types of collateralised debt, not just subprime mortgages, were combined on the asset side of SIVs. The relative transparency associated with pass-through securities was replaced by opacity. This provided banks an opportunity to move diverse types of debt off their balance-sheets – with fees to be made each step of the way. SIVs found ready funding in the money-markets. High profit-rates left many corporations awash in funds; and the prospect of sustained low nominal interest-rates – linked, as noted above, to the US capital-account surplus – made it seem quite natural to fund SIVs with commercial paper. Indeed, ‘asset-backed commercial paper’ became commonplace. Ignoring liquidity-risk, SIVs seemed a sure-fire way to generate interest-margin-based income with minimal – or even no – equity-investment. The next step, soon taken, was for hedge-funds and private-equity funds to get into the game. Whether such SIV investors were taking on the default-risks implicit in the assets underlying these securities was unclear; indeed, as opacity replaced transparency in the mortgage-backed securities-market, SIV investors lost track of what risks they were bearing. Further, credit-risk derivatives were often used to shift risks onto third parties. In any case, SIVs quickly became a $400 billion sector. As the Wall Street Journal put it, SIVs ‘boomed because

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42. According to Mollenkamp et al. 2007, the first SIVs were created for Citigroup in 1988 and 1989.
43. The Economist 2007b.
they allowed banks to reap profits from investments in newfangled securities, but without setting aside capital to mitigate the risk.\footnote{Mollenkamp, Solomon, Sidel, and Bauerlein 2007.}

The third significant shift in the 1990s lay in banks’ direct or third-party lending practices in inner-city areas. Previously, banks’ reluctance had led to credit starvation in minority- and lower-income neighbourhoods. Now cities were awash with credit. Banks set up or contracted with intermediaries to make and securitise huge volumes of subprime and payday-loans. The same lender might make exploitative loans in some portions of a city, while making prime loans elsewhere. Lenders, banks, and markets came to regard aggressive and even expectationally unsustainable terms and conditions for a subset of their borrowers as normal business-practices. And these practices soon migrated from inner-city areas to the broader markets.

7. The subprime explosion and crisis in the 2000s

Once securities-markets accepted heterogeneous assets not backed by iron-clad underwriting, these markets were set to absorb ever riskier mortgages and other financial claims.\footnote{The failure of Franklin National Bank in 1974 due to incautiously gathering non-homogeneous risks into real-estate investment-trusts, should have served as a warning. See Sinkey 1981.} As noted above, the demand for residential real estate began to take off in the late 1990s. This asset-boom soon blossomed into a mania: homeowners who had homes wanted bigger ones; those who were not homeowners yet wanted to get into the housing market, even at premium prices. The fact that many potential home-buyers had neither the income nor savings to support ‘plain vanilla mortgages’ – which prescribed that no more than 30 per cent of income spent on housing, and 20 per cent down on any mortgage-loan – fed a feeling of desperation, of ‘now or never’, especially in markets experiencing the fastest price-appreciation.

Lenders’ and brokers’ successful experience in creating loans for borrowers with very risky parameters suggested the required solution: to create loans tailored to the special risks of those whose income- and down-payment profiles had not kept pace with many cities’ white-hot housing markets. Since housing prices were rocketing upward, buyers could be given loans for amounts more than 80 per cent of their new homes’ prices; or they could be given two loans, one for the 80 per cent – making the loan potentially sellable to FNMA – and another for the other 20 per cent of the price.
At the level of macro-aggregates, what triggered the housing market’s bubble-phase was the continued expansion of real housing prices even while real incomes stagnated. Table 1 shows that real median household-income declined by 0.21 per cent per annum from 2000 to 2005, while real housing-prices rose 5 per cent per annum. Consequently, as Figure 5 shows, the median-housing-price-to-median-income ratio rose rapidly as of year 2000. However, as Figure 3 shows, while median household-income peaked in 2000, the homeownership-rate peaked only in 2004. As Figure 4 shows, African-American and white homeownership-rates both peaked in 2004 (that for Latinos peaked prematurely in 2002 and then rose steadily). The bubble began bursting by 2005: after 2004, unsold inventories of both existing and new homes rose precipitously (Figure 2).

In effect, the concept of subprime was stretched along a different dimension of the mortgage-instrument. Previously, subprime loans went primarily to borrowers who had been shut out of mainstream credit-markets, as Section 5 showed. As of the 2000s, however, subprime also referred to loans made to homeowners unable to support ‘plain vanilla’ mortgage-packages. These borrowers might be permitted to take on loans at special discount-rates for limited periods of time. To get potential buyers ‘into’ a home, a loan could be made at a below-market ‘teaser’ rate for the first year or two of the mortgage. Any gap between market and ‘teaser’ rates could be amortised, and the entire mortgage refinanced at a risk-adjusted market-rate after the ‘teaser’ rate expired. Housing-price appreciation would eventually negate the risks of a 100-per-cent-financed housing purchase; and anticipated income-growth and/or anticipated housing-price growth could, in turn, offset overly burdensome home-payments. Fees and penalty-clauses could be attached as warranted to such paper.

As housing prices and as euphoria about housing-price increases intensified, especially in some regional hot-spots, buyers were more and more forced into ‘teaser’ rates, hybrid ARMs, and so on. But housing-price appreciation so dominated the consciousness of buyers and sellers that the high fees and high expected payments associated with getting into a loan seemed merely what was necessary to get in, while the window of opportunity remained cracked open. Buyers, either hopeful or desperate, reasoned that future price-increases would allow the renegotiation of non-viable terms and conditions in two years, when one’s 2/28 mortgage-loan ‘flipped’ from below-market entry-level rate to fixed market-rate.

The rising housing-price/income-ratio explains some but not all of the growing demand for subprime mortgage-loans. Mortgage-brokers manufactured some of it themselves. A survey of 2005 and 2006 experience found that 55 and 61 per cent of those acquiring subprime mortgages, respectively, had credit-scores high enough to obtain conventional loans. This study also found that the mortgage-brokers selling these claims earned fees far higher than conventional mortgages would have netted.

On the supply-side of the housing-finance market, funds were plentiful. Macro-structural circumstances remained favourable – the US’s current account remained strongly negative, so that savings continued to flow into the US. The market for mortgage-backed securities, which had been the largest financial securities-market in the world for two decades, was familiar to foreign investors. In particular, many UK and European banks rushed to acquire subprime paper. A strong dollar and low nominal interest-rates negated liquidity-risk.

Other factors spurring supply were banks’ strategic shifts toward fee-based income and risk-shedding, analysed above, and hyper-competition among lenders. For example, a recent Wall Street Journal article highlighted the ‘once-lucrative partnership’ between Wall Street and subprime lenders, which according to one insider, involved ‘…fierce competition for these loans…. They were a major source of revenues and perceived profits for both the investors and the investment banks.’ In this article, Jeffrey Kirch, president of a firm that buys home-loans, is quoted as saying: ‘The easiest way to grab market share was by paying more than your competitors’. At stake were large prospective income-flows for investment-banks, as well as lucrative management-bonuses. Managing directors in investment-banks averaged total compensation in 2006 of $2.5 million. These inducements led many firms to continue aggressively in these markets even as warning signs loomed.

Subprime-loan volumes exploded in 2004–6, even as the housing boom peaked. In 2001–3 period, mortgage-originations totalled $9.04 trillion, of which 8.4 per cent were subprime loans; and 55 per cent of subprime originations, or $418 billion, were securitised. In the 2004–6 period, total mortgage-originations were the same in nominal terms, $9.02 trillion. However, 19.6 per cent of all originations consisted of subprime loans, of which 78.8 per cent – some $1,391 billion – were securitised. Further, as noted above, the opaque character of SIVs and other vehicles for securitisation

48. See, for example, Mollenkamp, Taylor and McDonald 2007.
49. Anderson and Bajaj 2007.
50. These data, from the Mortgage Market Statistical Annual, appear as Table 1 of Wray 2007, p. 30.
led to more types of credit being included on these instruments’ balance-sheets. Among these were private-equity funds’ bridge-loans for leveraged buyouts, real-estate acquisition-loans, construction-finance, credit-card receivables, and so on.

The onset of the subprime crisis

Like the Asian crisis in 1997, the subprime credit-crisis built momentum through a domino-effect involving interconnected events over a large geographic area. Some 80 subprime mortgage-companies failed in the first seven months of 2007. The big credit-ratings agencies came under pressure to overhaul their methods of assessing default-risk in the US subprime market. As they did so, banking firms in the US and abroad were affected. On 20 June 2007, Bear Stearns was forced to shut down two subprime funds it operated for its investors. Six weeks later, American Home Mortgage closed its doors. Meanwhile, Countrywide Financial, which had originated about one-sixth of recent US mortgage-loans, descended more and more visibly into crisis.

In August, the German bank IKB was bailed out by Deutschebank and other banks when it could no longer access the money-markets to finance Rhineland Funding, an offshore-vehicle containing $17.5 billion of collateralised debt-obligations, including some US subprime mortgages. Some of the largest banks, such as Goldman Sachs, added fuel to the crisis by continuing to package and sell securities backed by subprime mortgages, even while reducing their exposure to subprime debt on their own balance-sheets. By September, between 16 and 24 per cent of the subprime securities packaged by global banks in 2006 were at least 60 days in arrears – a total of $73.7 billion of 60-day-delinquent loans in these securities alone.

In 2008, the situation got successively grimmer. Many homes went into foreclosure. Many of these had been marketed to the formerly racially-excluded and built in close proximity to areas historically subject to mortgage-market redlining. That is, even when subprime lending had expanded beyond the inner city in the bubble-period, racial dividing lines in urban land-use had remained in place. So, when the crisis hit, it had a disproportionate impact on

52. Kelly, Ng, and Reilly 2007.
55. The Economist 2007c.
56. Anderson and Bajaj 2007. Goldman’s new originations equalled $6 billion in the first 9 months of 2007; by December, 15 per cent of these loans were already delinquent by more than 60 days.
minority- and lower-income neighbourhoods; minority-households, the most likely to be targeted by subprime lenders, were also most likely to live in neighbourhoods in which subprime-based foreclosure-cycles would cause terrible losses.

Further, short-term credit for subprime paper and SIVs dried up. Consequently, ever more global banks, in the US and abroad, were forced to take subprime paper back onto their balance-sheets, declaring losses in the tens of billions. These banks had to seek out capital-injections even while drastically tightening credit-supply.

8. Conclusion

The meltdown in global banking and credit-markets began when the end of the US housing bubble in 2007 precipitated a rapid increase in mortgage-delinquencies. These mortgages were held in securitised form in portfolios around the world. So, payments-difficulties at the base of the financial food-chain led to seismic financial-market eruptions at the top.

One root of the still-unfolding subprime crisis, then, is banks’ transformation of their revenue-generation strategies due to macro- and micro-distress at the onset of the neoliberal age. This involved separating loan-making from risk-taking, that is, the creation of risk from its absorption. These strategic adaptations, which apparently reduced the overall riskiness of financial intermediation, had a huge collateral impact: banks no longer had to balance the profit-potential from loan-making with the default- and liquidity-risks to which loan-making gives rise: a key brake on finance-based expansion was removed.

This strategic re-orientation of banks then transformed the landscape of racial and social exclusion in US credit-markets. A scenario of financial exclusion and loan-denial became a scenario of financial expropriation and loan-making. Households previously denied mortgages were now awarded high-cost, high-risk loans. As direct markets’ institutional capacity grew, non-bank lenders joined banks in providing – for a high fee – high-risk, high-cost loans. And when practices pioneered in predatory loan-making to socially excluded communities were generalised and introduced into the broader housing market, the conditions were created both for the unsustainable explosion of US housing prices and for the unsustainable stretching of the limits of financial-market liquidity.

The third root of the crisis is the long decline in wages of the US working class. As the possibilities of a dignified life based on the wages of labour faded, US workers’ desire to share in the ‘American dream’ came to include homeownership. But the gap between housing prices and incomes has been widening for two decades (Figure 4). US median household income rose after the crisis period came to an end in the 1980s. But analysis of the post-peak subprime period indicates that US median income remains flat (Table 1) even while housing-prices have fallen.

This made homeownership more costly and more desirable at the same time. For, housing seemed to gain market-value at rates faster than even subprime borrowing rates. In effect, it became workers’ means of participating in the speculative gains to which the US economy had become addicted in the postindustrial age. Ironically, the growing gap between housing price and income was moderated in part through adaptations that both represented and worsened the working class’s positional weakness – more two-wage or three-wage households, the perfection of mass housing-production techniques, and the use of non-union labour on construction-sites: all so that working-class households could move into ‘affordable’ units ever more distant from worksites and urban centres.

The fourth structural root of the subprime crisis emphasised here is the US macro-economic context. After the chaotic early 1980s, the US’s current-account deficit and its status as a global ‘safe haven’ created ready liquidity for the securitisation-machine. This situation, based ultimately on the unique circumstances of US monetary hegemony, was unsustainable.59 Here, a second irony emerges. Subprime lending and opaque high-risk securitisation, which was rooted in part in the ready availability of liquidity, reached its high point at precisely the time – June 2004 to July 2006 – in which the Federal Reserve was making a sustained effort to restrict liquidity. The Fed’s efforts were overwhelmed by the continuing inflows on the US capital account; linked to the US’s current-account deficit, these inflows seemed out of the central bank’s control. When overseas wealth-holders became leery of dollar-based assets generally in the wake of the gathering subprime crisis, the Federal Reserve similarly faced limits in its ability to manage the damage.

In sum, the subprime crisis originates in the perverse interaction between America’s legacy of racial discrimination and social inequality, its unique and ultimately uniquely-fragile global position, and its hyper-competitive, world-straddling financial sector. To put it provocatively, America’s racial chickens have come home to roost in the subprime crisis.

The racial roots of this crisis have also drawn attention in the extended and vigorous debate regarding policy-responses to this crisis. *New York Times* columnists Bob Herbert and Paul Krugman have asserted that racial exclusion underlies the subprime crisis. Other experts have turned this argument on its head, by arguing that the Community Reinvestment Act – which, as we have seen, was passed into law in response to banks’ racial redlining – forced banks into speculative loan-making. The analysis in this paper lets us see how profoundly this latter line of reasoning twists the trajectory of history. It is banks’ continuation of their historical – if contested – legacy of denying equal credit-market access which led to the creation of new instruments of financial expropriation that, once generalised and transported into a raging home-purchase market, has led the banking system and the US economy to the edge of a very high cliff.

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60. See, for example, Calomiris 2008 and Liebowitz 2008.


On the Content of Banking in Contemporary Capitalism

Paulo L. dos Santos
Department of Economics
School of Oriental and African Studies, London
ps45@soas.ac.uk

Abstract
This paper considers the character and social content of banking in contemporary capitalism. Based on a survey of the operations of nine leading international banks, it documents the marked differences between contemporary banking and the traditional business of taking, making loans to enterprises, and making profits from the difference in interest-rates between them. Notably, the operations of the world's top banking organisations are shown to centre on various forms of credit to individual wage-earners and on mediating access to financial markets by corporations and, increasingly, individuals. In order to characterise the social content of such activities, the paper seeks to apply, and where necessary extend, existing Marxist analyses of banking, capital-markets, and their relationship to capitalist accumulation. This includes advancing a number of elements of a distinctive Marxist interpretation of capital-market operations to theorise financial-market mediation-relations between banks, corporations, and the mass of retail-savers. The analysis pursued helps identify the distinctive and exploitative content of the relations banks maintain with ordinary wage-earners through consumer- and mortgage-lending, as well as through the provision of pension-related saving services.

Keywords
Marxian economics, banks, investment-banking, pension-funds

Introduction
By many historical measures, the current financial crisis is without precedent. It originated from neither an industrial crisis nor an equity-market crash. It was precipitated by the simple fact that increasing numbers of largely black,

1. I would like to thank the participants of the International Workshop on the Political Economy of Financialisation at Kadir Has University in Istanbul, and the participants of the Crisis of Financialisation Conference at SOAS in 2008. A special acknowledgement is owed to Professor Makoto Itoh for his detailed and prescient comments on an earlier draft. All remaining errors and one-sidedness are my own.
Latino and working-class white families in the US have been defaulting on their mortgages. That this caused Bear Sterns and Lehman Brothers to collapse, bringing the entire financial system to the brink, and continues to generate losses for banking giants like Citibank and UBS, underscores the fundamental changes to the practices, class- and social content of banking that have taken place over the past twenty-five years.

Banking has become heavily dependent on lending to individuals, and the direct extraction of revenues from ordinary wage-earners. It has also become enmeshed with capital-markets, where banks mediate financial-market transactions involving bonds, equity, and derivative-assets, and where they increasingly obtain funding. And it increasingly relies on inference-based techniques for the estimation of risk of capital-market instruments and banks’ own financial position. The current financial crisis is, in many ways, a crisis of banking as it has emerged through these dramatic changes. Identifying the origins, content and contradictions of contemporary banking is, consequently, an important part of understanding the current crisis, as well as the broader character of contemporary capitalism.

Contemporary banking is very different from the traditional business of taking deposits from corporations and the general public, making loans to enterprises, and making profits from the difference in interest rates between them. It is also different from the ‘finance-capital’ described within the Marxist tradition by Hilferding in 1910. Nevertheless, Marxist political economy has a unique and important contribution to make to the analysis of the social and historical significance of contemporary banking and its relationship to accumulation. This paper seeks to make empirical and analytical contributions to this task.

Empirically, it considers macro-level data, centrally from the US, on banking and capital-markets. It also considers in detail the operations of nine of the largest international commercial banks, based on their annual corporate disclosures. These are leading US, European and Japanese banks which, by the end of 2007 collectively controlled more than US$16 trillion in assets across every region of the globe. Even in 2007, when most of them took

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2. The banks examined are Citigroup, HSBC, Bank of America, RBS, Barclays, Santander, BNP Paribas, Dresdner Bank, and Sumitomo Mitsui Financial Group. The first two banks have the most prominent and extensive international operations. The list includes the top two US and top three British commercial banks. Santander is the top bank from Spain, with extensive international operations, notably in Latin America. Dresdner bank was chosen over Deutsche as a representative German bank as the latter is principally an investment-bank. BNP Paribas and SMFG are leading French and Japanese banks. See appendix for details on extraction of data from corporate reports.
considerable losses, their average return on equity was still a relatively high 14.87 per cent.

Firm-level inquiry reveals how central lending to individuals has become for the world’s largest banking organisations. It also reveals the relative importance of different financial-market mediation-activities, each of which embodies different social relations. Notably, revenues from fund-management and profits on trading and proprietary accounts appear as important sources of bank-profits, particularly for European banks.

In order to characterise these activities, the paper advances a series of analytical elements pertaining to the different major functions of contemporary banking, drawing on Marx, Itoh and Lapavitsas, and most directly from Hilferding.3 Particular attention is given to the characterisation of financial-market mediation-functions. This includes advancing a distinctive appreciation of the social content of capital-markets and investment-banking, building critically on Hilferding’s 1910 analysis.

On these bases, the paper argues that contemporary banking centres, on one hand, on mutually beneficial, arms-length relationships with corporations based on investment-banking services. At the same time, banks have developed historically new, *exploitative* modes of appropriation from the independently secured income of wage-earners. Those have developed in the political climate created by significant class-defeats suffered by the working-class movement, in which the provision of a growing share of necessary goods and services became or remained private.

Private provision of education, housing, and health make access to money a growing requirement for present and future consumption. Against a setting of stagnant real wages and rising income-inequality, this has pushed wage-earners onto financial markets as an integral part of their basic reproduction. Banks mediate access to housing, durable consumer-goods, education, and increasingly health-care, though insurance-, mortgage- and other individual loans, drawing profits from wage-income that are increasingly central to their operations.

The gradual privatisation of pension-provision has also helped banks develop other avenues of appropriation founded on wage-income. Pension- and other investment-funds have generated rising fee-incomes for banks. The associated unprecedented money-inflows into capital-markets have also enhanced the scope for various corporate ‘financial engineering’ measures in which banks play a central role. In contrast to the relationship between corporations and banks, these activities bear the mark of the profound social inequality between

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wage-earners seeking to secure future consumption and banks seeking to maximise profits, as glaring and arguably systematic disadvantages to the former. It may be usefully understood as possessing an exploitative content.

The rest of the paper proceeds as follows. Section 2 lays out the broad changes to the composition and character of banking incomes and discusses the regulatory, technological and capital-market setting that has shaped them. Section 3 turns to the changes to conventional lending and money-dealing activities of banks. Sections 4 and 5 consider the significance and social content of financial-market mediation-functions performed by banks. Section 4 focuses on fund-management, derivative-assets and proprietary gains. Section 5 offers distinctive Marxist analytical elements for an approach to the social content of capital-markets and traditional investment-banking functions. Section 6 offers a brief concluding discussion.

2. New sources and types of bank-income

A number of studies have documented and discussed the changes in banking over the past three decades. The broad empirical contours highlighted by those studies are clear. The income banks receive from interest-rate spreads has steadily diminished in importance. Households have shifted their assets away from bank-deposits in favour of various investment-funds, and the importance of bank-lending to enterprises has fallen significantly. Banks have responded by developing new revenue-streams in fees, commissions and other non-interest gains from activities associated with ‘financial-market mediation’. These involve facilitating the participation of others in financial markets through investment-banking services to corporations, brokerage and, increasingly, through the management of investment-, mutual, pension- and insurance-funds for retail-investors. Banks have also increased lending to individuals through consumption-loans and mortgages.

These trends are evident in macro-level data for advanced economies. The observations here also broadly apply to the other OECD economies for which comparable data is available. See <www.oecd.org>.


5. The observations here also broadly apply to the other OECD economies for which comparable data is available. See <www.oecd.org>.
Table 1: Non-interest income as percentage of total bank-revenues

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</thead>
<tbody>
<tr>
<td>United States</td>
<td>24.9</td>
<td>30.5</td>
<td>30.3</td>
<td>32.1</td>
<td>39.7</td>
<td>40.7</td>
</tr>
<tr>
<td>(West) Germany</td>
<td>20.4</td>
<td>20.6</td>
<td>26.8</td>
<td>21.0</td>
<td>35.8</td>
<td>34.2</td>
</tr>
<tr>
<td>Spain</td>
<td>14.9</td>
<td>15.6</td>
<td>18.2</td>
<td>23.1</td>
<td>35.8</td>
<td>33.2</td>
</tr>
<tr>
<td>France</td>
<td>22.6</td>
<td>45.5</td>
<td>60.9</td>
<td>62.2</td>
<td></td>
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</tbody>
</table>

Calculated from OECD Bank Income Statement and Balance Sheet Statistics

Bank-lending has correspondingly declined in importance. It has also changed in composition, shifting from lending to real-sector firms towards individual consumption- and mortgage-loans. In Germany, non-mortgage bank-lending to non-banks declined from 68.2 per cent of GDP in 1972 to 26.8 per cent in 2003. In Britain, resident banks’ lending to individuals rose from 11.6 to 40.7 per cent of total lending between 1976 and 2006, with lending to financial intermediaries also rising from 20.3 to 32.4 per cent. In the US, bank-lending to commercial and industrial enterprises fell from 10.8 to 8.2 per cent of GDP. Although belated, the corresponding fall in Japan has been sudden, with bank lending to non-financial enterprises moving from 61 per cent of GDP at the end of 1997 to 39.2 per cent in the autumn of 2007.6

2.1. The rise of the institutional investor

A number of interrelated processes and innovations have created the context for these changes. Technical innovation has been instrumental in the orientation of banks to individual credit. Credit-scoring methods have made mass retail-lending possible by yielding quantitative (and problematic) estimates of the creditworthiness of individual borrowers, and of large, securitised pools of loans to individuals. Technological change has also created new money-dealing services, such as ATMs and ebanking, whose costs banks appear to have been passed on to retail-depositors.7

State-policy in favour of financial liberalisation, and secular changes in the financial behaviour of corporations and households, have been particularly important. Most directly, the relaxation and repeal of Glass-Steagall restrictions in the US, and the acceptance of the provision of various insurance-services by

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7. See Lapavitsas and dos Santos 2008.
banks in Europe have widened the scope for commercial-bank intervention into capital-markets.

More fundamentally, the rising importance of corporations’ own retained earnings, and the gradual privatisation of pension-provision have had a major impact on both sides of capital-markets. On the demand side, increased volumes of money have sought to buy securities. On the supply side, the scope for capital-gains generated from various ‘financial engineering’ measures has increased. And, across both sides, the scope for fee and other income from financial-market mediation has been greatly enhanced.

As state-pensions have been eroded across the OECD countries, trillions of dollars entered capital-markets in the form of various retirement-related investment-funds. The late 1970s and early 1980s saw a raft of measures that both degraded public pensions and encouraged private-retirement savings in the US. Access to tax-sheltered Individual Retirement Accounts was steadily broadened in the 1970s, and 401(k) plans were implemented in the early 1980s. The 1981–3 Greenspan Commission on Social Security endorsed these measures and led the charge against the quality of public pensions by imposing income-tax on benefits over a very low level.8 As a result, the holdings of

Figure 1. US household holdings of pension- and mutual funds, percent of GDP (1946–2007)

Calculated from Flow of Funds of the United States

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pension- and mutual funds by US households exploded, from a postwar-average around 40 per cent of GDP to the 120–140 per cent average of the last ten years.

Japanese households also accumulated significant financial assets over the same period, including a high level of insurance-reserves, which include pension-savings.

Table 2: Japan household mutual-fund holdings and insurance-reserves, per cent of GDP

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<tbody>
<tr>
<td></td>
<td>21.8</td>
<td>36.2</td>
<td>54.6</td>
<td>72.3</td>
<td>83.5</td>
<td>88.3</td>
</tr>
</tbody>
</table>

Calculated from OECD Data

Similarly, across a range of OECD countries, total holdings of open- and closed-end investment-funds and insurance-reserves rose from 41.9 to 73.4 per cent of GDP between 1995 and 2005. By 2006, these increases had helped take the worldwide total of assets in managed funds to a total of US$63.8 trillion, more than twice the combined GDP of the US and EU for that year.

The rise of these institutional funds created new ‘buy-side’ opportunities for banks. They could earn fees from directly managing investment-funds. In addition, they could earn fees by assisting independent insurance-, hedge- and other investment-funds in their securities-transactions.

2.2. Changes in corporate financial behaviour

The new funds also helped create new ‘sell-side’ revenues for banks by fueling a tremendous increase in capital-market issuance, particularly in the US. The issuance of US corporate liabilities, notably bonds, grew in tandem with new money-inflows, rising from a postwar-average of around four per cent of GDP to well over 30 per cent in 2001.

Evidence for US non-financial corporations suggests this increase in the issuance of marketable corporate liabilities signalled fundamental changes in their relationship with capital-markets. Since the early 1970s, their net fixed investment has tended to fall, with cyclical fluctuations, in relation to profits. In the 25 years to the end of 1984, the net fixed investment of

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9. Figures calculated from OECD data for Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Spain and the United Kingdom.
US non-financial corporations averaged 23.7 per cent of their actual profits. In the 25 years that followed, they averaged 17.7 per cent, despite the dot.com investment-boom of 1995 to 2000. In this context, the increase in corporate-security issuance was not associated with increased productive investment, which could increasingly be funded with internal funds.

Instead, it was associated with a dramatic increase in ‘financial engineering’ operations aimed to secure capital-gains. As bond issuance grew in importance for non-financial corporations,¹¹ its relationship with net equity-flows underwent a fundamental structural change. In pure statistical terms, bond-finance flows displayed a clear positive correlation with equity-finance flows between 1946 and 1983, suggesting they were alternative sources of funds. Since 1983, the correlation become negative, as did net equity-flows.

In words, the increased corporate bond-borrowing over this period appears to be closely related to the withdrawal of equity, which typically takes the form of ‘financial engineering’ operations like share-buybacks, private-equity purchases, mergers and acquisitions. These operations have become increasingly important to the relationship of non-financial corporations and financial markets, at least in the US. As discussed in detail below, the potential capital-gains achieved

¹¹. Rising from 46.7 per cent of their borrowing in 1983 to 70 per cent by 2007.
by such operations are greatly enhanced in a setting of increasing volumes of money entering capital-markets. Commercial banks have developed significant revenue-streams by managing, advising, underwriting and financing these financial operations.

Through all these changes, banks have been able not only to maintain, but actually to increase the significance of their profits in the advanced economies.

Table 3: Bank-profits as percentage of GDP

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<th></th>
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</thead>
<tbody>
<tr>
<td>United States</td>
<td>0.72</td>
<td>0.74</td>
<td>1.62</td>
</tr>
<tr>
<td>(West) Germany</td>
<td>0.53</td>
<td>0.81</td>
<td>1.35</td>
</tr>
<tr>
<td>Spain</td>
<td>0.84</td>
<td>1.42</td>
<td>1.77</td>
</tr>
<tr>
<td>France</td>
<td>0.96</td>
<td>1.53</td>
<td></td>
</tr>
</tbody>
</table>

Calculated from OECD Bank Income Statement and Balance Sheet Statistics
3. Economic relations of bank-lending and money-dealing

Changes in banking-operations and social relations have included important changes in bank-lending and money-dealing functions. Marxist political economy has long offered compelling accounts of the nature and social content of these banking activities.\(^\text{12}\) Those can be readily extended to offer insights into the particular forms these activities take in contemporary banking: lending to individuals, and rising banking and credit-card account fees paid by retail-bank clients.

Through both channels, banks have come to mediate increasing proportions of consumption, drawing revenue from the independently secured wage-income of their clients. As such, they constitute historically novel avenues for the financial expropriation of wage-earners. This section tackles these changes in bank-behaviour, offering an empirical and analytical discussion of the importance and distinct social content of these new channels of appropriation.

3.1. Lending to enterprises

Classical-Marxist analysis of bank-lending is founded on the distinctive concept of interest-bearing (or loanable) capital. Interest-bearing capital is a peculiar type of capital that is distinct from industrial and commercial capital. It originates from idle pools of money-capital that appear in the first instance over the course of the circuit of industrial and merchant-capital. Such pools are mobilised and transformed into loanable money-capital by the credit-system, which channels it back into circulation in the form of loans to capitalist enterprises.\(^\text{13}\) Trading in interest-bearing capital involves credit-relations, that is, the advance of value against a promise of repayment with interest. In this light, banks are capitalist enterprises that specialise in all aspects of dealing in interest-bearing capital, accruing revenues from the difference in the price paid for deposits and that paid on loans.

Loanable money-capital receives not profits but repayments with interest. To Marx,\(^\text{14}\) the level of the rate of interest contains an element of irrationality: it is the price – or expression of value in money – of a future flow of money. It also reveals no underlying socio-economic relationship or inherent material aspect of social reproduction, not least because it is not the price of a produced commodity. The rate of return on loanable money-capital is determined simply through the interaction of supply and demand. To Marx, competition between buyers and sellers, however, tends to maintain the rate of interest between zero

and the rate of profit during ordinary periods. Their relative detachment from the material realities of production makes relations defined over loanable money-capital highly susceptible to the influence of broader patterns of socio-political power.\footnote{15. Lapavitsas 2003.}

In lending to capitalist enterprises, the payment of interest is generally a share of the profit generated by capital applied to production or circulation of commodities. At the broadest level, the systematic basis for the payment of interest in this context is the increased turnover of total capital achieved by the mobilisation of idle money and its application to functioning circuits of capital through lending. More concretely, individual firms will be able to increase the returns on their own capital by leveraging it through borrowing, so long as the return on applied capital exceeds the rate of interest. Finally, given that debt-holders must be paid in order to avoid bankruptcy, high levels of debt may be used as a lever to keep enterprise-costs down, most often by lowering or keeping down total wage-payments.\footnote{16. This appears to be an increasingly common practice, particularly in firms controlled by private-equity groups aiming for fairly quick gains in market capitalisation.}

Under normal conditions, loanable money-capital advanced to a capitalist enterprise will help generate the source of its own repayment with interest, by circulating in the borrower’s circuit and expanding through the appropriation of surplus-value. Finally, the relationship between capitalist lender and borrower is, at this level of abstraction, one between social equals who both enter the transaction on the basis of a profit-maximising calculus. An important expression of this equality is the hiring of financial officers, whose very jobs are to ensure the firm secures outside finance on the most advantageous terms possible. The social relations defined by lending to individuals are fundamentally different in most of these regards.

### 3.2. **Lending to individuals**

Lending to individuals has became a major part of banks’ overall lending activities. This is evident for the banks surveyed here, particularly the top two US banks.

<table>
<thead>
<tr>
<th></th>
<th>HSBC</th>
<th>Citigroup</th>
<th>B of A</th>
<th>RBS</th>
<th>Barclays</th>
<th>Paribas</th>
<th>Dresdner</th>
<th>SMFG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>40.5</td>
<td>77.7</td>
<td>76.3</td>
<td>24.0</td>
<td>44.0</td>
<td>33.0</td>
<td>20.1</td>
<td>26.8</td>
</tr>
</tbody>
</table>

**Table 4: Loans to individuals as percentage of total loan-portfolio, Dec 2006**
Yet, even these figures understate the importance of this type of lending for the world’s largest financial groups. The very organisation of Citibank, HSBC and Bank of America reveals their orientation to individual credit. Citibank’s ‘Global Consumer’ business-segment generated profits of US$12.1 billion, or 56 per cent of all profits, in 2006. Revenues from credit-cards and consumer-lending stood at US$13.5 billion, or 31.6 per cent of all revenues. That same year HSBC’s ‘Personal Financial Services’ segment, which focuses on consumption- and mortgage-credit, generated US$9.5 billion in profits, 42.9 per cent of the total, ahead of commercial and investment-banking divisions, which accounted for 27.3 and 26.3 per cent of profits respectively. Central to this performance is HSBC’s credit-card network of over 120 million cards worldwide. Bank of America’s ‘Global Consumer and Small Business’ segment, which focuses centrally on consumption- and mortgage-credit and retail-accounts, accounted for 65.6% of net interest income that year.

This type of lending has a distinctly exploitative social content. Money loaned out to individuals for consumption or mortgages does not ordinarily generate the value from which it is to be repaid with interest. Interest-payments are generally made from subsequent wage-receipts by borrowers, representing an appropriation of value borrowers have secured independently of the loan. Recent innovations in consumer-lending involving the international operations of banks like HSCB and Citibank offer a congealed expression of this direct appropriation. Along with other banks across Latin America, these banks offer wage- and pension-linked loans that often include a legal agreement by the borrower’s employer or the state to deduct loan-repayments directly from payroll.

At least two concrete factors condition the exploitative character of lending to individuals. First, the relationship is profoundly unequal. It involves, on the one hand, a specialist in managing money-flows trying to maximise profits, and on the other, an ordinary wage-earner trying to secure access to consumption. A range of patterns deemed ‘irrational’ by mainstream-economic analysis follow, including the tendency for consumers to continue using the first card they ever obtained, regardless of its comparative rates. Also, lending rates are often 10 to 20 percentage points above base-rates. The high relative profitability of this type of credit suggests high rates of interest do not arise from lower repayment-rates. HSBC, for instance, generated 42.8 per cent of its profits from lending to individuals and related fees in 2006, while allocating only

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17. An obvious and partial exception to this relates to residential real-estate bubbles, which open the possibility for temporary leveraged capital-gains in housing-assets for some households. The instability, inequity and destructive power of this type of bubble needs no explanation at this point.

18. Gruber and McComb 1997 point to evidence of this for the US economy.
29.4 per cent of its total assets to such activities. Significant economies of scale in credit-scoring methods compound these effects, reducing the scope for competition.ی

Second, the scope for exploitation through lending to individuals has increased in the past two decades. The privatisation of provision for a number of basic social necessities has increasingly forced ordinary individuals into debt, transferring growing shares of their incomes to banks and other financial enterprises. The most obvious example is housing, where provision for the working class and poor has become synonymous with facilitating private ownership through the development of mortgage-securitisation markets. As Table 5 shows, mortgage-lending accounts for a very high fraction of lending to individuals for these banks.ی

Table 5: Mortgage-loans as percentage of total loans to individuals, Dec 2006

<table>
<thead>
<tr>
<th>HSBC</th>
<th>Citigroup</th>
<th>B of A</th>
<th>RBS</th>
<th>Barclays</th>
<th>Paribas</th>
<th>Dresdner</th>
<th>SMFG</th>
</tr>
</thead>
<tbody>
<tr>
<td>53.6</td>
<td>33.1</td>
<td>59.1</td>
<td>72.9</td>
<td>73.0</td>
<td>N/A</td>
<td>33.3</td>
<td>98.1</td>
</tr>
</tbody>
</table>

Another significant item is education, where growing costs have increasingly fallen directly on individual students and their families across a range of countries. This has opened yet another avenue for direct exploitation by banks. In 2006, Citibank reported US$220 million in profits from its US student-loans division alone.

Credit-cards are another important part of this lending. Banks in the US moved aggressively to concentrate the industry as it grew in size and profitability in the 1990s. In 1995, they held no more than 25 per cent of credit-card receivables in the US.ی

As late as 1999, the top ten US issuers controlled 55 per cent of the market; many of them were independent credit-card companies.ی

Since then, large banks bought their way into dominant market-share, acquiring Associates, Bank One, British-based MBNA, and Providian. After 2004, the top ten US issuers controlled over 90 per cent of the market, and counted only one independent, non-bank enterprise.ی

20. These figures include home-equity withdrawals, which are best understood as consumer-credit. Even in Britain, where such withdrawals were exceptionally high, they never amounted to more than 20 per cent of mortgage-credit.
23. JP Morgan, Citigroup, Bank of America, the independent Capital One, HSBC and Washington Mutual held the top seven spots at the time. See Akers et al. 2005.
The broader significance of this orientation to individual lending cannot be overstated. In the US, against a background of stagnant real wages, the financial obligations of households is estimated to have increased from 15.36 to 19.35 per cent of disposable income between 1980 and 2007.\textsuperscript{24} The volume of transfers from households to the financial sector on this account is unprecedented. And, as the current financial crisis shows, this lending has introduced a distinct, new source of instability to financial markets.

3.3. \textit{Money-dealing fees}

Banks have always earned income from the plain handling of money, such as operating the payments-system, transmitting money abroad and undertaking foreign-exchange transactions. Banks are money-dealers, or commercial enterprises that specialise in managing money-flows and hoards.\textsuperscript{25} Money-dealing and account-related fees are very important sources of income for contemporary banks. They have also generated considerable controversy, including in Britain, where the Office of Fair Trading has for a number of years been trying to curb overdraft and related bank-fees widely perceived to be excessive and opaque. The figures for fee-income from card- and account-services for the surveyed banks tell their own story, particularly for Bank of America and British banks.

\begin{table}[h]
\centering
\caption{Card- and other account-service charges, 2006\textsuperscript{26}}
\begin{tabular}{lcccr}
\hline
Bank & 2006 & & 2007 & \\
 & US$ billion & Revenue-Share & US$ billion & Revenue-Share \\
\hline
HSBC & 9.00 & 12.8\% & 10.86 & 12.4\% \\
Citigroup & 6.78 & 7.6\% & 7.22 & 8.8\% \\
Bank of America & 22.51 & 30.5\% & 22.99 & 33.8\% \\
RBS & 9.1 & 17.7\% & 10.08 & 16.2\% \\
Barclays & 11.10 & 27.9\% & 12.73 & 27.6\% \\
BNP Paribas & 2.53 & 7.2\% & 3.07 & 7.2\% \\
Dresdner & 0.33 & 3.9\% & 0.35 & 4.7\% \\
Santander & 1.53 & 5.5\% & 1.95 & 5.7\% \\
SMFG & 1.58 & 9.6\% & n/a &  \\
\hline
\end{tabular}
\end{table}

\textsuperscript{24} See Federal Reserve, Household Debt Service and Financial Obligations Ratio.
\textsuperscript{25} See Lapavitsas 2007.
\textsuperscript{26} See appendix for explanation of categories used in different corporate reports to obtain all data reported in this section. The figure given in this table for RBS also includes retail-fee revenues not associated with money-dealing.
Bank of America and Citigroup together received almost US$30 billion in fees from money-dealing services to individual accounts in 2007. In Britain, Barclays received more than a quarter of its revenues in 2007 from banking- and credit-fees, a slight decrease in significance in relation to 2006, when the British Office of Fair Trading implemented rules limiting late and overdraft-fees. Together with HSBC it made out with a total of US$23.607 billion in fees from money-dealing activities in 2007.

An important part of these revenues relates to credit to individuals. Overdraft-charges, late-payment fees, credit-card charges, etc are levied as fees but are part of consumer-lending. Bank of America attributed the significant rise in its non-interest income between 2005 and 2006 to its purchase of British-based credit-card issuer MBNA, which resulted in increases in excess servicing, cash-advance, and late fees. Similarly, Furnace reports that total US late credit-card fees rose from insignificant levels in 1990 to over US$1 billion in 1996, and to almost US$9 billion in 2003. As such, they should also be understood as exploitative.

Other account-related fees relate to account-management and other money-dealing services. Some of these are new and relate to new access-services, such as ATMs, phone and internet-banking facilities. Banks have incurred significant fixed costs in establishing these new facilities, and their introduction is yet to translate into reductions in overhead-costs. Bank clients have become heavy users of the new technologies, increasingly using cards and making frequent ATM withdrawals to access consumption. Growing money-dealing fees, thus, may in part amount to payments by ultimate users of new, expensive, technologies. But their persistence and opacity, the magnitudes involved, and their intrusion into the very process of consumption suggest the presence of exploitative elements in them.

While further research is necessary on this particular account, it is clear that, in both lending and money-dealing services, banks have re-oriented to private-wage income as a source of revenues. The resulting relations contain important exploitative elements. Significant as the resulting profits are, they do not exhaust the current scope for bank-appropriation of wage-earnings. The growing scope of financial-market mediation activities have afforded banks additional avenues for bank-profits grounded on wages. The next two sections turn to those activities and the social content of contemporary capital-markets.

27. Shareholders can be reassured that the ensuing losses in revenue were at least partially made up for with growth in Barclaycard International. See Barclays 2008, p. 30.
4. Financial-market mediation

Facilitating access to capital-markets has emerged as an important activity for commercial banks over the past twenty years. As Table 7 shows for 2006, revenues from these activities are very important for the surveyed banks, particularly European ones. The nine banks grossed US$113 billion on this account that year.

**Table 7: Revenues from financial-market mediation as percentage of total revenues, 2006**

<table>
<thead>
<tr>
<th>Bank</th>
<th>Revenues</th>
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<tbody>
<tr>
<td>HSBC</td>
<td>19.5%</td>
</tr>
<tr>
<td>Citi</td>
<td>14.6%</td>
</tr>
<tr>
<td>B of A</td>
<td>16.6%</td>
</tr>
<tr>
<td>RBS</td>
<td>30.5%</td>
</tr>
<tr>
<td>Barclays</td>
<td>37.8%</td>
</tr>
<tr>
<td>Paribas</td>
<td>58.1%</td>
</tr>
<tr>
<td>Sant’dr</td>
<td>19.0%</td>
</tr>
<tr>
<td>Dresdr</td>
<td>50.8%</td>
</tr>
<tr>
<td>SMFG</td>
<td>6.6%</td>
</tr>
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</table>

These revenues arise from a range of activities, from conventional investment-banking functions of underwriting, brokerage- and corporate-advisory services to investment- and insurance-fund management and the issuance and dealing in derivative-assets. Associated with all these activities are the increasingly significant capital-gains made by banks on their trading and own accounts.

The view motivated in the next two sections is that, through these functions, banks appropriate fractions of existing loanable money-capital ultimately owned by the mass of all investors. As with ordinary lending, the social character of the relationship banks have with capitalist clients is fundamentally different from that of their relationship with retail-savers. In the current setting, there is scope for systematic mutual gains in arms-length relationships between investment-banks and corporations and other financial intermediaries. Those gains are ultimately funded by flows of loanable money-capital owned by the mass of investors, who are increasingly ordinary savers. In contrast, the relationship between banks and average retail-investors appears in the present context as exploitative, as banks systematically appropriate value by mediating future retirement-consumption.

In order to establish these points it is necessary to characterise the functioning of capital-markets and the intervention in them by banks. This requires the extension of existing Marxist theory. No significant Marxist contribution has been made to this analysis in the hundred years since Hilferding’s 1910 seminal work. And despite its many insights, *Finance Capital* presents problems in its approach to the concept of *founder’s profit* as well as in the contemporary relevance of its core concept of *finance-capital*, both of which lie at the heart of Hilferding’s conceptualisation of the integration of corporations, capital-markets and investment-banks.
Section Five below offers initial analytical elements of a Marxist approach to the contemporary form of those social relations. Before that, this section documents the relative importance of revenues from fund-management, proprietary gains, and derivatives-trading for top international banks.

### 4.1. Fund-management

As already mentioned, managed funds held a total of US$63.8 trillion in assets at the end of 2006. Even small management-fees on such volumes can lead to appropriations of very large sums of loanable money-capital. In the US alone, mutual-fund management-fees have grown considerably since 1980.

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</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>0.0</td>
<td>0.2</td>
<td>1.1</td>
<td>3.4</td>
<td>11.0</td>
<td>8.9</td>
<td>9.1</td>
<td>10.3</td>
<td>10.6</td>
<td>11.8</td>
</tr>
</tbody>
</table>

Source: Investment Company Institute

In the US, investment-banks and brokerage-houses were the first firms to profit from the new mass-retail investment-funds. In 1980, the top ten New York investment-banks earned less than one per cent of their revenues from asset-management fees. By 2004, top investment-banks earned 7.5 per cent of their revenues from such fees.\(^{30}\) After the 1988 partial relaxation of Glass Steagall restrictions, US commercial banks were offering mutual-fund shares, albeit selling them for an ‘administrative fee’ and not an ‘underwriting commission’ or ‘brokerage fee’.\(^{31}\) In 1989, commercial banks already had 7 per cent of US mutual-fund assets under their management. By 1995, this had risen to 15 per cent.\(^{32}\) Worldwide, the nine banks surveyed and their financial-group partners controlled at least 10.2 per cent of the entire managed-fund market in 2006, a share on par with the combined total for investment-banks UBS, Credit Suisse, JP Morgan, Goldman Sachs, and Deutsche.\(^{33}\) The importance of these activities is evident in the banks’ revenue-figures.

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\(^{30}\) See Morrison and Wilhelm 2007.

\(^{31}\) McGrath 1989.

\(^{32}\) Neely 1995.

\(^{33}\) Insurance-companies and independent intermediaries controlled 50 per cent at the end of that year. Calculated from Watson Wyatt 2007.
Table 9: Fund-management commissions and fees

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC</td>
<td>2.98</td>
<td>4.2%</td>
<td>2.59</td>
<td>3.1%</td>
</tr>
<tr>
<td>Citigroup</td>
<td>1.44</td>
<td>1.6%</td>
<td>1.97</td>
<td>2.4%</td>
</tr>
<tr>
<td>Bank of America</td>
<td>4.21</td>
<td>5.7%</td>
<td>3.38</td>
<td>5.0%</td>
</tr>
<tr>
<td>RBS</td>
<td>9.1</td>
<td>17.7%</td>
<td>10.08</td>
<td>16.2%</td>
</tr>
<tr>
<td>Barclays</td>
<td>2.83</td>
<td>7.1%</td>
<td>3.58</td>
<td>7.8%</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>2.37</td>
<td>6.8%</td>
<td>2.91</td>
<td>6.8%</td>
</tr>
<tr>
<td>Dresdner</td>
<td>0.42</td>
<td>4.9%</td>
<td>0.45</td>
<td>6.1%</td>
</tr>
<tr>
<td>Santander</td>
<td>2.24</td>
<td>8.0%</td>
<td>2.59</td>
<td>7.6%</td>
</tr>
</tbody>
</table>

The revenue-share is broadly higher for banks operating in Europe, where banks and insurance-companies overwhelmingly control the market. Independent funds still maintain a significant market-share in the US.34

Mutual-fund holdings, at least in the US, are widespread among middle-class professionals as well as ordinary working-class wage-earners. As of 2006, 53 per cent of households owning mutual-fund shares had a total annual income below US$75,000; 28 per cent earned less than the median of approximately US$50,000.35 The attraction of mutual funds for small holders of loanable money-capital, for whom direct access to capital-markets is too costly, time-consuming, or complicated, is access to rates of return higher than those available through commercial bank-deposits or mostly safe government-securities. Yet the social realities of the relationship cannot be escaped. Retail-investors are various types of wage-earners approaching it on the basis of securing future (typically retirement) consumption. Fund-managers are well-connected financial professionals seeking to maximise profits.

The results are startling. The Economist (1 March, 2008) has reported on research by top US fund-management firm Vanguard showing that, between 1980 and 2005, the S&P 500 share-index returned 12.3 per cent per year on average. Over the same period, the average equity mutual fund yielded only 10 per cent. The average investor gained only 7.3 per cent on average per year,

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34. See BCG 2003.
largely due to the strong tendency of retail-investors to buy high and sell low. The return realised by the average equity mutual fund-investor is not much higher than rates available for long-term savings-deposits. Over the same period, US six-month T-bills yielded an average 6.00 per cent, while US municipal and local government 20-year bonds yielded an average 6.92 per cent.\textsuperscript{36}

The significance of these differences can be illustrated by considering a hypothetical investment of $100 made in 1980.\textsuperscript{37} If it were invested in safe T-bills, by 2005 the investor would hold $454.94. In contrast, had it been invested in S&P index securities, it would have grown to $2,041.14. The total premium for investing in equity over T-bills over this period stood, thus, at $1,586.20. Now, consider a wage-earner hoping to save for retirement who tried to take advantage of those potential gains by investing $100 in an equity mutual fund in 1980. Earning only the average return received by equity mutual-fund investors over this period, her investment would have only grown to $624.59 by 2005. This represents a gain over the safe T-bill investment of $169.65, or a mere 10.9 per cent of the total potential gains from equity-investment!

The remaining 89.1 per cent were appropriated by fund-managers and other financial-market firms. This includes appropriation through commissions and fees on investment-funds as well as the trading and proprietary gains discussed below. Unsurprisingly, fund-management is remarkably profitable. In an international survey of money-fund managers’ performance in the lean year of 2002,\textsuperscript{38} Boston Consulting Group 2003 found that 64 per cent of the funds reported pre-tax profit-margins above 20 per cent. A full 42 per cent of the funds reported profit-margins higher than 30 per cent. Funds targeting retail-investors were reportedly the most profitable.\textsuperscript{39}

Although the thought-experiment pursued here is no substitute for more comprehensive empirical study, its results suggest these activities have a strong exploitative element, particularly given the high profitability of fund-management. By providing pension-savings services that used to be provided by the state, fund-managers mediate future consumption and appropriate loanable money-capital originating in the wages of ordinary retail-investors. As discussed in Section 5 below, the bases for these systematic flows of value arising in the sphere of exchange in capital-markets ultimately lie in the

\begin{itemize}
\item \textsuperscript{36} Calculated with monthly data from Federal Reserve’s Selected Interest Rates.
\item \textsuperscript{37} Assuming each instrument paid its average annual return over the period every year.
\item \textsuperscript{38} Including seven of the top ten fund-managers by asset, plus another 33 who collectively controlled over one-fifth of the world-market.
\item \textsuperscript{39} Morrison and Wilhelm 2007 discuss extensively the significant economies of scale present in retail-investment fund-management.
\end{itemize}
fundamental class-differences between retail-investors on one hand, and banks and corporate managers on another.

4.2. Proprietary trading

Commissions and fees from fund-management are only one of the ways in which banks performing investment-banking and fund-management services can profit at the expense of investors, particularly retail ones. Investment-banking and fund-management activities naturally pose opportunities for banks to make capital-gains on securities. Underwriting requires banks to make investments in the securities being issued. Brokers often stand in as counterparty for client-transactions with volumes that could alter market-prices, in which case banks charge clients a margin on the security’s current price. And banks increasingly invest in the companies they advise, on which they have intimate knowledge.\(^{40}\) Finally, when retail-investors buy high and sell low, a bank is often the counterparty to the transaction. To the extent that the bank possesses better knowledge about capital-markets and has the financial clout to withstand and take advantage of even moderate downturns, it will profit handsomely from such transactions.

This is a controversial issue, as it is rightly perceived to pose potential conflicts of interest between the bank and its clients, and to be fertile ground for the manipulation of markets at the expense of other investors.\(^{41}\) Banks are generally reluctant to report which transactions are carried out for clients and which are carried on a principal basis. Further complicating matters, this type of gain can accrue not only on listed own investment, but also on securities held for trading as part of brokerage-services for both institutional and retail-clients. The combined figures for gains on those accounts gives a good sense of the importance of this type of revenue for commercial banks.

Collectively, the nine banks surveyed made profits of US$58 billion in 2006 from such gains. For its part, Goldman Sachs made over US$25 billion on this account that year, more than enough to cover the employee compensation-bill of just over US$16 billion.\(^{42}\)

The subprime crisis also highlighted the importance of these activities. While some of the surveyed banks suffered losses in outright mortgage- and other consumer-loans, centrally in US markets, the main impact on these banks took place through their trading-account holdings of subprime mortgage

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40. See Morrison and Wilhelm 2007.
41. See, for instance, Blackburn 2006 for accounts of a number of instances of market-manipulation.
42. For an average of just under US$622,000 per employee.
CDOs. The 2007 trading-account losses in credit- or structured products for Citigroup, Bank of America and Dresdner stood at US$ 21.806 billion, 5.176 billion, and 468 million, respectively. While posting net overall trading-account gains, RBS, Barclays, and HSBC registered net trading losses in credit-instruments amounting to US$2.861 billion, 823 million, and 419 million. Some of these losses were associated with holdings for trading, as these banks mediated purchases by many hedge-funds investing in subprime mortgage CDOs. But the sheer volume of losses suggests these holdings were to a significant extent proprietary in that they were motivated by the hope of returns on holding these assets.

4.3. Derivatives

Investment- and commercial banks have engaged heavily in issuing, trading, and market-making for derivative-assets. Markets for over-the-counter (OTC) interest-rate and foreign-exchange derivatives have grown tremendously in the past twenty years, reaching almost US$400 trillion in notional amounts outstanding in June of 2007, according to the Bank for International Settlements. Although insignificant as recently as the end of last century,
the volume of credit-default swaps has also increased dramatically in the past seven years.

Table 11: Credit Default Swaps, notional amounts outstanding at year-end, US$ trillion

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.92</td>
<td>2.19</td>
<td>3.78</td>
<td>8.42</td>
<td>17.10</td>
<td>34.42</td>
<td>42.58</td>
</tr>
</tbody>
</table>

Sources: International Swaps and Derivatives Association Market Survey, BIS

Banks were naturally placed to lead the way as derivative-markets developed. They were the first enterprises affected by the increased risks posed by interest-rate and exchange-rate liberalisation starting in 1973. They became pioneers in deploying hedging techniques with interest-rate and foreign-exchange derivative-contracts as part of their own risk-management. It is difficult to identify the revenues banks raise from issuing these assets and gains they make on their trading accounts as they are not reported separately. What is clear is that six of the nine commercial banks surveyed have prominent market-positions. According to Emm and Gay, Citigroup, Bank of America, BNP Paribas and RBS have been recently among the top seven dealers of derivative-assets worldwide. HSBC and Barclays also have a solid presence in US markets.

Table 12: Selected OTC derivatives-dealers in United States by market-share, June 2007

<table>
<thead>
<tr>
<th>Bank</th>
<th>US, 2007</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>JP Morgan</td>
<td>51.3%</td>
<td>1</td>
</tr>
<tr>
<td>Citigroup</td>
<td>20.7%</td>
<td>2</td>
</tr>
<tr>
<td>Bank of America</td>
<td>19.5%</td>
<td>3</td>
</tr>
<tr>
<td>HSBC</td>
<td>2.9%</td>
<td>4</td>
</tr>
<tr>
<td>Wachovia</td>
<td>2.7%</td>
<td>5</td>
</tr>
<tr>
<td>ABN Amro</td>
<td>0.8%</td>
<td>13</td>
</tr>
<tr>
<td>Barclays</td>
<td>0.4%</td>
<td>19</td>
</tr>
</tbody>
</table>

US Office of the Comptroller of the Currency, Quarterly Report on Bank Derivatives Activities

44. Except in 2007, for which the end of June figure is given.
The investment-banking functions of these banks naturally placed them in a position to sell derivative-contracts to corporate clients. As discussed below, those assets may help improve capital-market perceptions of a corporation’s liabilities, thus lowering their cost of capital and creating the basis for the payment of issuance-fees. Despite the fact that non-financial corporations make heavy use of these assets,\(^{46}\) financial intermediaries account for the bulk of OTC markets, particularly for credit-default swaps.

**Table 14: OTC derivative contracts with financial firms, per cent of total, June 2007**

<table>
<thead>
<tr>
<th>Foreign Exchange</th>
<th>Interest Rate</th>
<th>Credit Default Swaps</th>
</tr>
</thead>
<tbody>
<tr>
<td>78.8%</td>
<td>86.9%</td>
<td>97.9%</td>
</tr>
</tbody>
</table>

Source: Calculated from BIS Semiannual OTC derivatives statistics

As with corporations, financial intermediaries may acquire derivative-assets to improve market perceptions of their position and liabilities. Banks increasingly use credit-default swaps, as part of holding and dealing in structured debt-products like CDOs, as well as to lower the regulatory capital-cost of holding debt-securities under Basle II capital-adequacy conventions.\(^ {47}\) Insurance-companies, investment- and hedge-funds regularly acquire derivative-assets from dealers in order to conform their positions with the expectations and requirements of customers and regulators. Gains made from these improvements provide the foundation for payments of fees for obtaining derivative-contracts. It should be noted here that the most important function of a derivative-asset in this connection is not necessarily to change the prospects of the buyer, but to change the perception of those prospects by other capital-market players.\(^ {48}\)

Whether bought for hedging or pure speculation, derivative-assets yield fees to issuing banks. Like good bookies, issuers generally maintain a neutral position to either side of all markets. Issuance-fees represent various appropriations of existing loanable money-capital, centrally from institutional

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\(^{46}\) The International Swaps and Derivatives Association reports well over 90 per cent of the world’s top 500 corporations regularly use over-the-counter derivatives.

\(^{47}\) By reducing the measured risk of an asset-holding and, thus, lowering the corresponding risk-weighted capital-reserves.

\(^{48}\) Millo and MacKenzie 2007 eloquently emphasise this aspect of derivative-markets, particularly in relation to the prevalence of pricing models based on the basic models of Black and Scholes 1973 and Merton 1973 whose mathematical foundations yield easily authoritative prices, regardless of their empirical purchase on reality.
investors drawing funds from the mass of retail-investors. As such, bank-profits from this issuance also represent systematic transfers of value from the mass of retail-investors to the financial sector.

5. Capital-markets, investment-banking and Marxist theory

The increasing significance of financial-market mediation to capitalism in general and for commercial banks in particular poses a considerable analytical challenge for Marxist political economy. These activities can be highly complex, and many of them are historically novel. Identifying their social content requires development and extension of Marxist theory.

Building on Marx, Hilferding offers the best developed Marxist approach to capital-markets. Yet, despite its important insights, the book’s approach to the integration of corporations, banks and capital-markets is defined by the concepts of finance-capital and founder’s profit. Subsequent developments in capitalism have pointed to empirical and analytical weaknesses in both concepts. As the discussion above suggests, contemporary capitalism is not characterised by the merger of banking and industrial capital.

The concept of founder’s profit, as formulated by Hilferding, also poses difficulties. It refers to a peculiar capital-gain realised by a corporation’s founders when equity is issued and sold because buyers expect and receive only the basic rate of interest as a return on their investment. In this, he followed very closely on the steps of Marx, for whom the rate of interest represented the general mode of appropriation for all holders of money-capital, regardless of the instruments employed.

Yet, historically, expected and realised equity-returns have exceeded returns on bills and bonds over long periods of time. More importantly, this view makes it impossible to characterise the social content of relations defined by investment-banking activities. Put most simply, if corporations can directly raise capital at the rate of interest, there is no reason for them to engage the

49. Marx 1909.
50. A wide literature documents the superior returns on equity over bonds in the US throughout the twentieth century. In the postwar-period, US equity-returns have yielded an average excess-return of 5.5 per cent over bills (DeLong and Magin 2007). Besser 1999 also presents evidence from Germany between 1870 to 1995 showing that equity-returns, while highly volatile, have been consistently higher than bond-returns over long investment-horizons.
51. In Hilferding, these relationships are rather simple. Banks fused with and controlled industrial capital and the resulting finance-capital appropriated the totality of founder’s profits, and increasingly dominated economic, social and political life within rival national imperialist blocs.
costly services of investment-banks and little content to financial-market mediation.

Starting from these appreciations, and the most general and compelling foundations of Hilferding’s approach to capital-markets, this section aims to make a modest and preliminary contribution to a Marxist theorisation of capital-markets, investment-banking and financial-market mediation. The discussion affords a general characterisation of the socially necessity and inherent contradictions of capital-markets and investment-banking in capitalism, as well as an elucidation of their parasitic class-content in the concrete historical setting prevalent since the early 1980s.

5.1. Capital-markets, risk and investment-banking

Capital-markets are markets for securities representing: rights to different future cash-flows paid by corporations. In the first instance, corporations enter capital-markets to raise funds for investment. Loanable money-capital enters capital-markets seeking self-expansion through the future cash-flows associated with securities and possible capital-gains. Two broad types of securities are traded, bonds and equity. Bonds are debt-claims and holders are entitled to the payment of interest. Equity represents a claim on residual profits of enterprise in the form of dividends; it may also legally represent voting rights at corporate meetings. Capital-gains may be realised on any security when a holder sells it for a price higher than its purchase-price.

Capital-markets effect a socialisation *sui generis* of debt and of capital itself, with potential benefits for the capitalist class as a whole. In the purchase of any non-marketable enterprise-liability, the value advanced by the buyer loses the flexibility and general acceptability it had when it was in the form of loanable money-capital. Loanable money-capital is transformed into commodities in the enterprise’s circuit of capital, and its transformation into more value hinges on the vicissitudes of that circuit over time. This loss of liquidity can be ameliorated through developed capital-markets. Liquid markets for corporate securities allow security-holders readily to realise value into money, which is not only the most flexible, independent and socially-recognised embodiment of value, but the very purpose of the advance of loanable money-capital. Increased liquidity will attract larger volumes of money seeking a security, generally reducing the cost of outside finance.

Bonds and equity give holders rights to uncertain future flows of money. As with ordinary loans, their prices are irrational from the perspective of Marxist political economy in that they are money-expressions of the value of future money. Prices are determined unanchored, through the competitive interaction of supply and demand. In the capitalist setting of competitive individual
appropriation, this relative detachment poses a range of difficulties, including problems of trust and confidence between parties in a setting of anarchic uncertainty about the economic future.

It is in relation to these difficulties that corporate ‘financial engineering’ and investment-banking acquire social significance by possibly assisting a corporation to reduce its financing costs or generate capital-gains. In general, all developments that increase the profitability of an enterprise will also increase equity-prices – higher rates of exploitation, leadership in the installation of new techniques of production, increased control of markets, and so forth.

But the detachment of capital-market prices from underlying realities of accumulation creates other potential sources of capital-gains (or losses) that have no direct relationship to underlying real investments or profitability. A generalised expectation of future security price-rises will often in itself increase demand, leading to further price-rises that, for some time, yield considerable profits and appear to validate expectations. Sheer manipulation, including by investment-banks, has often been an integral part of such processes. Capital-markets and investment-banking inherently create the possibility of such speculative bubbles and their devastating consequences.\(^52\)

Yet capital-markets also create a systematic foundation for investment-banking functions and profits that does not by itself involve swindles, bubbles or manipulation: potential improvements to the social perceptions of the risks associated with the self-expansion of value through a particular corporate security. These may lower the cost of raising capital and generate capital-gains that sustain investment-banking fees and profits.

As generally noted by Hilferding,\(^53\) investors’ perceptions of risks associated with security-returns play a defining role in the demand for securities. Specifically, security-buyers will try to assess the potential problems posed by its future cash-flows and its reconversion into money. Thus the perceived creditworthiness and liquidity of a security are central determinants of demand.

The less creditworthy or liquid a security is perceived to be, \(ceteris\ paribus\), the smaller demand for it will be. Resulting security-prices will be lower, and the expected future cash-flows accruing to holders will represent a higher yield on initial investment. Similarly, two securities with different expected potential future cash-flows, but with the same perceived creditworthiness and liquidity,
will see their present prices move until both yield the same expected return. As a result, systematic ‘risk premia’ arise in capital-markets: a general positive association between expected returns on a security and the perceived risks to the self-expansion of loanable money-capital it poses.

The potential benefits of investment-banking operations in this regard are most clear when considering the issue of a new corporate security. Neither its liquidity nor its creditworthiness can be guaranteed a priori. Investment-banks help redress this situation in the first instance through underwriting. They commit to buy the new security at a particular price, assuring buyers of its ready reconversion into money and signalling the bank’s confidence in its creditworthiness.

As argued and historically illustrated by Morrison and Wilhelm, investment-banks are able to do this given their position and relations within social and business-networks of corporate managers, individual investors, and managers of institutional funds. On the security-selling side, the banks are responsible for ‘due diligence’ on the issuer’s conditions, making use of their specialisation in credit-enhancement. On the buying side, the bank engages in ongoing consultations with a network of close private and institutional investors, gathering knowledge of prices those buyers would pay for the issue, and any aspects of the issue and issuer they may wish to see changed. Buyers agree to discuss these issues with the bank on the understanding they will be offered preferential access to the resulting security-issue. Banks also advise corporations on a range of issue-related and broader corporate-finance matters that may improve market-perceptions of a corporation’s securities. This often includes advising on the management of total security-supply, or selling derivative-assets to reduce perceptions of risks associated with the issuer.

All insiders generally gain as a result of these activities. The initial buyers, who are individual or institutional clients of the bank, get a first shot at buying securities that, if the bank has done its job well, will likely appreciate significantly in the short run. The issuer faces a lower cost of capital. And the bank receives fees, typically in the form of a discounted price on the issued security in relation to the offer-price.

Corporate managers and investment-banks may also try to generate capital-gains on old issues of equity by employing similar methods. Whether the securities are new or old, all such gains are funded from the loanable money-capital of outside buyers. Those buyers accept higher security-prices because

55. Chen and Ritter 2000 report this discount is usually around seven percent of the listed price.
they come to *perceive* better prospects or fewer risks associated with ownership of the security in question.

The uncertainty, competitiveness and relative detachment of capital-market operations ensure they are directly shaped by historically concrete social conventions and sustained practices among market-participants. This includes perceptions about securities, which may be generally shared and sustain transactions even while at considerable variance from the realities underpinning the value of securities. This gives rise not only to potential instability, but also to possible systematic advantages to market-participants better able to shape and apply capital-market conventions and practices.

### 5.2. Bonds, equity, and capital-market returns

Capital-market competition imposes general constraints to potential gains from these activities, as well as certain tendencies in the quantitative relationship between capital-market and real-accumulation rates of return. It is useful to consider separately bonds and equity in this regard.

Bonds embody credit-relations, not fundamentally different from those created by bank-loans. Their rate of return is a rate of interest, which is a sharing of profits. Its level will depend on the quantity and characteristics of other bonds, the relative perceived risk of the individual bond, and the amount of loanable money-capital seeking self-expansion in bond-markets. Private bonds ordinarily pay higher interest yields than state-paper regarded as safe. Bond-rates are typically measured as premia above returns on state-bonds. The expected rate of return on a bond effectively demanded by buyers may account for expected capital-gains on the bond. Those could arise as the relative riskiness of the corporation’s debt falls, or as overall demand for bonds increases. These are unlikely to be systematic as the management of corporations will not generally try specifically to increase the price of outstanding bonds.

Equity possesses a distinct relationship to the process of accumulation, involving returns realised through dividend-payments and capital-gains.

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56. See MacKenzie 2003, for instance.

57. The current crisis has exposed a range of such cases in the credit-scoring models used in mortgage-lending, and in the estimation of future cash-flows associated with mortgage-backed CDOs. The methods used were adequate for convincing successive layers of security-buyers, but not for actually describing the objective characteristics of the security. See Lapavitsas and dos Santos 2008.

58. The existence of a large, liquid market for state-securities generally deemed as risk-free is an important underpinning in the development of liquid private bond-markets. The rise in volumes of private marketable debt since the early 1980s was accompanied by an equally impressive rise in the volume of outstanding marketable US Treasury bonds, notes and bills. Those rose from just over 20 per cent of GDP in 1980, to almost 45 per cent by 1997.
Equity-capital (in Marx’s words, ‘fictitious capital’) does not represent an aliquot of real circulating capital. It entitles the holder to a pro-rata claim on future streams of dividends drawing on the profits generated by the circulation of capital. This is clear from the divergence of a corporation’s market-capitalisation and net asset-values. Capital engaged in industrial or merchant-circuits appreciates through the rate of profit, established through mediations involving struggles at the point of production, the composition of capital, and competition in input- and output-markets. Equity-capital appreciates according to the rate of return, established through competition in capital-markets. While related, each of these rates represents fundamentally different social relations.

At purchase, the expected rate of return on a corporation’s equity will generally be higher than the rate of interest on its bonds. Debt-repayment is generally more secure than residual gains on equity. In this important regard, the position articulated here differs from that offered by Hilferding, who argued that competition among buyers of equity would take returns on equity down to the rate of interest. Hilferding understood quite well the existence of risk-premia across different securities. But in his approach to capital-market securities he followed closely on Marx’s own exposition in Chapter 23 of Volume III of Capital on the returns to loanable money-capital. And, while Marx’s exposition on the matter elucidates the objective foundation of interest-payments in the generation of profits by real capital, it also advances the rate of interest as the general return on all loanable money-capital, regardless of the financial and social relationship between the buyer and the seller or the type of security in question. It is impossible to approach risk-premia, which inherently involve individual securities and their returns, on such a basis.

The rate of return expected by new buyers of equity will depend on their perceptions of present profitability, their confidence in the security, as well as on their expectations of the future evolution of these factors. Investment-banking and ‘financial engineering’ operations can affect these perceptions and expectations, reducing the expected rate of return demanded by new equity-buyers, and thus generating price-rises and capital-gains for incumbent owners.

The scope for gains from such activities will generally depend on the evolution of demand for securities in relation to supply, and on the capacity of

59. I owe this important observation on the origins of Hilferding’s approach to Makoto Itoh.
60. Earlier versions of this article considered the simple case of equity issued by a corporation not expected to experience capital-gains and paying out all profits as dividends. In that case, expected returns on equity will not normally be higher than the corporation’s rate of profit. If they were, market-capitalisation would be much lower than the price of the corporation’s net assets. Eventually, either the corporation will buy back cheap equity, or it will be bought up and reformed or liquidated. Either way, the situation is unlikely to last very long.
corporate managers and investment-bankers to devise ways to increase the confidence in the security by potential buyers. This will hinge on historically specific practices and conventions that have acquired general acceptance in shaping capital-market perceptions, as well as on the specific composition of investors seeking to make gains from securities.

The steady privatisation of pension-provision and other necessities since the early 1980s created a unique setting in capital-markets. It not only greatly increased demand for securities, but also added a growing mass of ordinary savers onto capital-markets. The class-implications have been dramatic. On one side, we have seen corporate managers and investment-bankers nestled in extensive social and business-networks of capitalist investors and managers, organised professionally with the explicit purpose of maximising returns by shaping market-perceptions. On the other side, we have seen atomised individual savers whose engagement with capital-markets is primarily dictated by trying to access consumption – retirement, a child’s education, a down-payment on a house, and so on.

It should not be surprising that the results of this encounter have proven systematically unfavourable to retail-savers. The relative detachment of capital-market operations from underlying realities of production, and their susceptibility to perceptions, conventions and – more recently – highly technical practices, tend to favour the well-connected capitalist relative to retail-savers. The dramatically different outcomes of capital-market trading for retail-investors and for financial intermediaries are not usefully understood as the product of the ‘irrationality’ of retail-investors. After all, financial intermediaries have amply proven their own capacity for ‘irrationality’. Systematic uneven capital-market outcomes are simply an expression of the class-content of contemporary capital-markets.

While more analytical and empirical work are needed in this regard, it is clear that the foundation of the recent astronomical profits associated with investment-banking activities have ultimately been funded from the investments of ordinary savers. In a setting where these activities have not been generally associated with securing increased real investment – which could lead to general increases in productivity, wages, and standards of living – investment-banking during this period appears as monumental and crystallised class-parasitism.

6. Some concluding observations

A number of secular, policy and technological developments have fundamentally changed banking and its relationship to accumulation. Particularly in the US, non-financial corporations have become less reliant on outside finance in general and bank-loans in particular for their operational investments. Their relationship with capital-markets has consequently changed, and to a significant extent consists of 'financial engineering' operations aimed at capital-gains and involving the withdrawal of equity and bond-borrowings. The privatisation of pensions-provision has facilitated this change by triggering unprecedented inflows of loanable money-capital into capital-markets in the form of retirement-savings. Banks have placed themselves at the heart of these processes, offering mutually beneficial, arms-length investment-banking services to corporations. They have also pursued the provision of various investment-fund instruments to ordinary savers, who systematically receive very unfavourable terms in those services.

The steady privatisation of provision of a growing number of social necessities has also made access to money a precondition for the basic reproduction of ordinary wage-earners. Particularly in a setting of stagnant real wages and rising social inequality, this has forced wage-earners onto financial markets to secure mortgage-, education- and consumer-credit as well as private insurance-services. The relationships banks establish with them through those activities involve large and systematic appropriations of value drawing on individual income. As such, they are exploitative. While these changes are most clearly pronounced in the US and Britain, the micro-level evidence discussed in this paper suggests the new banking practices are spreading, distinctively, to other advanced capitalist economies.

The current financial crisis may be usefully understood as a crisis of this type of banking and attendant financial activities. Regulatory arbitrage and rising degrees of leveraging of financial intermediaries have played important roles in the crisis. Positivist hubris about the power of new, inference-based estimations of risk also played their part, as capital-market players came to believe that derivative-assets and their inference-based pricing formulae could actually describe and account for all market-eventualities. And competition among intermediaries ensured that even though many of them knew subprime mortgage-lending was going to lead to losses, they could hardly afford to miss out on the boom. To borrow from former Citigroup boss Chuck Prince III, when the music stopped, most banks were caught dancing.

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62. HSBC 2007, p. 8, noted in March 2007 that much of its US subprime mortgage-portfolio had 'evidenced much higher delinquency than had been built into the pricing of these products'.
Yet, underpinning all of these factors was the drive by banks and broader financial system to increase the scope for financial expropriation. Unsurprisingly, problems arose as this expansion started to include historically oppressed layers of the US population with very low and insecure wage-incomes. The unfolding economic depression is adding to the system’s problems as increasing volumes of ‘prime’ mortgages and other consumer-debt go bad.

Contemporary banking created the current financial crisis and is responsible for the consequent devastation of the lives of millions of people. It is also central to contemporary capitalism. Whatever happens over the next period, it is unlikely that bank-appropriation of value at the expense of ordinary wage-earners will collapse by the power of its own contradictions. The revenues have been far too significant, and the beneficiaries far too central to the socio-political fabric of the different advanced capitalist economies. The weakening of trade-union and of broader social organisations of ordinary people over the past thirty years facilitated the growing intrusion of the financial system into the everyday lives of ordinary wage-earners. It is the re-awakening of those organisations that can once again place on the agenda the social provision for housing, retirement, education, health and other necessities, as well as the broader desirability of conscious, democratic economic planning.

References


Despite promises to shareholders of ‘restructuring this business to avoid any repetition of the risk concentration that built up’, the bank reported losses of US$1.8 billion in consumer-lending and US$1.2 billion in investment-banking for the US operations one year later.


Neely, Christopher J. 1995, ‘Will the Mutual Fund Boom Be a Bust for Banks?’, _Federal Reserve Bank of St Louis Regional Economist_, October.


**Appendix on Bank Corporate Reports**

Unless otherwise noted, all information concerning individual banks was obtained from their respective Annual Reports for 2006 and 2007. The only exception is SMFC, for which the report for fiscal 2006–7 was used. Given the significant differences in accounting conventions across national regulators and individual institutions, it is necessary to specify the sources for particular data reported above. This is done by reported area of activity in the explanations below, which also include pertinent caveats and difficulties.

**Credit-card and account-service charges**

For all banks, these are fees from credit- and banking cards, and account-services. For RBS, total non-interest income from retail-operations is provided, which includes fund-management fees. For BNP Paribas, net commission-income not measured at fair value is given, which is a residual estimate of money-dealing commission and fees.

**Financial-market mediation**

The percentages are an understatement for SMFG and RBS, neither of which reported separate fund-management revenues. SMFG does not report narrow investment-banking revenues either. The figure given is exclusively for gains on own and trading account.

**Fund-management and related commission-fees**

The figures relate to net fees and or commissions on management of investment-, pension-, mutual and other funds. The exceptions are Citigroup, for which net income of Smith Barney and Private Banking divisions is given, and RBS for which fees earned at retail-level are given, which also include money-dealing fees.

**Own and trading-account gains**

For HSBC the figures are the sum of ‘Net trading income and Net income from financial instruments’. For Citibank, they relate to ‘Principal transactions’ total revenue (the reported loss for credit-instrument tallied at US$21.8 billion). For Bank of America and SMFG, they correspond to ‘Trading account profits’ plus equity-investment income and gains on sales of debt-securities. The bank’s trading-account loss for 2007 stood at US$5.13 billion. The figures for RBS include net gains from trading plus gains from investments, asset-backed activities, and rental. The figures for Barclays are from ‘Principal transactions’ and include net trading and investment-incomes. Santander’s ‘resultados netos de operaciones financieras’ are reported. Paribas reports prominently on its net gains on financial instruments at fair value and on available-for-sale financial assets. The figures for UBS and Goldman Sachs are, respectively, for net trading income and trading and principal investments-income.
The Ambivalence of *Gewalt* in Marx and Engels:  
On Balibar’s Interpretation

Luca Basso  
University of Padua  
luca.basso@unipd.it

**Abstract**  
This article is a reflection on Balibar’s account of the concept of *Gewalt* in Marx, Engels and Marxism. The German term contains both the meanings of power and violence. At the centre of the analysis is the structural link between the notion of *Gewalt* and the capitalist mode of production and state-form. The problem is whether *Gewalt* can be understood in relation to the actions of the working class. Balibar rightly refuses any sort of counter-politics of power set against the power of the state which would retain the same overall logic as the latter. However, the question is how such a critique of the ahistorical ontology of violence can interact with Marx’s idea of capital as a constitutively violent entity which threatens to subordinate to itself any stance of non-violence.

**Keywords**  
Balibar, *Gewalt*, power, violence, capital, state, class-conflict

In actual history, it is a notorious fact that conquest, enslavement, robbery, murder, in short, violence [*Gewalt*], play the great part. In the tender annals of political economy, the idyllic reigns from time immemorial.¹

The right to work is, in the bourgeois sense, an absurdity, a miserable, pious wish. But behind the right to work stands the power [*Gewalt*] over capital; behind the power over capital […], therefore, the abolition of wage labour, of capital and of their mutual relations.²

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¹ Marx 1976, p. 874 (translation modified).  

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Because of the (apparent or real) ambiguity in the theoretical trajectory of Marx and Engels, reflection on the structure and meaning of Gewalt has always constituted a controversial question within Marxism. Marx and Engels’s treatment of this concept is somewhat ambivalent and characterised by a complex articulation which makes it irreducible both to Gewalt as the ‘lever of history’, and, conversely, to its elimination on the basis of an ‘irenic’ conciliation between Marxism and pacifism. A contribution that provides us with a stimulating occasion for deeper study of such themes is the article by Etienne Balibar on the notion of Gewalt, which first appeared in Historisch-kritisches Wörterbuch des Marxismus and was published in the previous issue of this journal.3

It is worth underlining the range of meanings contained in the German term Gewalt, a term which is marked by its ambivalence: Gewalt is, at the same time, violence and power, violence et pouvoir, violenza e potere. This word does not limit itself, therefore, to connoting violence stricto sensu but invests a wider field of action. It does not refer only to violence in the strict sense, such as that exercised in the public sphere, state-violence, but, rather, violence-power in its complexity, in the problematic intertwining of such elements. As is evident examining various German lexicons, we find ourselves faced with a structural connection between Herrschaft, Macht, and Gewalt.4 These notions, though with different nuances and peculiarities, are the signatures of the state-sphere, that is, of the immense concentration of power that is capable of forcing single individuals to submit to it, inasmuch as they have consensually chosen to cede all their rights to the political body so as to receive peace and security in exchange. The institutional order so-formed is characterised by legitimacy: every act of the possessor of legitimacy, if it is in harmony with the legal order in its entirety, is revealed to be a priori legitimate, since it is the fruit of the consent of the citizen-subject. Even violence in the proper sense is justified by such a mechanism of legitimation. From this point of view, the two famous statements by Karl Marx and Max Weber are shown to be

3. Balibar 2001a and 2009. Balibar’s analysis focuses on the category indicated in Marx and Engels, and then, in a more cursory way, on the subsequent development of Marxism and of currents linked in some way to it. Those taken into consideration include: Sorel, Bernstein, Lenin, Gramsci, Italian workerism (Tronti, Negri), Adorno, Fanon, Reich, Bataille, Benjamin, Gandhi. We have focused our attention on the part of Balibar’s article that involves Marx and Engels. For previous treatments by Balibar, on the question of violence, see especially Balibar 1996a, Balibar 1997, pp. 397–418, and 2002, pp. 129–45.

4. One should note Faber, Ilting and Meier, 1982, in particular. On the notion of power in the modern epoch, see Duso 1999. On the various approaches to the concept of Gewalt, including in relation to the contemporary political-philosophical and political-science debates, see Heitmeyer and Söeffner 2004.
compatible. The state, according to the first, is ‘the concentrated and organized force of society \[die konzentrierte und organisierte Gewalt der Gesellschaft\];’\(^5\) and, according to the second, it is ‘a human community \[menschliche Gemeinschaft\], that (successfully) claims the monopoly of legitimate physical force \[das Monopol legitimer physischer Gewaltamkeit\] within a given territory’.\(^6\)

From these considerations arises the fact that Gewalt (and related terms such as Gewaltsamkeit) has greater scope than does the English violence not only because it includes power, but also because each component term is shown to be structurally ambivalent. The article by Balibar picks up precisely this problem and, therefore, confronts the multi-faceted character of the concept in question. Such reflection does not lead to a dualism between non-violent power and extra-institutional violence, given that the state also includes the continuous possibility of violence, even if legitimate. The definitions of Marx and of Weber agree in their identification of the Gewalt-character of the state.

The recognition of the nexus examined leads in a direction that is irreconcilable to that of Hannah Arendt, who developed a contrast between violence and power, intending the latter in a sense that is radically other than the former.\(^7\)

The two main paths of investigation are the following: first, an analysis, starting with the treatment by Balibar of the notion of Gewalt in Marx and Engels, intended to demonstrate its connection with the capitalist structure, on the economic level, and the statist dimension, on the political level. As we will see, the relationship between the economic viewpoint and the political one does not appear to be defined once and for all. The second, more problematic path, consists in examining whether such a concept can be used ‘positively’ or only as critique and deconstruction. In the affirmative case, it is a question of understanding if proletarian Gewalt turns out to be asymmetrical with respect to capitalist Gewalt, or if, on the contrary, the same basic characteristics present themselves, even if reversed.

Let us begin with the first issue. Marx, in various writings, brings to light the link between Gewalt and Herrschaft, Macht, Staat: the idea of the state as ‘concentrated and organized violence’ continually reappears, even if differently nuanced, throughout Marx’s corpus. In particular, the whole of Capital, as shown by Balibar, can be defined as a sort of analytic of Gewalt: from the

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7. See Arendt 1970, p. 46: ‘Violence… is distinguished by its instrumental character. Phenomenologically, it is close to strength, since the implements of violence, like all other tools, are designed and used for the purpose of multiplying natural strength until, in the last stage of their development, they can substitute for it’.

moment of its emergence, capital exhibits this element as a constitutive structure, and the state, the political form necessary to capitalist order, is responsible for an immediate violence, both domestic and foreign (colonialism), and for a mediated violence, in the legal and political dimension. Chapter Twenty-Four of *Capital*, focused on original accumulation, demonstrates incisively how, at the origins of the capitalist process, we find a *gewaltsame Expropriation der Volksmasse* and, therefore, a violent laceration. In this way, the liberal myth of the ‘idyllic’ origins of individual private property is deconstructed: if we examine the story in a disenchanted way, one cannot fail to observe that it is characterised by ‘conquest . . . robbery, murder, in short, violence [*Gewalt*]’.9 *Wirkliche Geschichte* is marked, in the last instance, by *Gewalt*, in contrast to what is maintained, in a far from innocent way, by the proponents of political economy. In Chapter Twenty-Four then, we find a vivid portrait of the *Disziplin* imparted by capital on wage-labourers, in part by brute force, in part by legal means, that is to say by legal mediation.10 Original accumulation thus supports itself by ‘methods [that] depend on brute force [*gewaltsame Methoden*]’,11 including both physical violence and a sort of reflexive *Gewalt*, related to what Althusser defined as the ‘Ideological State Apparatus’.12 In this other history proposed by Marx (contrasted to those ‘official’ versions), capital is interpreted critically, showing that ‘capital comes dripping, from head to toe, from every pore, of blood and dirt’.13 ‘The history of this expropriation [*Expropriation*] of the workers is written in the annals of mankind in letters of blood and fire.’14

It must be underlined that, from this perspective, accumulation is not understood as an initial and completed phase of capital but as a mode of extorting surplus-value that does not disappear from the scene of historical development. Besides, in the essay in *Reading ‘Capital’*, Balibar focused precisely upon the fact that the accumulation of capital subsists only thanks to the existence of a surplus-value that can be capitalised. In this scenario, surplus-value appears as the result of a previous process of production that, in turn,
refers back to an antecedent moment and so on to infinity.\(^{15}\) One is confronted
by a sort of genealogy of the elements that go to make up the structure of the
capitalist system. Thus, the originary violence of accumulation is repeated
throughout capitalist development and constitutes the *condition sine qua non*
of its dynamic.

Such a *Gewalt* is inscribed perfectly in the structure of the capitalist mode
of production. Since the latter is dominated by money and its accumulation,
social power becomes a private power of the private person. Moreover, in the
*Grundrisse*, Marx frequently insists upon the fact that money constitutes a
*soziale Macht*, even taking the place of the ‘real community’,\(^{16}\) bringing about
a paradox in which a *dispositif* of domination is found ‘in the pocket’, on the
basis of an ‘exchange’ between private and social spheres: ‘Its social power
[gesellschaftliche Macht], as well as his connection to the society [*Gesellschaft*],
he carries around in his pocket.’\(^{17}\) But, in this way,

> the social character of activity . . . here appears as something alien [*Fremdes*], as an
> object [*Sachliches*] confronting the individuals: not as their relation [*Verhalten*] to
> one another, but as their subordination to relations which subsist independently
> of them and which arise out of collisions between mutually indifferent individuals
> [*gleichgültigen Individuen aufeindander*].\(^{18}\)

Money, therefore, takes the form of a social structure and, at the same time, it
is a cause of individual isolation from the moment that it subordinates the
individuals to a *soziale Macht*, which is however *sachlich* [thingly] and *fremd*
[alien]. It is *sachlich*, since it is materialised in a thing, and *fremd*, inasmuch as
it opposes itself to the individuals as a force that is above them and that
dominates them.\(^{19}\) Such a *soziale Macht* is defined also as a *fremde Gewalt*. For
example, in order to highlight the same problem, Marx and Engels in *The
German Ideology* state,

> The social power [*die soziale Macht*], i.e. the multiplied productive force, which
> arises through the cooperation of different individuals as it is determined by the
> division of labour, appears to these individuals . . . not as their own united power
> [*vereinte Macht*], but as an alien force [*fremde Gewalt*].\(^{20}\)

19. On the relevance of the theme of social and abstract domination, see Postone 1993.
The soziale Macht, materialised in an object, i.e. money, constitutes a fremde Gewalt, a violence-power that subordinates the individuals, preventing them from creating other relationships than those linked to money and its accumulation:

Thus, in the imagination, individuals seem freer under the dominance of the bourgeoisie than before, because their conditions of life seem accidental [zufällig]; in reality, of course, they are less free, because they are more subjected to the violence of things [sachliche Gewalt].

Moreover, in the later critique of political economy, the notion of capital as 'dead labour', that, like a vampire, sucks 'living labour', takes the same form. Thus emerges the idea of a violent subjection, not only in the sense of brutal force, but also in that apparently more tenuous one of abstract and impersonal rule; both aspects are perfectly ‘captured’ by the term Gewalt. In this regard, Balibar defines Capital as 'a treatise on the structural violence that capitalism inflicts'. One stands before a true ‘phenomenology of suffering’, with the goal of being able to utilise both of the following formulae: ‘violence of economics, the economics of violence’. If the first expression indicates clearly the fact that the capitalist mode of production is founded on structural violence, the second expression reminds one of the need to further advance the analysis. The formulation: the ‘economy of violence’, recalls the problem of the political use of violence, in the sense that violence does not constitute a pure effect of economic laws, but can be deployed, made to explode, or finely calibrated.

We previously raised an aspect that is worth returning to: that is to say, that the state, in its entirety, presents itself as an element necessary to capitalist development and, therefore, to the exploitation of the labour-power found within it. We have shed light on the violence-power character of the state, which according to Marx is a true konzentrierte und organisierte Gewalt der Gesellschaft, adding that Weber's celebrated definition turns out to be

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26. See Michaud 1978, pp. 157–62: ‘Starting with the consideration of State violence as a force in the service of the ruling class, . . . it [Marx's analysis] had to move in the direction of an ever more refined reconstruction of the mechanisms of the exercise and the dissimulation of a domination that is the more effective the less it needs to enforce itself with overt violence’ (Michaud 1978, p. 157).
anything but incompatible with this position, since the distinctive sign of such Gewalt when compared to other Gewalten is precisely that of legitimacy. It is a question of violence, force, power, but with the mark of legitimacy. This framework allows us to identify a homology between capitalist expropriation, to which we have already referred, and the expropriation derived from mechanisms of the modern state. It is useful to keep in mind this parallelism, but without falling into the trap of interpreting it as a kind of identity of the two planes, that is, without deducing the ‘political’ from the ‘economic’ on the basis of rigid determinism adopted by a part of Marxism.

The theme of exploitation allows the complex relationship between the ‘economic’ and the ‘political’ to appear in Marx. Even if the economic structure strongly conditions the political dimension, there is no immediate derivation of the latter from the former. Indeed, there is no merely economic process of exploitation operating without political domination. On the contrary, the very idea of ‘pure’ exploitation founded on the difference between the value of labour-power and of surplus-value is a mystification present in the contractual form, where a ‘buyer’ stands before a ‘seller’ of labour-power in an apparently symmetrical relation.28 In this sense, exploitation assumes an eminently political character, where the political is understood in its continual interlinkage with real economic processes and not on the basis of an abstract separation from them. If there is no such thing as a ‘pure’, solely economic, form of exploitation, equally one cannot speak of a ‘pure’, solely political, form of antagonism. The result is the problematisation of the way in which ‘orthodox’ Marxism has articulated the relation between the ‘economic’ and the ‘political’.

Elsewhere, though with various difficulties, Marx’s analysis of Bonapartism moves in the direction we have just discussed, seeking to interpret the problem of the possible autonomy of the state from economic relations; thus, the connection between the ‘economic’ and the ‘political’ presents itself as anything but linear. For example, in The Eighteenth Brumaire of Louis Bonaparte, Marx stresses that, with the ascent to power of Louis Bonaparte, the ‘social power [gesellschaftliche Macht]’ of the bourgeoisie is sustained, but its ‘political power [politische Macht]’ is negated. That is, economically, it remains the herrschende Klasse but only at the price of a complete ceding of political domination to Bonaparte.29 Friedrich Engels found himself faced with an analogous difficulty when he sought to examine the age of Bismarck in the text Die Rolle der Gewalt in der Geschichte (written in 1887–8), which was supposed to be part of Anti-Dühring. Balibar spends considerable time on this work that presents

an ample treatment of the problem of Gewalt. Its interest is also linked to the
fact that, in Marx, this notion is never systematically developed despite playing
a decisive role.

In the above mentioned text, the connection with the question of
Bonapartism and, therefore, of the autonomy of the state, is clearly stated.
Bismarck is characterised as a Louis Bonaparte ‘in Prussian dress’ that, with
his centralist and authoritarian management, performed the important task of
making Germany a unified national state, a necessary condition for capitalist
development in the full sense. Here emerges, first, the link between the
capitalist structure and the state-dimension. But to this ‘classic’ theme in the
Marxist tradition is added another problem derived from the ever possible
fracture between the holder of politische Macht (or Herrschaft) and the
bourgeois class. Taking up again for several pages Marx’s analysis of
Bonapartism, Engels emphasises that Bismarck ‘violently [gewaltsam] dissolved
the liberal illusions of the bourgeoisie, but fulfilled their national needs’. The
path chosen was to reinforce the soziale Herrschaft of the bourgeoisie, but to
annihilate their politische Herrschaft: Bismarck backs up this class, which is
decisive for the national question and for economic growth, but retains
political power solely for himself. In this way, Bismarck appears to Engels as a
‘Prussian revolutionary from above [preußischer Revolutionär von oben]’: ‘revolutionary’, inasmuch as he guided Germany towards the formation of a
national state and, consequently, gave an impulse to capitalist development, a
necessary condition for the proletarian class-struggle and, therefore, for
communism. In this process, Bismarck used Gewalt, which was absolutely
necessary to carry out a revolutionäre Umgestaltung; even the resulting Diktatur
was, in some measure, necessary in a disunited country that was not yet
capitalist in a full sense. His limit consisted mostly in the fact that he carried

31. Engels 1962b, p. 426. [Editorial Note: the closest English version of this passage appears in Engels 1975–2005b, p. 475. The expression ‘in Prussian dress’ is a translation by the author from the German.]
out the revolution ‘from above’, in a vertical manner: ‘Rather than on the people [Volk], he in fact relied on manoeuvres conducted behind the scenes.’

Engel’s analysis is based upon a schematic philosophy of history, as is evident from his identification of the sequence: national state-capitalist development → class struggle → communism. In the case of Germany, it was a question specifically of overcoming political and economic backwardness, pushing it resolutely towards a capitalist structure. Both the capitalist mode of production, on the economic level, and the state, on the political level, play a revolutionary role, in that they break down a series of preceding privileges, creating the conditions for a proletarian revolution. Even if this approach has some relevant aspects, its ‘systematic’ assumption reveals itself to be very problematic, founded as it is on a teleological idea of history. In the text, Engels valorises the Iron Chancellor as the interpreter of this necessity conceived, on the one hand, as capitalist, and on the other, as national, conceiving him as a revolutionary, even if ‘from above’. Justifiably, Balibar asks if such an expression is not misleading:

> Is a ‘revolution from above’ a revolution? Is not the term ‘revolution’ irremediably equivocal, precisely to the extent that it embraces references to several kinds of force, which cannot be included in the same schema of class struggle?

It is the use of forms of philosophy of history that allows Engels to consider the Bismarck régime revolutionary, attributing to the revolution an ambiguous status. In this way, the self-representation of Bismarck as a ‘revolutionary from above’ is uncritically accepted.

But let us examine how such an element has repercussions in relation to the question of Gewalt. Over and above the risk of making too-immediate a deduction of the ‘political’ from the ‘economic’ (if the ‘political’ moved in a direction opposed to the ‘economic’, it heads straight towards a sure defeat, as in the case of Louis XVI; if it goes in the direction of capitalist development, as in the case of Bismarck, it heads toward a sure victory), the greater problem consists of the fact that the category of Gewalt is influenced by the ambiguity of the concept of revolution and is, therefore, totally justified if it turns out to be functional to the modernisation of Germany (as in the political action of Bismarck). The question of the relationship between capitalist Gewalt, with its

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brutal character, and proletarian Gewalt remains open. Having treated the first theme, it is worth stating that the link between this category with the capitalist mode of production and with the state-structure, while presenting grey areas and difficulties (one thinks of the non-linearity of the nexus between political state and bourgeois class), reveals rather clear paths the moment we identify in Gewalt a central element in understanding economic and political dynamics. The problem of the relation between the critique of such violence-power and the delineation of another concept (or of another practice) of Gewalt appears, instead, as rather complex. Can a ‘positive’ meaning of Gewalt be discovered in Marx and Engels, and, if so, is it presented as a mere reversal of capitalist Gewalt or does an asymmetry exist between the two modalities?

To explore this question more fully, let us take up again the analysis of the text Die Rolle der Gewalt in der Geschichte by Engels:

In politics there are two decisive forces [Mächte], the organized power of the State [die organisierte Staatsgewalt], the army, and the unorganized power [die unorganisierte Gewalt], the elementary force of the popular forces.

Here are identified two different modalities of Gewalt: to the institutional, organisierte, legal violence-power is contrasted one of a different kind, one that is unorganisierte. But the direction taken would seem to conform, or in some way be compatible, with the principles of anarchism and of revolutionary syndicalism (for example Sorel) and, therefore, with the valorisation of the spontaneous element versus that of the state-structure. Elsewhere, the same approach taken by Engels appears in contradiction with such a viewpoint: it is sufficient to recall, for example, the importance attributed to the organisation of the working class. Balibar reveals the presence of a theoretical difficulty on the part of Engels and, at times, in Marx, which leads them to oscillate in an ambiguous way between the anarchism of Bakunin and the ‘statism’ of Lassalle.

This last consideration demands further consideration, for the argument exhibits a constitutive ambivalence: Marx and Engels never provided a complete, definitive theory of organisation and, at the same time, they founded various political structures at different moments of their activity. If we try to identify some distinctive aspects of their reflections on the question, we might indicate that in their earliest writings, up and till at least 1848, Marx and Engels tend to conceive the ‘political’ from a merely ‘negative’ perspective: the

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state appears as an alienated and illusory representation. Thus, in substantive continuity with utopian socialism, the ‘social revolution’ of the self-organising producers is opposed to the ‘political’, state-centred revolution of the bourgeoisie. With the passing years, one can observe a ‘complication’ of this logic. This occurred both via a re-articulation of the question of the state, no longer reducible to an illusory element or to the status of an unmediated reflection of the dynamics of production; and also by a strengthening of the theme of organisation, through the elaboration of the concept of the party that would be able to give political effectiveness to the ‘real movement’ of communism. Despite this, even in the ‘mature’ writings (think, for example, of the *Critique of the Gotha Programme*) there remain ‘oscillations’ between anarchism and ‘Lassallean’ statism, without the question ever being truly made explicit. On the other hand, Marx’s entire trajectory is configured as a ‘thinking within the conjuncture’: politics is understood in its character of radical contingency, in its eccentricity when compared to all-encompassing laws. The analysis of the political situation in its specific determination means that the articulation of the argument undergoes perpetual modification: one is confronted with a ‘singular’ logic that is commensurate to the contingent event in the immanence of its self-constitution. In this sense, the problem of statehood and, hence, of the relationship with the opposed conceptions of anarchism and ‘Lassallean’ statism, cannot be resolved once and for all, since they are subjected to this ‘metamorphic’ character of politics. Notwithstanding this rootedness in the specificity of the conjuncture, a constant element of Marx and Engels’s development is the attempt to produce a ‘disconnection’ between the political dimension and that of the state, but not on the basis of an abstract indication of a ‘beyond’ of the ‘statal’ and the ‘juridical’.

To return to Engels’s thematisation of the notion of Gewalt, it is necessary to stress that the specific difference between the two types of Gewalt does not reside in the choice between spontaneity and organisation. Even in the ‘Theory of Violence’ in *Anti-Dühring*, he considers the possibility of it playing a different role compared with capitalist Gewalt:

That force [*die Gewalt*], however, plays another role in history, a revolutionary role; that, in the words of Marx, it is the midwife [*Geburtsshelferin*] of every old society which is pregnant with the new, that it is the instrument by the aid of which social development forces its way through and shatters the dead, fossilised, political forms – of this there is not a word in Herr Dühring.46

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44. See Balibar 1997 and 1994.
45. See Basso 2008.
Violence-power presents a structural duplicity, especially inasmuch as it does not constitute a sort of metaphysical *primum* but rather an instrument, as the entire analysis of *Anti-Dühring* tends to demonstrate: it can be used even by the working class to defend its own rights against the dominant bourgeois class. For example, in the text ‘On the Political Action of the Working Class’, Engels states,

> The revolution is the highest act of politics... It is said that every political action means recognizing that which exists. But if that that exists furnishes us with the means for protesting against that which exists, the employment of these means is not a recognition of that which exists.48

It is clear here that violence possesses an ambiguous value and, therefore, though it is typically used by the bourgeoisie, it can in fact be used also by the proletariat; it is not, however, altogether clear whether proletarian *Gewalt* is or is not asymmetrical with respect to bourgeois *Gewalt*.

To further investigate this problem, we return to Marx, referring above all to the passage in *Capital* cited by Engels:

> Force is the midwife of every old society [der Geburtshelfer jeder alten Gesellschaft], which is pregnant with a new one. It is itself an economic power [ökonomische Potenz].49

Such a reflection risks legitimising the view according to which violence in itself has agency. Obviously, one can come up with a different interpretation of the passage, valorising the expansive aspects, and *in primis* the recognition of the productivity of social conflicts, according to a dynamic vision of the political sphere. In any case, the risk remains of developing a sort of vitalism of violence that appears to be in contradiction with the distinctive character of the critique of political economy. On the basis of the principles of the latter, in fact, *Gewalt* can never constitute a *primum* nor a viewpoint toward which to tend, since it has developed out of given material conditions. But this is not the only one of Marx’s statements on *Gewalt* that creates difficulties.

Another problematic aspect is represented by the use of a category of *Gewalt* that is substantially homogeneous to that criticised, even if seen through a

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47. Engels 1972, p. 148 and 1962c, p. 178: ‘The childish example specially selected by Herr Duhring in order to prove that force [die Gewalt] is “historically the fundamental fact”, in reality, therefore, proves that force is only the means, and that the aim is economic advantage [der ökonomische Vorteil].’


reverse lens. A significant example of such a use is found in Chapter Ten of *Capital*, which is dedicated to the struggle between the two classes for the regulation of the working day:

Here we find an antinomy: right versus right, both consecrated by the law of exchange of commodities. Between equal rights [*zwischen gleichen Rechten*], force [*die Gewalt*] decides.\(^50\)

We find ourselves faced with a symmetry between the two classes: each of the ‘subjects’ in struggle retains their own *Recht* and, as a result, the winner will inevitably be the class that has the greater *Gewalt*. Here, the two classes constitute two armies at war, a war conducted within the state that elsewhere is called the ‘centuries of struggle’\(^51\) that forms a genuine *Bürgerkrieg*.\(^52\) Though there exists a strong imbalance, consisting in the fact that one is the dominant and the other the dominated party, the complex topography appears symmetrical. In a scenario of this kind, even the violence-power of the proletariat represents the ‘response’ of the dominated to the dominant. This question, however, turns out to be more complicated than the one previously analysed (the vitalism of violence), from the moment that, in regulating the working day, the struggle itself changes the terms of the debate, constantly moving the level of discourse and of political practice. Already with *The German Ideology*, the fact emerges that class has an intrinsically political character, unable to ever be hypostatised fully from either the sociological or the ontological point of view: ‘The separate individuals form a class only insofar as they have to carry on a common battle [*Kampf*] against another class’.\(^53\) The idea that classes exist, firstly, in the dimension of practice and, in particular, in struggle, can put into question the identification of a homology between bourgeoisie and proletariat, for it is in the *Kampf* that the relationships between individuals and classes form and transform themselves constantly, along with their symmetries and asymmetries. This notwithstanding, to pose at the centre of analysis a *Gewalt* that decides ‘between equal rights’, risks trapping us in the paradigm we have already criticised, harking back to a horizon of force and the efficacy of its use, a scenario that inevitably remains ‘prisoner’ of capitalist logic.

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53. Marx and Engels 1962, p. 54 and 1978a, p. 179. See also Balibar 1991, p. 169: ‘though “economic” concepts, class struggle and class itself have always been eminently political concepts, indicative of a potential recasting of the concept of official politics’. On the notion of class-struggle, see Balibar 1974.
The same can be said regarding Engels’s *Condition of the Working Class in England* (1844), a text that sheds a Hobbesian light on the character of the *bellum omnium contra omnes* of modern competition, with its capacity to produce a radical separation between two classes:

This war [Krieg] grows from year to year, as the criminal tables show, more violent, passionate, irreconcilable. The enemies are dividing gradually into two great camps – the bourgeoisie on the one hand, the workers on the other.\(^{54}\)

In this contest, intrinsically marked by *Gewalt*, the split into classes takes on the semblance of perfect symmetry: we find ourselves faced with two ‘armies’ in struggle, each of which claims its own *Recht*, even if on the basis of a structure of domination of one class by another. The outcome of such a condition of extreme conflict is represented by the revolution that cannot but be ‘violent [*gewaltsam*]’.\(^ {55}\) Here, too, it seems that we have a symmetrical portrait: to the violence of the dominant, the dominated must react with an opposed *Gewalt* in order to have their rights, which are trampled in the present, be respected. This work of Engels however brings up new elements: it refers, for example, to the idea that ‘communism stands above the strife [*Gegensatz*] between bourgeoisie and proletariat’.\(^ {56}\) The notion (and the practice) of communism are shown to be irreducible to the political-military lines of conflict between two classes: it can never be ‘captured’ completely by the symmetrical logics of conflict. This consideration already points to a different rationale from that being subjected to critique, since it begins by referring to the possibility of a *Gewalt* that is situated ‘above the strife between bourgeoisie and proletariat’. The reference to *Gegensatz* between the two classes fails to give is a complete grasp of the concept of communism, since the latter represents a destructive movement confronting the status quo, including the class articulation of society.

But, in Marx, even more than in Engels, one can find a development of *Gewalt* that is not a mere response to the violence-power of the bourgeoisie. The problem consists in the fact that, while in Engels it is possible to identify a somewhat ‘systematic’ treatment, in Marx this does not occur. As much as we find various references to this conception, and as much as, in particular, *Capital* can be interpreted as a genuine ‘phenomenology’ of *Gewalt*, there is no comprehensive analysis of the latter. We return, therefore, to the theme of the

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55. Engels 1987a, p. 472 and 1987b, p. 262: ‘The only way out possible remains that of a violent revolution [eine gewaltsame Revolution], which certainly will not be lacking’.
struggle between the working class and the bourgeois class to attempt to develop a different approach to the discourse. First, in Marx (and Engels) we can identify, even if not in a systematic way, two meanings of ‘proletariat’. One is the one we have just examined, in which a symmetry with the bourgeois class is posited. But there is also present a second approach to this concept, one that is asymmetrical with respect to the bourgeois concept, and its very class-status appears problematic and uncertain. Whereas the bourgeois class is a class in the full sense of the word, in that it defends determinate, particular interests, the proletariat constitutes a non-class class, in that it tends toward its own dissolution, and therefore toward the transcendence of the horizon of class. In the *German Ideology* we find a radical formulation of this question:

This subsuming of individuals under definite classes cannot be abolished [aufgehoben] until a class has taken shape, which has no longer any particular class interest to assert against the ruling class.

In the analysis of this work, one can apply this reasoning regarding class to other categories, such as those of the individual and the community. Just as there exists a ‘gap’ between the proletariat and the bourgeois class, ‘individuals *qua* individuals [*Individuen als Individuen*]’ are in contradiction to the ‘individuals *qua* members of a class [*Individuen als Klassenmitglieder*]’ of the present context; and the theorisation of the ‘real community [wirkliche Gemeinschaft]’ must break with the capitalist ‘illusory community [scheinbare Gemeinschaft]’ that is founded on the oppression of individuals by an objective social power. The fact that we find ourselves faced with a break that cannot be mediated dialectically, between individual, community and class in the framework we have just outlined, with reference to their ‘capitalist’ form, appears very relevant to any investigation of violence-power.

Many years later, in the *Critique of the Gotha Programme*, Marx expresses clearly the discontinuity between the bourgeois and proletarian scenarios, from the question of work (not the ‘source of all wealth and civilization’, but something to be abolished) to the concept of inequality (with is criticised, as

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57. Marx and Engels 1962, p. 75 and 1978a, p. 198. On the status of the proletariat, Balibar 1993, p. 54 and 1995, p. 54: ‘In reality, the concept of the proletariat is not so much that of a particular “class”, isolated from the whole of society, as of a non-class, the formation of which immediately precedes the dissolution of all classes and primes the revolutionary process’; see also Balibar 1992, pp. 204–5; Rancière 1995, p. 127, according to which the proletariat constitutes ‘not the name of a universal victim, but rather the name of a universalizing subject of wrongs’.


assuming an equal measure for subjects that are not in fact equal). In this sense, proletarian dominance cannot merely substitute adequately for bourgeois dominance, as soon as the discussion turns on the ends of the problem, namely the transcendence of the present wage- and legal horizons. Hence Marx, in *The Class Struggles in France*, faced with the struggle for *le droit au travail*, in itself a ‘social-democratic’ demand, turns to the radical transformation of the social structure:

> The right to work [*das Recht auf Arbeit*] is, in the bourgeois sense, an absurdity, a miserable, pious wish. But behind the right to work stands the power [*die Gewalt*] over capital; behind the power over capital, the appropriation of the means of production, their subjection to the associated working class and, therefore, the abolition [*die Aufhebung*] of wage labour, of capital and of their mutual relations.

The situation is not homologous with that of the violence-power of capitalist society: it is not a question of reversing the existing situation, following up bourgeois rule with proletarian rule, while nevertheless keeping the same characteristics, however overturned, but rather of putting into crisis the forces that lie at the basis of the present situation. The ‘political movement’ of the working class presents the apparent paradox, according to which one part, the proletariat, plays a universal role. Such universality is not, however, ‘pacified’, neutral, but is identified with the radical dissolution of the class articulation of society. A further problem consists of the relationship between the concept of working-class *Gewalt* and that of revolution and, within the latter, of the difference between the bourgeois revolution and the proletarian revolution. For Marx, the latter reveals its own specificity with respect to the former, even on the level of violence-power:

> The proletarian revolution remained so free from the acts of violence [*Gewalttaten*] in which break the revolutions, and still more the counter-revolutions of the ‘better classes’ abound…

Notwithstanding this, the question of the relation between proletarian *Gewalt* and the construction of political structure, of the state-form, remains
controversial. The risk consists in surreptitiously assuming the model of the bourgeois revolution in the delineation of the proletarian revolution.65

In any case, to understand the distinctive traits of the proletarian revolution, it is necessary to focus on the fact that, within Marx’s argument, it remains unthinkable without the element of proletarian dictatorship. Firstly, as Marx and Engels already underline in *The German Ideology*, the concept of class assumes an eminently political form: individuals form a class at the moment they need to conduct a struggle against another class, so that classes exist in the strong sense in class-struggles, the veritable ‘motor’ of political practice. The spread and radicalisation of class-struggle flow into the delineation of the dictatorship of the proletariat.66 Hence the latter is not only to be understood as the strategy for the capture of power but, more importantly, as a new form of politics that operates the ‘disconnection’ between the political dimension and statal dimension that we have examined. In that sense, underlying his argument is not the strengthening of the state-structure but its radical problematisation, its withering away. Despite the difficulties raised with regard to the oscillation between anarchism and ‘Lassallean’ statism, the attempt is to interpret the element not as a solution but as an open question, one that is continually determined anew in each particular situation in which it materialises.

To return to Balibar’s reflections on *Gewalt*, and trying to summarise the conclusions at which he arrives, it is necessary to underline that the article possesses the remarkable merit of demonstrating the ambivalence that exists in Marx and in Engels. It fixes attention on the questions that remain open, at times because of the extremely complex articulation of the argument, at times because of the ambiguity that is pregnant with negative consequences. The goal is to ‘relativise’ the Marxist point of view.67 In relation to the theme of *Gewalt*, Balibar’s overall critique concerns the incapacity to understand ‘the tragic connection that associates politics with violence from the inside, in a unity of opposites that is itself supremely “violent” ’.68 This attempt consists in distancing oneself from this approach to *Gewalt*, refuting the axioms that present themselves as unquestionable and, in particular, in challenging every simplification of the problem to a sort of war between two ‘armies’, the bourgeois class and the working class. In his *Prison Notebooks*, Antonio Gramsci explains that

65. See Krahl 1971, according to whom Marx considers the bourgeois revolution and, in particular, the French Revolution, as a point of reference for the proletarian revolution, with all the problems involved in such an equation.
the analogies between the arts of war and politics are always to be established *cum grano salis*, that is as a stimulant to thinking... in military war, when the strategic objective is achieved, namely the destruction of the enemy army and the occupation of its territory, there is peace.... The political struggle is infinitely more complex.\(^{69}\)

Here, we see the awareness of the risks present in an overdetermination or, even, in an identification of military and political dimensions. One wing of Marxism has insisted, starting with a ‘realist’ view, on the importance of a comparison with the conception of von Clausewitz on the politics-war nexus. It is not a question of denying the relevance of such a reference, even for understanding the connection indicated, but of shedding light on a *Gewalt* that goes beyond *Gewalt*.\(^{70}\) Even the recent works by Balibar on Europe (in particular *We, Citizens of Europe?*) are characterised by dissatisfaction when facing a conception that counterposes to the politics of power another politics of power, even if in the opposite key.\(^{71}\) For Balibar, what is at stake is a ‘civilising politics’ that is able to decompose, disaggregate, the existing symmetries, such as the contrast between violence and non-violence.\(^{72}\) Violence must be investigated in its materiality, not as constituting evil, but neither as the object of a new theodicy:\(^{73}\)

[that] does not necessarily mean eliminating the question of a politics of violence.
On the contrary, it means relaunching a politics of violence on a different basis\(^{74}\)

And this in the hope of ‘civilizing the revolution, the revolt, the insurrection’.\(^{75}\)
As a result, not all of the interpretations of *Gewalt* undergo a critique, rather only those that see in it a sort of foundation, both in the sense of exalting spontaneous violence and insurrection, and in the sense, closer to the experiences of the countries of actually existing socialism, of constructing a Communist state in opposition to the Western capitalist states, in reality sharing with them much more than would appear at first glance.\(^{76}\) But, if

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\(^{69}\) Gramsci 1975, Q1, §133–4, pp. 120–2.
\(^{70}\) See Balibar 2001a, p. 1279 and 2009, p. 106.
\(^{71}\) Balibar 2003, p. 75, which makes clear the ‘necessity to counterpose today, to hegemony, not the development of a new pole of power (economic, military, diplomatic), but an “anti-strategy” capable of disaggregating the symmetries and the polarisations instituted by globalization’. See also Balibar 2001b and 2004a.
\(^{72}\) Balibar 2001a, p. 696 and 2009, p. 100.
\(^{73}\) Balibar 1997, p. 134 and 1994, p. 64.
\(^{74}\) Balibar 2001a, p. 1306 and 2009, p. 123.
\(^{75}\) Balibar, 2001b, p. 150.
\(^{76}\) See Badiou 1985, pp. 15–19.
Gewalt is shown to be irreducible to any reference to violence properly speaking, connected as it is with the structures of dominance of bourgeois society, the question left hanging is then in what way it is possible to conceive of a ‘politics of civilization’ without surreptitiously falling again into a simplification of the notion of Gewalt as pure violence, to which one must react by mediating it through a political practice that is absolutely free of brutality. Balibar’s absolutely correct identification of the ambivalence of Gewalt risks blurring into the positing of a ‘moderate’ revolution that ‘rejects extremes’. To oppose the model of the politics of power does not however mean counterposing moderation to extremism, civilisation to barbarism. From that point of view, Balibar’s reading of Marx and Engels’s development is extremely acute and convincing. The open question concerns, rather, the passage from the interpretation of the texts in question to the outlining of a theoretical and political perspective on the contemporary situation.

As for the comparison between Marx and Gandhi, a very interesting question outlined by Balibar, we limit ourselves to discussing only the main difference between their positions regarding the overall evaluation of capitalism, the political state, the theme of class-struggle and the revolution. Whatever it is, the Marxist critique of capitalist Gewalt cannot lead to an a priori assumption of non-violence, based on seeing the latter as inevitably subaltern in contrast with the Gewalt of the rulers. It is therefore a matter of interpreting the unfolding of events, starting with the fractures that intersect, and not merely of finding ‘the good side’. As is evident in The Poverty of Philosophy, history travels along the ‘the bad side’, in radical dissent with respect to those philanthropists who want

to conserve the categories which express bourgeois relations, without the antagonism [Widerspruch] which constitutes them and is inseparable from them.

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77. See Balibar 1997, p. 47: ‘Civilization in this sense is certainly not a policy that suppresses violence: but it rejects extremes, in a manner that… allows the historicization of violence itself’.
78. See Balibar 2001a, pp. 1306–7 and 2009, p. 123. On the status of non-violence in Gandhi, see Collotti Pischel 1989, which sheds light on the radical difference of the Gandhi’s approach compared to Marxism in relation to both the analysis of modernisation and to the question of class: Gandhi ‘never called the Indian masses to engage in class struggle and revolution… because the principle of social equality lay outside of his world view’ (Collotti Pischel 1989, p. 73).
80. Marx, 1959, p. 140 and 1956, p. 136: ‘It is the bad side that produces the movement which makes history, by providing a struggle’.
For Marx, the idea of the brotherhood of all man is criticised as a form of 'idyllic abstraction from the class conflict'. That to deconstruct the notion of Gewalt involves distancing oneself from every 'funereal' hymn to violence does not mean writing a hymn to non-violence, but rather to grasp the necessity of re-articulating the question of Gewalt, conceiving it on the basis of a radical break with the 'concentrated and organized violence' of the state, and therefore recognising in it neither a solution nor a spectre but, rather, an open question.

Translated by Steven Colatrella

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Abstract
Fair trade is at a critical juncture as a social movement. In the midst of a sales boom and vastly increased visibility, the tensions and contradictions that exist within the movement are intensifying. In particular, expansion of the fair-trade system to cover new commodities, and the process of ‘mainstreaming’ fair trade have opened rifts in the movement and called into question the meaning of ‘fairness’. This essay reviews three recent books on fair trade, and examines current threats to the system, as well as fair trade’s potential for supporting a broad process of social, economic, political, and ecological transformation.

Keywords
fair trade; social movements; coffee; neoliberalism; commodity-fetishism; poverty; environment

If one applies one’s will to the creation of a new equilibrium among the forces which really exist and are operative – basing oneself on the particular force which one believes to be progressive and strengthening it to help it to victory – one still moves on the terrain of effective reality, but does so in order to dominate and transcend it (or contribute to this).1

Dissecting the boom: is fair trade growing its way out of its roots?
Fair trade is a remarkably malleable term. It can mean, among other things, a level playing-field for trade, trade-deals in which some social protections are included, or a system of exchange in which traded goods have been produced under a specific set of production-conditions. This last definition, most identifiable with the certifying labels of the Fairtrade Labeling Organization (FLO), is enjoying a bit of a day in the sun thanks to the combined

forces of ethical consumption and mainstream distribution. Sympathetic feature-length coverage in the New York Times and audacious 42% growth in the value of world sales from 2005–6 would have been beyond the wildest dreams of early activists who initiated the ambitious effort to convince Northern consumers to pay for favourable social and environmental production-conditions in the South. Lying behind the boom is a decades-old social movement. With its origins in churches and solidarity-groups, it is now composed of a partly professionalised group of activists working outside of traditional electoral political channels for economic, social, and political change. While the business of certification and monitoring is highly professional and bureaucratic, fair-trade organisations like Oxfam and Global Exchange use a classic repertoire of social-movement tactics to achieve their goals, often involving boycotts, demonstrations, postcard-campaigns, petitions, and other means to put pressure on corporations, organisations and institutions to get them to change their purchasing behaviour and the rules of international trade. For the veteran fair-trade campaigner, the rapid expansion of sales comes as something of a double-edged sword. On the one hand, expanded sales mean that a broader section of the population is prepared to support the ideals of fair trade with hard-earned cash, increasing the benefits that can reach impoverished Southern producers. On the other, these expanded sales have come as a result of alliances with the very corporations with which fair trade once insisted on contrasting itself – a process that has fallen under the label of ‘mainstreaming’. No longer are Starbucks, Chiquita, and Nestlé the principal villains in an exploitative commodity-chain, impoverishing small-scale Southern producers, requiring a fair-trade marshal to offer farmers economic justice. Now, these same companies are part of the fair-trade family, offering FLO labels as one of several ethical alternatives in their selection of boutique specialty-products.

A number of books have recently been published that wrestle with the implications of the fair-trade boom. Gavin Fridell, Daniel Jaffee, and an edited volume by Laura Raynolds, Douglas Murray, and John Wilkinson all weigh in with contributions to this debate. Fridell’s *Fair-Trade Coffee: The Prospects and Pitfalls of Market Driven Social Justice* concentrates largely on the Northern end of fair-trade – dedicating only one quantitatively sparse case-study to its impact on the Southern producers that are its beneficiaries, or, in the equalising language of fair-trade proponents, partners. Jaffee’s *Brewing Justice: Fair-Trade Coffee, Sustainability, and Survival* concentrates on the opposite end of the supply-chain, providing an insightful and comprehensive evaluation of the impact of fair trade on producers. Jaffee dedicates only one chapter to Northern issues, whose title ‘Dancing with the Devil’ provides some indication of how he views the mainstreaming issue. While focusing on opposite ends of the trade-link, both books present a movement riddled with internal tensions, running up against the limits of a market-based approach to promoting social justice. The Raynolds et al book, *Fair-Trade: The Challenges of Transforming Globalization* is, as is inevitably the case with a collection of essays, less focused than the previous two, providing more of a trawl through the current issues that arise as fair trade expands beyond coffee into wine, bananas and other fresh fruit.

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Growth, mainstreaming, and the hollowing of fair trade

The practice of ‘mainstreaming’ has been staunchly defended by the likes of TransFair USA head Paul Rice, who claimed, ‘If a corporate giant roasts a million pounds of fair-trade coffee in one year they are still doing far more than some of the smaller 100 percent roasters will in their entire history.’ These books would strongly disagree. All three of them distinguish between mainstream fair trade, characterised by the bureaucratic, formalised, certification and labelling process that is associated with the FLO, and the much more mission-oriented, relationship-based fair trade represented by Alternative Trading Organizations (ATOs). Like parents who worry that their essentially good child is being drawn down a dangerous path by the neighbourhood undesirables, these authors argue that expansion of the mainstream FLO version has been accompanied by a steady dilution of all that was noble and good in fair trade.

Raynolds et. al’s *Fair-Trade* presents the movement as being at a crisis-point. Odd though it seems to suggest this given the spectacular growth of its visibility and sales, the description is apt, if crisis is understood as both an unstable situation and a turning-point. While most people (Fridell, Jaffee, and the authors of this review included) remain fixated on coffee as the archetypical fair trade commodity, *Fair-Trade* provides a welcome corrective, detailing the growth of fair-trade in wine, tea, quinoa, chocolate, bananas, and other fresh produce. Of key interest to the editors is the question of whether fair trade has begun to transform mainstream-exchange, or whether conventional trade has absorbed and diluted a movement with once-radical objectives.

While it has long been the goal of fair-traders to expand the range of commodities exchanged within the system, this process has not been unequivocally beneficial. The increasing flexibility of the label’s underlying productive conditions and relations – vital to the extension of fair trade to the newcomers – has dangerous implications for the pioneer commodities like coffee, cacao and cotton. Fair-trade certification was initially restricted to small producers’ organisations with democratic principles of self-governance. It offered support to an alternative model of development taking place outside of capitalist relations of production. However, as contributors Renard and Pérez-Grovas recount, it is very difficult to source large quantities of tea, for example, from small producer co-operatives, which led to the FLO decision to certify tea plantations. It now also certifies plantation-grown bananas, despite the fact that bananas are also available from producer co-operatives. They point out that a part of the pressure for FLO to certify plantations arises from the emergence of a plethora of competing labelling schemes with weaker production-criteria. This dynamic has resulted in pressure for plantation-production to be certified in other commodities – pressure which has so far been resisted by ATOs and small producers in the case of pioneer-commodities – but which is persistent. The FLO label, then, has come to signify a wide range of actual productive conditions. While certifying more products has extended some of the benefits of fair trade to more producers, the strength of the label as a sign to consumers has been weakened. What is ‘fair’ now varies from place to place and commodity to commodity. Fair trade embodies a decidedly non-capitalist set of productive relations in coffee. Not so for fruit, tea, or wine. For these commodities, fairness may embody a wage-labour relationship that allows workers a partial say in the dispensation of

the fair-trade premium, a partial share in the enterprise, or the right to form a union. The certification standards for fair-trade wine are so minimal that South African plantations lined up to get accredited without making any changes to their existing production-practices.

Connected to the issue of plantation-certification and the potential hollowing out of the fair-trade label is the increasing involvement of multinational corporations in fair trade. The opportunities for increased sales that dangle enticingly from the fingers of the multinationals are vast, indeed, especially with many producers still shut out of the fair-trade market, or only able to sell a fraction of their harvest under the fair-trade label. However, they come at a price. Large companies work most comfortably with centralised structures, with uniform commodities subject to strict quality control, and with very large volumes that arrive in a predictable and timely flow. This, Raynolds points out, was the Achilles’ heel of TransFair USA’s attempt at banana-certification. Small producers – including smaller plantations – and distributors could not keep a high quality flow of fair-trade bananas coming to the major supermarkets. TransFair argued that the only practical way to enter the banana-industry was to certify the products of Chiquita, Dole, or Del Monte. This reflects a broader shift in fair-trade sourcing towards ‘larger, more commercially oriented, producers,’ and a ‘dramatically increased … share of Fair-trade exports originating from large, capital-intensive enterprises’ (p. 228). Individuals and groups with a long-standing commitment to fair trade, and to the principle of North-South solidarity that underlay its origins, disapprove of mainstreaming. The rifts that this has opened in the movement are wide and getting wider. TransFair USA’s affection for the multinationals – which sell a tiny percentage of their products under the fair-trade label – has caused a number of hard-core, 100% fair-traders to abandon the label entirely.

The entrance of large-scale players now offering fair-trade certified coffee makes it difficult for the original ATO players to compete. It is not only the usual little versus large advantage of established brands, conveniently located at the local supermarket-shelves, with massive marketing budgets, that creates this advantage. Since fair-trade sales only comprise a very small proportion of total sales for larger corporations (for Starbucks, it was around 2% when Fridell was collecting data and was 4% in 2005) but 100% of the sales of more mission driven ATOs, less committed companies enjoy a significant cost-advantage. The incentive for larger firms to only provide a minimal commitment is facilitated by fair trade itself. First, for large firms, fair trade has randomly and secretly bent its own rule that, in order to sell fair-trade certified products, fair trade must comprise a minimum of 5% of total sales. No commitment was required from these firms to increase the percentage of fair-trade sales over time. Second, the minimal fair-trade agreements signed by these companies have been accompanied by glowing publicity from labelling organisations, generating a positive, ethical image and free advertising for firms that, in fact, had to be pressured and cajoled into making even a token commitment. Meanwhile, those ‘100 percenters’ in the ATO movement, who have been fully committed to the system, struggle to get any visibility. Finally, in keeping with the more co-operative, solidarity-based origins of fair trade, signing up to the fair-trade label involves a commitment not to criticise fellow fair-trade vendors. This may have been reasonable when fair trade was in its early ATO phase and was made up of more homogeneous, movement-oriented actors. Now, however, those same rules limit the ability of fully committed vendors to criticise the tepid involvement of the larger corporations. The result is that a very minimal commitment to fair trade has generated enormous benefits for the large coffee-companies. It has bolstered
their ethical credentials with well-publicised launches of fair-trade products, while insulating them from criticism of their corporate practices by other fair-trade actors.

These tensions, according to Raynolds and Murray’s concluding essay, are heightened forms of contradictions that have always been latent in the movement – between its transformative aspirations and its pursuit of greater fairness within the market. However, the authors are optimistic that the usual movement-dynamics of growth followed by fragmentation and decline\(^5\) are unlikely. They argue that a growing force within the movement, comprised of Southern producers, ATOs, and NGOs will lead a ‘constructive reformulation’ (p. 233) by forcing large retailers and branders to uphold fair-trade principles, introducing innovative ownership share-arrangements on plantations, improving Southerners’ standing in the movement, and promoting an alternative globalisation-agenda.

Unfortunately, this conclusion is laid out in two pages that, for the most part, belie the preceding two hundred and thirty one, which collectively hint at the possibility of movement-fragmentation. It seems very much like a screen-writer’s forced reconsideration of an originally tragic ending. Driving the fragmentation trend are the very multinationals currently courted by fair trade, which are not simply engaging out of an impulse to grab some of those lucrative ‘ethical consumers’. Rather, the multinationals that have been the long-suffering targets of the fair-trade movement may be engaged in a countermobilising strategy designed to bring the movement down. Engagement – a light dipping of the toe into the clean waters of ‘Corporate Social Responsibility’ – is part of that strategy, but so have been the creation of competing labelling schemes and codes of conduct designed to baffle consumers, the outright bashing of fair trade in the media and in political venues as a misguided price-floor scheme, and the pursuit of a liberalised trade-and-investment environment that subordinates the equalising and democratic aspirations of fair trade (at its best) to the anti-democratic force of economic power.

**The trap of market-based justice**

Fridell is in both a better and worse position than Raynolds et al. to evaluate the consequences of mainstreaming. He focuses exclusively on coffee, which has best been able to maintain its ATO roots in the face of mainstreaming pressure. However, his more coherent and consistent analytical framework provides much more adequate tools for analysing the mainstreaming debate.

Fridell dedicates little time to whether fair trade can deliver on its less ambitious goal of improving the lives of Southern producers within the current political and economic structures (it can, he says) in favour of employing an historical-materialist approach to evaluate its potential to be ‘a part of a broader movement to challenge global power structures’ (p. 10).

For Fridell, mainstreaming is not only an undesirable departure from ATO-style fair trade, as the Raynolds volume suggests, but the ATO project was itself an undesirable capitulation to neoliberalism and the associated end of state-intervention. Fridell argues that, as part of society’s inevitable desire to protect itself from the most debilitating results of the capitalist market-economy, coffee-producers have a long history of petitioning, with

\(^5\) Tarrow 1989.
varying degrees of success, for state-intervention to support their incomes. The most successful of these attempts were the various International Coffee Agreements (ICAs), the first of which was signed in 1963. The ICA supported coffee-prices by setting quotas for the producing countries while consuming countries agreed to pay a minimum-price and only to buy from producing nations that belonged to the ICA. This agreement did lead to historically high prices, ensuring that the producing nations received a higher share of the final retail-price than is now the case. As Fridell admits, the distribution of this higher share within the producer-nation depended very much on domestic class-relationships, meaning that often it was not the small-scale producer or landless labourer that benefitted. Fridell blames the downfall of the ICA on the end of the Cold War, eliminating the need for America to curry favour with the developing-world producer-nations, and the rise of neoliberalism, in which state-intervention in market-determined prices was seen as inefficient.

For Fridell, the demise of the ICA and the rise of ATO-style fair trade marked an important, and detrimental, shift toward putting pressure on corporations rather than governments – for people to seek social justice as consumers rather than citizens. The most obvious problem with the ATO approach of building an alternative network of exchange is that its ability to deliver benefits to producers will inevitably be limited by the number of hard-core, socially responsible consumers who are willing to venture into the less-than-salubrious surroundings of the church basement or through the beaded entranceways of Third-World ‘charity’ shops. Expanding sales to a wider audience requires either a long and uphill battle to develop sufficient consumer-demand to warrant space on supermarket shelves or access to mainstream distribution channels through the brands that already dominate the market. Given these alternatives, it is little surprise that fair-trade labelling took the latter option.

Fridell argues that, even if ethical consumption swept the coffee-consuming world, engaging with the corporate community may well exclude fair trade from many of the gains. The reason for this is that, while corporations are making limited commitments to fair trade, they are actively undermining it by promoting other ethical alternatives. He devotes an illuminating chapter to contrasting Starbucks with a more dedicated fair-trade ATO, Planet Bean, which is a mission-driven worker co-operative. Starbucks has developed strong relationships with the very corporate-friendly Conservation International (CI) to sell shade-grown coffee, and touts its own code of corporate conduct, called coffee and farmer equity (CAFÉ) practices. Starbucks sells 155 million pounds of CAFÉ coffee but only 11 million of fair-trade certified.6 Fridell predicts that fair trade will, in all likelihood, become defined by mainstreaming. He argues that, as long as it accepts the sovereignty of Northern consumers who use fair trade as a soothing balm on their wounded consciences, as opposed to fostering more lasting political action, fair trade must engage in the logic of the mainstream consumer-market.

CI and corporate codes of conduct are only two of an increasingly large array of alternatives to fair trade available to coffee-corporations looking to improve their image with the ethical consumer. Other alternatives include organic, bird-friendly and the new label of choice for many, UTZ Certified. Each of these labels are independent, third-party certifiers and, therefore, are superior to corporate codes of conduct, but all are, to varying degrees, less stringent than fair trade in terms of its social conditions. Of course, it is this

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very lack of stringency that keeps the cost to the corporation of these labels down relative to fair trade.

Asymmetric information

This highlights a crucial difficulty for fair trade’s labelling scheme, and one that we think sharpens Fridell’s critique of fair trade (drawn from the work of David McNally) that ‘No amount of moral lecturing or enlightenment will change the behavior of capitalists, since only by doing what they do will they survive as capitalists’ (p. 15). While this is certainly the case, fair trade tries to do more than moralise. It tries to change the structure of demand by asking consumers to shun conventional coffee, and to pay more for coffee that embodies a lower level of exploitation. Changes in market-conditions do change the behaviour of capitalists. Nestlé, Wal-Mart, and Starbucks are not launching fair-trade brands and brews because they have been morally chastened. They are doing so because they see it as a profitable reaction to shifting consumer-behaviour. If consumers punish the super-exploitation of nature and workers, then capitalists will be encouraged to reduce that exploitation in order to maintain market-share. For example, concern about the health and environmental impacts of large-scale, industrial agriculture created a growing demand for organic products, which firms, many of them large multinationals, rushed to supply. Yet fair trade should treat the organic story as a cautionary tale rather than a how-to manual. Instead of transforming the ecological conditions of capitalist agriculture, organic production has succumbed to the inherent logic that drives capitalist production. So, while organic production reduces pesticide- and fertiliser-use in agriculture, it does little beyond this to solve broader problems such as monoculture, soil-erosion or the notorious exploitation of agricultural labourers. The problem is that, even if people were to demand improved conditions of production, markets do not do a good job of punishing super-exploitation, in part because of an asymmetry of information.

The production-process that fair trade is trying to sell is hidden from the consumer. While many consumers recognise that the fair-trade label signifies ‘a better deal for Third-World producers’, very few really understand the specifics of this ‘better deal’. Given this level of uncertainty, most labels that claim to ensure ethical practices appear fairly equal to any consumers who have not dedicated a great deal of their leisure time to a study of the intricacies of coffee-labels. If fair-trade is a more stringent label than the others and, therefore, more costly, cost-minimising corporations, constrained by the imperatives of capitalist competition, have a strong incentive to limit their involvement.

Fridell argues that, within the fair-trade movement, poverty and environmental degradation are seen as caused not by the conditions of capitalist production and consumption, but by companies behaving in an irresponsible fashion. Thus, if they can be pressured into realising the error of their ways, and transformed into caring corporate citizens, the poverty of Southern producers and the destruction of their environment could be alleviated. If this is, indeed, how fair trade frames its criticism of the coffee commodity-chain, then Fridell is correct in scorning it as hopelessly naïve given the requirements of the capitalist market-system.

Fridell does declare that, although its more transformative goals are highly unlikely, fair-trade labelling may be able to deliver shaped advantage, improving the lives of producers within existing capitalist structures. Unfortunately, while his case-study yields a fairly
impressive laundry-list of social and economic improvements at the community and co-operative level, there is no data on the cold, hard income-benefits to either households or the co-operative. Conveniently, this shortcoming in Fridell’s work is precisely the strength of Jaffee’s research.

**Does fair trade lift producers out of poverty?**

Jaffee’s book is by far the most comprehensive attempt yet made to quantify the benefits of fair trade. With due caution about making general conclusions from such a narrow case-study, Jaffee has certainly left few stones unturned in his attempt to glean evidence from his time in the Rincon de Ixtlan region of Oaxaca, Mexico.

The coffee-crisis hit this area particularly hard. In a region where emigration was almost non-existent before the crisis, one third of the population has left since the price of coffee plummeted in the 1990s. In this depressing context, Jaffee contrasts producers who work with Michiza, an organic, fair-trade co-operative, with those who produce for the conventional market. He finds that gross income from coffee-sales is 5,431 pesos per person for fair-trade producers and 1,428 pesos per person for those selling in the conventional market (p. 104). When all sources of income (like government assistance, wages and remittances) are taken into account, fair-trade producers earn more than double their conventional counterparts – 16,842 pesos per person to 7,224. Unfortunately, when expenses are taken into account, the picture for fair-trade producers is only slightly less bleak than for those using the conventional market. The reason for this is that the organic farming methods that accompany fair-trade require a great deal more labour, from both the household and hired workers. This problem was exacerbated by the dramatic wage-increase in the region due to the high levels of out-migration and the increase in the demand for labour from the switch to organic production. When all household-earnings and spending are taken into consideration, net income was negative for both fair-trade and conventional producers, although fair-trade advocates can take some cold comfort from the fact that fair-trade producers lost about 700 pesos a year less than their conventional colleagues (p. 105).

This fairly depressing income-accounting does not provide a complete picture of the impact of fair trade. Fair-trade producers are able to access credit at lower interest-rates and are less indebted. Their children get more education, and their houses have more amenities, from tiled floors to actual beds. Fair-trade producers are more food-secure (although this is very relative), drinking more milk and eating more beef and cheese (p. 175). Further, the very wages that drive down the net income of fair-trade producers engaged in organic production are of benefit to the entire community as the fair-trade, organic premium does not only stay with the original producer, but is transferred to their labour-force. Finally, the small-scale, shade-grown, organic production-methods have important ecological benefits over the large-scale, sun-grown system or, even other agricultural commodities such as cattle or drugs (p. 135).

Jaffee’s painstakingly researched conclusion is that, ‘fair-trade clearly makes a tangible difference in producer livelihoods’ (p. 198). Yet, it is not sufficient to transform the lives of those devastated by the coffee-crisis, or even convince many other farmers in the region to seek fair-trade certification. It should be remembered that this modest conclusion is, in some ways, a best-case scenario, in that Jaffee examined a relatively strong and cohesive
co-operative. Nonetheless, other fair-trade case-studies have come to similar conclusions. Christopher Bacon finds that, despite a significant income improvement for fair-trade producers, it is ‘not sufficient to offset the many other conditions’ that have devastated coffee-communities during the crisis.7 More ominously, a study of two Nicaraguan co-operatives concludes that there are, ‘few signs that fair-trade has enabled small farmers to improve their standard of living considerably’, although there have been significant capacity-building activities.8 Loraine Ronchi’s study of fair-trade co-operatives in Costa Rica is, perhaps, the most positive. She found that, in addition to an income-increase of 39% compared to conventional producers, fair-trade farmers enjoyed many other benefits from agricultural training, to increased access to credit. She concludes ‘involvement with fair-trade in the early 1990s was almost indispensable to their survival’.9 On balance, a review of the admittedly scant literature on producer-impacts would mirror Jaffee’s conclusion that fair-trade does improve the lives of producers, but does not improve them much.

If fair trade can be considered as a development-project, these modest gains are even more limited than the case-studies suggest. Even with the tremendous expansion of fair-trade into new products and within existing offerings, the vast majority of developing-country producers are still excluded. Under these circumstances, fair trade could actually divide producers as they compete for fair trade’s slender gains. However, fair trade has, at least historically in its most progressive pioneer-commodities, attempted to create solidarity between producers. In fact, many of the case-studies find that co-operatives involved in fair trade have a stronger sense of community, increased democratic control through cooperative structures and are more politically active. Sarah Lyon argues that perhaps the most important benefit of fair trade is the expansion of human rights that results from the democratic structure and mutual aid in a co-operative setting.10 Even more difficult to quantify, but no less important, is the increased confidence and sense of belonging to a meaningful movement that Ronchi attributes to being part of the fair-trade co-operative network. Anna Milford found that the fair-trade social-premium freed up funds for broader political programmes.11 Finally, according to Fridell, the UCIRI co-operative played an important role mentoring other co-operatives and organising politically to lobby for their interests (p. 221). This is not to claim that, as fair trade continues its mainstreaming trend, it will not foment divisions between producers. Indeed, as it expands its certification into non-co-operative organisations, this becomes much more likely. However, there is a strong historical tradition within fair trade to foster solidarity, most obviously within co-operatives, but also between them.

Seeing potential despite the weak benefits he enumerates, Jaffee provides some quite practical solutions to strengthen fair trade. Although he insists that multinational corporation (MNC) marker-dominance makes them necessary partners in any successful fair-trade future, ‘the movement needs to have firm control over the terms on which corporate “partners” can participate in the system’, something they are not currently doing by signing up corporations with few, if any, commitments to making real changes in

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problematic trading practices (p. 220). First, fair trade must return a larger percentage of the final price to producers. A first step would be to raise the minimum-price (which, against the current pressure by MNCs to eliminate it, FLO has recently done), but a more ambitious proposal would be to ensure that one third of the retail-price went to producers. Second, producers need to be better represented in fair-trade decisions in order to address many of their concerns, from the cost of certification, to the Northern-imposed criteria of organic production. Finally, fair trade needs to increase the transparency about the percentage of each company’s sales that are under the certified label and get firm commitments to increase this percentage over time. However, even with these dramatic changes, Jaffee insists, in agreement with Fridell, that

we cannot rely on the market to provide economic and social justice. Only concerted action by states and other global institutions will ultimately be able to counteract the harmful effects of global free trade. (p. 263.)

State-led fixes and consumer-based solutions

This is undoubtedly the case. However, there are a couple of problems with this approach, having to do with the history and structure of state-led initiatives, and with the current dominance of capitalist class-interests in determining state-priorities. First, it is important to ask whether state-centred alternatives are actually superior. Their history, and the fact that they have often taken the form of cartels, gives us reason for pause. Fridell, who is the strongest proponent of state-led initiatives, holds up Costa Rica, which had a relatively protective welfare-state, reasonable land-distribution and a strong co-operative-movement under the ICA as a preferred alternative to fair-trade. He argues that this ‘did represent a movement towards a model of a new international economic order in which fairer prices, labor rights and a more just distribution of global wealth would be state-enforced and universally applied’ (p. 172).

While the domestic arrangements within Costa Rica are certainly an improvement on those in many producing nations and the broad-based welfare-state is superior to solutions that only include one specific sector of the economy (coffee, for example), holding up the ICA as being preferable to fair trade is more problematic. Should all coffee be produced under Costa-Rican conditions, with an ICA in place, the consequences of coffee-production would be much more beneficial than at present. But the logic of capitalist competition suggests that these conditions would be unlikely to hold. While Fridell sees the decline of the ICA in largely political terms, there are also some very real economic problems with holding this sort of cartel together. Most obviously, the high price creates an incentive for new producers to enter the industry and for existing ones to exceed their quota, collectively undermining the supply constraint that props up the price. Daviron and Ponte point out that the ICA, even while it was functioning at its best, was ‘undermined by free-riding and squabbling over quotas’.12 Further, ‘tourist’ coffees were routed from producing nations through countries outside of the ICA and then sold to ICA consuming nations.13 The

13. Ibid.
economic history of commodity-cartels is one of repeated failure due to exactly these sorts of problems.

There is also no reason to believe that, even should the impossible occur and the cartel hold together, the benefits would go to organisations with laudable social and environmental production-practices. Unless all new and existing cartel-members were bound by the same, rigorous regulatory régime (which is extremely unlikely) the low-cost producers would have an advantage. With no way for consumers to distinguish between the differing production-standards, the more exploitative will out-compete the more progressive. If, as Fridell correctly insists, fair trade does not really create a sense of solidarity between the consumer and producer (although, with ATOs, there is certainly a solidarity between the importer and producer), at the very least the consumer is made aware of the conditions under which their coffee is produced and that superior social and environmental conditions are possible. This is not a function of the ICA, which does nothing to force the consumer to confront (even in the abstract, moral manner of fair trade) the impact of their consumption, or even make them aware of these consequences.

A related concern for Fridell and Jaff ee is fair trade’s dependence on Northerners acting as consumers in the market, as opposed to as citizens acting politically. In order to meet with any kind of lasting success, fair trade must become more than a voluntary purchase for those with both a conscience and disposable income. The latter, it must be noted, is increasingly scarce among the working class of the North. This leads to the possibility that fair-trade participation in the North will roost in the cafes and markets of the enlightened or image-conscious middle and upper classes. As Marx points out, when I operate in the market, ‘the extent of the power of money is the extent of my power’. Given this, if struggles for equality are housed in the market, the poor essentially become the objects of charity. In our case, if buying coffee (or bananas or sugar) becomes the end-point of activism, the capacity for solidarity will be rationed out by ability to pay – with the poor in the North excluded from expressing any desire they might have to create a more just world. Fridell reports that ‘ethical consumers’ do come from the middle and upper classes, and that fair-trade purchases are a form of conspicuous consumption – a marker of class-status, rather than an expression of solidarity with Southern producers. On the critique that fair trade is a ‘rich man’s game’, three observations are worthwhile that, taken together, further highlight the contradictions of the system. One is that it need not be so exclusive. Its snobbish image is partly a result of a decision taken by the labelling organisations that comprise FLO, which gives a free hand to licensees to determine retail-prices. The result is a wide range of retail-prices for fair-trade coffee, some of which are comparable or only very slightly higher than conventional varieties. On average, however, fair-trade goods cost about 10% more than conventionally traded goods of similar quality – a not insubstantial amount. Mainstreaming actually offers the most hope for overcoming the class-character of fair-trade. Wal-Mart sells a fair-trade blend for $5.99/lb – as cheap or cheaper than most conventional coffee. Of course, it does so by paying poverty-wages and relentlessly pressing all of its suppliers to do the same (or otherwise cut costs). So, mainstreaming could reduce the exclusionary nature of fair trade, but would, at the same time, drastically reduce the meaning and content of ‘fair’ trade. Second, while exclusive, fair trade’s model of income-transfer is highly progressive. It transfers money from the rich in the North to the poor in

the South. Increasing working-class participation in the system would actually make the transfer more regressive. Finally, the same can be said for state-led initiatives like the ICA, which would increase the costs of commodities covered by agreements for all consumers in the North – rich and poor alike.

Fridell is correct that consumers are indeed fickle and the terrain of consumption is certainly one that the corporate world will find friendlier than activists. These are, no doubt, difficulties that fair trade must inevitably cope with and might indeed cause its downfall. However, there is no real reason to suppose that the ICA-style solution is any less fallible. Fridell and Jaffee both finger the fickle whims of US international foreign policy as the cause of the ICAs downfall. If Northerners are likely to abandon fair trade in their role as consumer, are they any less likely to insist on supporting Third-World environmental and social conditions in their role as a voter? Any political response to poverty and environmental degradation that fails to constantly remind people that a commodity embodies a specific labour-process involving specific social relations with differing consequences for workers and for nature – as the ICA failed to do – will be unlikely to last. Furthermore, the sharp distinction drawn between political consumerism and some kind of ‘real’ politics (as represented by state-led, purportedly democratically supported initiatives) is, while analytically and normatively vital, not well reflected in the current reality. Politics in the North currently has little to distinguish it from consumerism (a process designed and controlled by élites in which the rest of the public has a largely passive role). Subjecting the ICA and similar initiatives to critique as a solution to inequality under current conditions is not to say ‘abandon politics and embrace the market’, but, rather, to highlight the obvious reality that massive political shift at the level of the general public is necessary if a state solution is to become feasible. Given the skew of political strength and organisation in most countries toward the capitalist class, the prospects for a democratic, state-based ‘double movement’ in the medium run are nil. It is here, in imagining how the power of states might be eventually brought to bear in the cause of global justice, that we need to understand fair trade’s role within a broader project of social change.

**Fair trade’s potential**

Without such an understanding, these three books combine to form a grim ledger of fair trade’s present and future. Jaffee’s rigorous accounting reveals the limitations of fair trade’s effects on producer-incomes. The modest goal of producing ‘shaped advantage’ for producers is barely being realised. As for the more sweeping goal of ‘transformation’, the mainstreaming trends documented most fully in Raynolds et al. are steadily eroding this possibility.

Fridell argues that fair trade’s inability to be transformative is inherent, suggesting that social movements built and dependent on the market are doomed to replicate its flaws. He argues,

> in accepting the core premise of consumer sovereignty, fair-traders are taking as given current highly unequal and environmentally destructive global consumption

patterns... Thus fair-traders are seeking greater global justice on the basis of highly unjust global consumption patterns. (p. 267.)

There is no question that this is the case, but, as a criticism of the movement, it is misplaced. To take inequality and environmentally-destructive consumption as 'given'; to work on this 'basis' is not necessarily to accept them as either legitimate or just, nor is it necessarily to reify them. It is simply to work within one's historical context. On the issue of environmental destruction, there is no question that Northern consumers need desperately to reduce their levels of consumption to create ecological space – not just for Southerners, but for other species and for the functioning of life-supporting ecological processes. One of the things that fair trade offers is a consumption-model (higher prices charged for sustainable and liveable production-processes – processes prioritised not just by consumers but by producers as well) that would swap 'quality' and 'process-based' consumption for the current model of purchasing large volumes of junk produced under invisible, brutal and damaging conditions. On the issue of inequality, fair trade clearly does contain an element of 'consumer sovereignty' and it relies on Northerners' ability to pay for better working conditions, sustainable forms of agriculture, and even an alternative model of productive relations (co-operatives). However, developing a system that works on the basis of existing inequality is nothing other than a recognition of what capitalist relations and historical class-struggles have produced: inequality. If the goal is to transform that inequality, rather than perpetuate it (and that is indeed a rather large 'if' in the currently contested direction of the movement), this is hardly a cause for criticism. It is certainly true that many movement activists still hold on to a parallel, much more radical, vision for fair trade.

Both Jaffee and Fridell rightly point out that fair trade cannot do what states can do. It cannot reorient national class-based inequalities (say, in terms of land-distribution) and it cannot work toward a new international economic order, as some states attempted to do in the 1960s and 70s. All of this is true. However, with a few notable exceptions in South America, states have all but abandoned this project. Having been the targets of a sustained, class-based political project, states now act nakedly as facilitators of accumulation, and seem to lose little sleep over maintaining their legitimacy as promoters of the public good, let alone as guardians of the oppressed. A counteracting political project from below is required in the North and the South to redirect states' priorities. The political force required to build genuinely democratic states, pursuing an agenda of social justice and equality with enough popular support to shore them up from both domestic elite and international assaults that will surely come will not emerge from nowhere.

In the South, rural semi-proletarians, small-holders, and workers need a reasonably stable economic livelihood. They need to be released from bonds of economic exploitation that keep them on a debt treadmill and beholden to local and national elites. They need spaces to practise democracy (such as their co-operatives). They need funds to develop political organisations and to reorient their capital-stock away from pure export-orientation and towards production using local resources to meet local needs. They need to have links of solidarity with Northerners to provide them with a modicum of protection and recourse in the face of violent attacks from opponents. Fair trade cannot provide all of this, but it can provide support for parts of it. It is one way that Northerners can express solidarity at a level beyond the symbolic for the various political struggles of small farmers in the South. The income-transfer resulting from fair trade provides vital resources for the development
of co-operative organisations that can and do provide an institutional base for ongoing fights over things like land-reform and indigenous rights.

In the North, fair trade can play a different, but equally vital role in transforming politics. At its best, fair trade uses some of the most quotidian commodities as a springboard for interrogating the injustices of capitalist production and exchange – including state-support of those injustices. It can do so by chipping away at the fetishism of commodities. Generalised commodity-exchange has resulted in the abstraction and equivalence of profoundly different labour-processes. Changing the primary question in the act of consumption from ‘how much for how much?’ to ‘who made this, how, and with what consequence?’ is an assault on commodity-fetishism, and on the cultural buttresses supporting global capitalism. Once the question has been posed for coffee, or tea, or wine, it becomes more difficult to maintain a system of collective blindness concerning the relations of production and their pathologies. Through initiatives like ‘fair-trade delegations’, speaking tours, and exchanges, fair-trade organisations use the commodity to encourage non-market based forms of political action in an attempt to prevent the ‘commodification of solidarity’ that could result from consumer-based activism. The success of such initiatives is not well studied, and, as Fridell points out, the effectiveness of making the launch from market-based to non-market-based activism in the case of fair trade needs evaluation. Initial research on this however, does indicate that participants in political consumerism are not any more alienated from conventional political institutions than non-participants, and they are actually more likely to take to the streets. Initiatives like fair trade thus appear to be an expansion of the political repertoire, rather than a substitute for other, more collective, forms of political action.16

Conclusion

Given the importance of reducing commodity-fetishism, the reduction in fair trade’s ability to accurately expose and represent production-processes that has been an effect of mainstreaming is a, perhaps the, major threat to the movement. While struggling internally over this, the movement has responded to the shifting structure of political opportunity by moving along a trajectory that embraces neoliberalising agents as partners, muddies the meaning of the fair-trade label, and embraces the market as a sufficient mechanism for addressing poverty and environmental degradation. As such, it faces extraordinarily high costs in terms of its radical potential and even its long-term viability. The move to certify different products has resulted in the fair-trade label standing for different production guarantees in each commodity. Indeed, the label can even mean different criteria for the same commodity. Certifying plantations alongside small producers is not only an important dilution of one of the founding principles of fair trade and one that crucially differentiated fair trade from its other, less ambitious ethical rivals. Perhaps more importantly, it also contributes to commodity-fetishism. By placing remarkably different conditions of production under the exact same ethical label, fair trade is no longer revealing the social and

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environmental conditions of production, but hiding them. This is well captured by a quote in Jaffee's book from Jonathan Rosenthal of the workers' co-operative and fair-trade pioneer Equal Exchange:

We're so concerned with marketing and brands that we almost overlook the human reality of what we're talking about…. In the rush to grow fair-trade, we are increasingly not willing to tell the truth…. We're nothing if we're not telling the truth. That's the most radical act we can do, in my opinion. More important by far than paying a minimum price, or any of the other things. (p. 262.)

If fair trade proposes itself a solution to inequality, it is all that Fridell accuses it of being. If it organises itself as one tool in support of political change in the North and South, it can be more. While Fridell is correct in arguing that it is mainstreaming's much more limited vision of fair trade that currently dominates, fair trade's transformative potential is much broader than he admits. While fair trade may be engaged in the market, at its most ambitious (as is the case with coffee), fair-trade forces consumers to confront the conditions under which their goods and services are produced. In the coffee example, it even encourages alternative relations of production by dealing with small-scale producers organised into democratic co-operatives. Turning to the market, and to the voluntarist, member-specific vehicle of fair trade cannot be a solution. It can, however, be a first step and a continuing support during a process of transformation.

Reviewed by
Ian Hudson
University of Manitoba
hudsoni@ms.umanitoba.ca

Mark Hudson
Northern Arizona University
mark.hudson@nau.edu

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Abstract
This article reviews a cross-section of the globalisation-literature written prior to the unfolding economic crisis of 2007. It assesses the literature in terms of its apprehending of changes in capitalism and the prospects for social change that are envisioned.

Keywords
globalisation; neoliberalism; capitalism; state; Fordism; Keynesianism; Marx, socialism

Critical International Political Economy and the Challenge to Global Markets
Critical international political economy (IPE), has long contributed to analysis of the world economic phenomenon of globalisation. But rarely has it problematised capitalism with regards to globalisation. Even prominent Marxists have blithely assumed capitalism qua globalisation to be unshakeable. In the words of Panitch and Gindin: ‘We must dispense with a notion of “crisis” as something that leads capitalism to unravel on its own’. Across writing on globalisation, two substantive issues have routinely been addressed: globalisation is ‘defined’ and its essential contours outlined, and attempts are made to identify the potential for transformational socio-political action inherent in the trajectory of globalisation. However, the latter endeavour has also proceeded in the light of views of the strength and perduring of capital. With economic winds rapidly shifting, and broad mass public interest sparked in Marx and the theory of Capital, a lingering question is whether forces for change have been hampered by views of the purported strength of capitalism. As we review globalisation-debate in writings antedating the current unfolding malaise let us keep the foregoing points in mind.

The debate within critical IPE has largely focused on two alternative definitions of globalisation. First, globalisation is viewed as an outcome of the inexorable ‘logic’ of capitalism, simultaneously widening the spatial field of marketisation and then deepening its impact as ever more areas of social life, including protest and resistance themselves, are

1. Westra 2003 constitutes an exception to this trend.
‘commodified’. Second, globalisation is understood as a ‘project’ in which a set of deliberate policies, gathered under the rubric neoliberalism, are being foisted on the world.

Each of the volumes reviewed here, while animated by differing theoretical traditions within critical IPE, enters the debate on the side of accepting globalisation as increasing the internationalisation of economic relations; though recognising that the processes of internationalisation generate extreme asymmetries of wealth-distribution and economic power. And each volume seeks to conceptualise globalisation as a reflection of the policy thrusts of US-led neoliberalism. Finally, each volume draws specific anticipated policy implications from its particular definition of globalisation.

*Anti-Capitalism*, edited by Alfredo Saad-Filho, is the only avowedly Marxist approach to globalisation among the volumes. It recruits a cast of leading Marxist theoreticians in a three-pronged endeavour. First, the utility of Marxian categories of analysis is defended. Second, Marxist positions on globalisation-debates are advanced. Third, issues of capitalist crises and the transcending of capitalism are treated. Saad-Filho’s introductory chapter seeks to dispel four myths of globalisation: that it is simply the freeing of markets from state-interference rather than neoliberal state-policy; that global markets ensconce free competition rather than widening global inequalities; that unpalatable impacts of globalisation stem from unethical corporate behaviour rather than dynamics of capitalism per se; that the neoliberal fixation upon global democratisation is progressive rather than a calculated means of exacting neo-liberal reforms in developing states. Among the chapters on Marxian categories, Costas Lapavitsas’s and Paul Burkett’s contributions are notable. The former demonstrates the utility of problematising money in analysis of capitalist markets; something which is elided in neoclassical economics, given how the formative neoclassical notion of opportunity-cost essentially depicts ‘trade-offs’ of goods akin to a situation of direct barter. Burkett salvages the ecological pedigree of Marxism and draws out the implications of this for class-struggle. The section on Marxist analysis of globalisation is extremely rich. Highlights include: Ellen Meiksins Wood on the persistence of national states and their role in the new ‘imperialism of globalisation’ (p. 138). Suzanne de Brunhoff deals with the world economic implications of the transformed relationship between financial and industrial fractions of capital. John Weeks tracks the exponential increase in private-sector debt of developing states which flows from financial deregulation across the world-economy.

Contributions to the final section of Saad-Filho’s *Anti-Capitalism* approach the issue of alternatives to neoliberal globalisation through core Marxist concepts: capitalist crises, class-struggle, the role of the state and socialism. Fred Moseley, for example, investigates questions of the rise and fall of profit-rates. John Holloway catalogues the growing list of oppositions to neoliberalism from the Zapatistas to the attacks on the World Trade Center and queries whether the quiescence of the working class is reason to dismiss class-struggle. His answer is that the separation of propertied and property-less of capitalism is class-struggle (p. 230) and that class-struggle is a coalescence of all the worlds’ struggles to the extent they are affected by these. Michael Lebowitz’s chapter takes an orthodox position in defending the state as the necessary site of socialist transformation and the industrial working class as the agent of change. Finally, both Lebowitz and Paresh Chattopadhyay quote Marx to the

4. See, for example, Jameson 1991.
Cohen and McBride's edited effort *Global Turbulence* combines papers from an IPE conference at Simon Fraser University in Canada with commissioned chapters. In the latter category is the Marxist perspective of Leo Panitch that sets the tone of the volume as the opening chapter. The key concern of Panitch is to dispel the view that globalisation leads to the retreat of the state. Rather, for him, ‘far from escaping the state…. global capitalism has had to effect globalization through their agency’ (p. 17). He then proceeds to chronicle how this occurred in response to the needs of capital-accumulation in the wake of the postwar, ‘Fordist’ boom. Co-editor Stephen McBride's contribution complements Panitch demanding that IPE acknowledge the institutions of neoliberalism as ‘systems of power designed to sustain the power of some actors and limit that of others’ (p. 32). Succeeding chapters in the first section of this volume, on ‘the changing nature of the state’, follow-up on the concern of Panitch examining in detail means through which various policy-initiatives of states ‘manage’ globalisation.

The policy-implications of *Global Turbulence* are the most straightforward among the volumes reviewed here. Again, the tone of the volume is set by Panitch. If, as he asseverates, globalisation is orchestrated through state-agency, then presumably, given the persisting efficacy of the state, it can also be dismantled accordingly. For Panitch, the process involves radical ‘reforms’ beginning with ‘capital controls’ and complemented by ‘inward-oriented economic strategies’ (pp. 22–3). The agents are governments and state-personnel ‘who will try to disorganize the capitalists, while helping the people get organized’ (p. 24). Chapters in the second section of the volume on ‘strategies for dealing with global turbulence’ confirm the mixed record of state-responses to globalisation. Neoliberalism, as Jeffrey Ayres claims in his contribution, has elicited a ‘contentious politics’ of ‘transnational protest’ (p. 89). Timothy Lim evaluates improvements in conditions of foreign migrant-workers in South Korea concluding that a ‘seemingly powerless social group can…. challenge historically entrenched practices of exploitation’ (p. 153). Although it may be immediately interjected here that the bettering of conditions among migrant-workers stems from a general improvement in the wages and benefits of Korean labour as a whole during the recent waves of democratisation in that state. But, there is mounting evidence that, with ruthless competition from China, gains made by labour in South Korea are likely to be short-lived.6 Chris Roberts's piece confronts enthusiasts of lean production with evidence that so-called ‘global best practice’ and industrial ‘benchmarking’ encounter resistance among unions ensuring far from homogeneous implementation. Though, as he puts it, ‘this may simply result in the competitive ratcheting-down of the quality of working life’ (p. 168).

In *Globalization and Inequality*, John Rapley addresses the question of ‘régime’ stability, where the concept of régime developed in international-relations theory is transposed to comparative politics in terms of the explicit ‘norms and obligations’ systematising relations between ‘governors and governed, and between dominant and subordinate classes’ (pp. 6–7). Neoliberalism, according to him, sunders the key components of régime-stability (p. 8); that is, while neoliberalism achieves success in what Rapley refers to as its ‘accumulation regime’ to the benefit of dominant classes, it fails miserably with its ‘distribution regime’

which is the wellspring of mass consent among the governed towards a régime. According to Rapley, the preceding régimes of the postwar period, Keynesianism in the North, developmentalism in the South and Communism, all represented successful distribution régimes, but, when confronted by the need to respond ‘flexibly’ to a globalising economy, they foundered as accumulation-régimes (pp. 78ff.). In this sense, as with Panitch, neoliberal globalisation responds to a looming ‘accumulation crisis’. Rapley then covers the familiar debate about the potency of the state, maintaining with the contributors to Anti-Capitalism and Global Turbulence that the power of the state is marshalled to achieve neoliberal policy objectives. These, as Rapley puts it, yield a world-economic outcome where ‘the principal polarity is not between rich and poor countries, but between rich and poor people across the globe’ (p. 88). The resulting global régime’s ‘legitimation crisis’ manifests itself in ‘the return of tribal politics’; something reflected in the ubiquity of ‘postmodern politics’ – identity, ethnicity, far-right racism, fundamentalism and so on, which in the more deprived and vulnerable areas of the world lead rapidly to open violent conflict and even to the failing of states (Chapter 5).

Rapley characterises neoliberalism as ‘inherently unstable’ and makes his position clear in opposition to the work of Panitch and intellectual direction of contributors to Global Turbulence that ‘a return to the Keynesian welfare state… is no longer an option’ (p. 164). Rapley then offers two possible scenarii to solve the so-called neoliberal distribution-crisis:

One is that the Third World will have to be prevented from developing to the level of the First World. The other is that the rich countries may have to contemplate slowed growth or even reverses in their levels of output. (p. 166.)

To be sure, a case can be made that Rapley’s first scenario is already being realised in US and IMF policy toward the Asian economic crisis that arrested the development of the East-Asian ‘miracle’ economies in the 1990s.7 As per current US policy to support its ‘free way of life’, Rapley’s scepticism over the second scenario is certainly warranted. Finally, Rapley holds out the possibility that a renewed ‘populism’ may ultimately challenge neoliberalism, though he is vague on the specifics of this.

Pierre Bourdieu’s Firing Back is a collection of essays delivered as public talks during 1999/2000. For Bourdieu, globalisation is ‘a pseudo-concept, at once descriptive and prescriptive’ akin to the perspective of ‘modernisation theory’ that dominated early postwar development-thinking (pp. 84–5). On the one hand, in common parlance, globalisation simply refers to the myriad processes of international connectedness. On the other hand, as an expression of neoliberal policy-initiatives, globalisation is a ‘political creation’. Bourdieu is unequivocal here that, far from reflecting the ‘withering away’ of the state, it is the concentrated power of the modern state that, paradoxically, is deployed in enforcing neoliberal policy even though globalisation qua neoliberalism tends to ‘disarm’ states. He further maintains that states serve the strengthening of a new international institutional edifice of neoliberalism – IMF, WTO, GATS, etc. – which, in effect, amounts to ‘a sort of invisible world government in the service of the dominant economic powers’ (p. 49). Bourdieu’s book catalogues a litany of ills associated with globalisation and describes it as the ‘institution of insecurity’ and a ‘chronically unstable system’ (pp. 29–30). However,

7. See Westra 2006.
drawing upon his work on integrating sociological and economic studies, Bourdieu argues that globalisation’s near total domination at the levels of symbolic and cultural practices is its most insidious effect (pp. 36, 66ff.).

Much of Bourdieu’s, *Firing Back* is in fact a passionate call to academics to abandon what semblance of ivory-tower neutrality they maintain and involve themselves in the struggle for what he perceives is the future of the world (p. 11). As he puts it:

Today’s researchers must innovate an improbable but indispensable combination: *scholarship with commitment*, that is, a collective politics of intervention in the political field that follows, as much as possible, the rules that govern the scientific field. (p. 24.)

For Bourdieu, the ‘commitment’ by academics to join with varying shades of ‘activists’ is vital given the marshalling of intellectual resources by the protagonists of neoliberalism. But, what is to be the vehicle for mobilising this revolutionary nexus of academic/activist? Bourdieu begins by lauding the characteristics of new social movements. First, they eschew ‘traditional’ forms of political mobilisation preferring ‘direct participation’. Second, they are oriented toward realisable social objectives and adopt novel forms of action. Third, the movements recoil at neoliberal policy to the extent it encapsulates the will of corporate and financial capital. Fourth, they are internationalist. Fifth, their struggles emphasise solidarity (pp. 39–42). Bourdieu believes researchers can contribute to cultivating connections among such groups and assist them in overcoming disagreements amongst each other. However, a social movement fit to mount a genuine challenge to neoliberalism is, according to Bourdieu, ‘inconceivable without the participation of renewed trade unions’ (p. 46). This renewal must overcome multifarious divisions of craft, ethnicity, gender, etc. and become truly internationalist (pp. 58–9).

It is from within the context of the discussion of possible global futures among the volumes reviewed here that the most interesting points for debate arise. On the question of a possible return to the ‘economic nationalism’ of the Fordist/Keynesian economy and its ‘developmentalist’ progeny,8 embedded as these constructs were in a world-economy of international capital-controls and managed currencies, it must be realised that it is precisely in the crisis tendencies of that postwar mode of capitalist accumulation that neoliberal globalisation germinates in the first place. A fruitful method of unpacking the question is to be found in the research-agenda of phases of capitalist development.9 Competing views in this area of research largely agree that capitalist history is marked by world-historic phases of development, each characterised by a leading economic sector, concomitant technology-bundle, geo-spatial core and an institutional/policy-architecture supporting the market operation. In this sense, the constituents of a phase are the matrix through which long-term capital-accumulation proceeds; and these provide capitalism with the modicum of coherence or ‘fix’ it requires to viably reproduce the economic life of society.

On the question of the postwar-phase of capitalism, there is debate over what name best reflects its key characteristics and the role to be accorded to particular constituents in

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8. On the world economic relation between these, see Westra 2006.
9. Albritton, Itoh, Westra and Zuege (eds.) 2001 constitutes a recent anthology of the most important schools of thought in critical IPE in this research-domain.
guaranteeing the accumulation and expansion of capital. But there is consensus among competing theories that global capitalism and the economies of major capitalist states operated with a requisite symmetry up to approximately the late 1970s to constitute a world-historic phase of capitalism. Given the criterion major approaches to periodising capitalism adopt, it is questionable whether what is here referred to as neoliberal globalisation can be theorised as a phase of capitalism. Current globalisation contains some elements of the postwar-economy: automobiles and consumer-durables remain the core industrial sectors; MNC’s are the predominant form of business-organisation; the US is the key economy; and petroleum-energy dependence persists. However neoliberal globalisation also entails qualitative divergences. It is marked by a hypertrophied financialisation or ‘off ground’ economy, internationalisation of production which is becoming exceedingly predatory, global hollowing-out of industry, gutted labour-movements, enlarged service-sector, and an ambivalent institutional/policy-profile. The point is that the current structural transformation of the global economy mitigates against simple policy-reversals that could effect the outcome desired by Panitch even should the sort of coalition he refers to capture the state.

Interestingly, aspects of both Rapley’s and Bourdieu’s analysis lend support to the above position. The difficulty with Rapley’s work in particular, however, resides in his imprecise notion of ‘regime’. Here, we may refer once again to the research agenda of phases of capitalist development. The fact is, régimes of capitalism, can not be conjured up ex nihilo. Capitalism is a historically constituted mode of economic life that comes into being at a particular level of development of human material wants and productive technique. It demonstrates a measure of transformability with market-operations obtaining key institutional supports as captured in the study of its phases of development. However, and this has nothing to do with its revolutionary overthrow, capitalism reaches its limitations as technologies and energy-sources that are not capitalistically operable emerge on the horizon and as human wants spill out beyond the range of those which capitalism is able to satisfy. It is precisely in this sense that Rapley is saddled with a conceptual framework that prevents him from reaching the conclusions indicated by his own analysis: the instability, widening distributional asymmetries, institutional/policy-incoherence, failing of states, and proliferating conflicts of neoliberal globalisation suggest that we are in a period of transition to an indeterminate economic order, rather than in a phase of capitalism.10

Bourdieu’s framework as well, in occluding a problematisation of capitalism, fails to make the assessment of the current world-economy his own analysis indicates. Besides his emphasis on the chronic instability of neoliberalism as per Rapley’s work, Bourdieu’s characterisation of the neoliberal international institutional edifice as ‘an invisible world government’ captures the deeply contradictory nature of neoliberalism. That is, while neoliberalism is heralded as a return of the world-economy to the ‘rational’ discipline of the market over human economic affairs, it is hardly that. Rather, systems of rules emplaced beyond any possibility of democratic redress by mass publics operate to transfer global resources into the hands of an ever-narrowing cohort of wealth-holders. And it is this ‘accumulation by dispossession’, to use Harvey’s term,11 following from the global enforcement of these systems of rules, that yields the economic instability, failing of states

10. This view is developed in Westra 2003.
and so forth, associated with globalisation, and which suggests that the sort of coherence or fix of a stage of capitalism does not exist today.

This brings us to questions of alternatives to capitalism and the kinds of social struggles that might impel transitions to future societies. To Holloway in *Anti-Capitalism* and Ayers in *Global Turbulence*, who view the antiglobalisation protest-movement as reflective of class-struggle and/or a potential focal point for change, it must be said that the kaleidoscopic opposition to neoliberal disenfranchising is simply an *anti* movement, not one for something as in the case of specifically *working-class* struggle. Moreover, given how capitalism develops historically in tandem with the modern state, it makes sense, as per Lebowitz’s contribution to *Anti-Capitalism*, to consider the dismantling of capitalism in that geo-spatial purview. The problem is his view of the traditional industrial working class, purportedly bound in co-operative struggle against capital by its role as producer, as the sole transformational agent, because it is precisely this sort of industrial collective which neoliberal globalisation has eviscerated. And the assertion of Lebowitz and Chattopadhyay that transformational actors need not begin to develop blueprints for the future society is wholly unsatisfactory.

Following disappointments of the Soviet experience, few will ever consider participating in a movement for socialist change without a concrete image in hand of the institutional contours of the future society and clear evidence that it offers socio-material betterment. Following the discussion above on the fusing of economic and institutional structures required for long-term accumulation in a phase of capitalism, it should be evident that the possibilities for a specifically *capitalist* economy are limited. After all, claims for the efficiency of the capitalist market are predicated upon its ‘cost-less’ transmitting of information through the formation of objective prices in the self-regulating market. What the study of phases of capitalism displays is that, in the world beyond economics-textbooks, the transformations of capitalism culminating in the postwar Fordist/Keynesian welfare-state economy entail an asymptotic movement away from such ‘pure’ market *modus operandi*. What the work of Panitch and Rapley suggests is that there are limits to this movement that are in fact reached in the Fordist/Keynesian welfare-state crisis. Therefore, given the claim above that neoliberal globalisation constitutes a dismantling of capitalism, it is incumbent upon Bourdieu to tie his call for the building of a coalition for change to at least a rudimentary sketch of the liberatory society that will replace the current order.

In summary, if there is one major point to be drawn from this review article, it is the striking congruence of indictments of neoliberal globalisation offered up in writing informed by quite varied theoretical traditions in critical IPE. That such academic agreement exists should serve notice to the mainstream-economics profession that the claims for globalisation as realising the textbook-world of ‘perfect competition’, free trade and ‘trickle-down’ benefits have a diminishing purchase across a broad intellectual landscape. It may also signal the commencement of the sort of academic commitment to change for which

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13. This term is used by Hardt and Negri 2004.
Pierre Bourdieu called. The single lacuna in the volumes reviewed here is the lack of creative thinking about genuine alternatives to neoliberalism and capitalism.\(^{14}\) This, of course, in no way serves as an endorsement of the sanctimonious There Is No Alternative (TINA) premise of Margaret Thatcher. Arguably, the fomenting of transformational social action hinges on precisely the question of elaborating upon the institutional contours of a progressive, viable and eco-sustainable future society than on the continued recounting of the ills of globalisation, however important the latter remains.

Reviewed by
Richard Westra
Pukyong National University
westrarj@aim.com

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14. An example of recent work in the Marxist tradition seeking to remedy this deficit is Albritton, Bell, Bell and Westra (eds.) 2004.

Abstract
The review article reconstructs the reception of Gramsci's writings in Italy from the postwar-period to the present. Compared to the Italian debate that has given little attention to Gramsci's writings, except for in some periods such as the 1970s, Gramsci's fortune has continued to grow internationally. Recent Italian contributions, such as the book of Alberto Bugio, Gramsci storico, criticised in this review, remain indebted to an historicist approach that does not allow a use of Gramscian categories as an optic for interpreting and enacting the transformation of the present. The analysis concentrates on concepts such as ‘passive revolution’, ‘fascism’, ‘Taylorism’ and ‘bureaucracy’.

Keywords
Gramsci, Burgio, Benjamin, passive revolution, fascism, Taylorism

Gramsci in Italy and Abroad*

The international and Italian debates
Antonio Gramsci, Communist leader and intellectual of the first half of the past century, is undoubtedly one of the most noted Italian figures on the international stage in recent years. His work is so renowned that, as Eric J. Hobsbawm has pointed out, he is among the most quoted thinkers of our times.¹

The growing interest in Gramsci on the part of the English-speaking academic world (but important scholarship has also emerged in South America and Asia) coincides with a stalemate in the Italian debate.² This stalemate becomes even more remarkable when compared to the thriving debates of the 1970s, which witnessed an impressive series of contributions and the publication of the Prison Notebooks in the critical edition by Einaudi in 1975. Since the 1970s, non-Italian scholars have rediscovered some key themes of Gramscian thought, all focusing on the cultural dimension of the political struggle and centred on analysis in terms of hegemony of power-relations. Among the most important contributions, one could mention the work of Stuart Hall on the defeat of the English workers’ movement and of Thatcherism as a form of authoritarian populism; the remarks on the ‘popular creative spirit’ by American author Cornel West in his study on the

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¹ ‘The world list of those authors whose books are the most frequently cited in the international literature of the arts and the humanities includes few Italian names, of whom just five were born after the sixteenth century. In this list, neither Vico nor Machiavelli are included, whereas Antonio Gramsci is’. Eric J. Hobsbawm, Preface, in Santucci 1995, p. xi.

² In the 1980s, the interest in Gramsci went hand in hand with the process of social-democratisation of the socialist groups of Chile and Argentina: see Díaz in Santucci 1995. Another stream associates Gramsci with liberation-theology: see Porto 1999. In India, the Gramscian concept of ‘subaltern’ is at the core of the research done by the group of Subaltern Studies: see Guha 1988.
oppression of blacks in the United States; and the work of the composite galaxy of subaltern studies, which focuses on the subjective political aspects of the subalterns.³

The Italian debate, on the contrary, has been largely repeating itself for the last half century, in steady waves coinciding with the anniversaries of Gramsci’s death in 1937.⁴ In 1957, the most interesting contributions were provided by several intellectuals of the so-called New Left who criticised the one-sided interpretation of the Prison Notebooks offered by the leadership of the Italian Communist Party (PCI) that emphasised their consistency with Togliatti’s policy of national responsibility of the PCI.⁵ The latter, in fact, played a critical role in the process of social and political rehabilitation of the country after the War, as was evidenced by the PCI’s active participation in the constituent assembly that gave Italy a new constitution in 1948 as well as by its support for the first republican governments that followed the fall of the Fascist régime. These and other similar choices were dictated by the imperative of a full restoration of democracy in Italy after the authoritarian climate of the 1920s and 1930s; in no way were they seen as undermining the programme of radical transformation in the direction of socialism that the PCI had pursued since its creation. This strategy, however, was later rejected as opportunistic especially by those sectors of Italian society that had fought in the resistance against Fascism and which now denounced the PCI for having culpably frustrated the expectations of a socialist revolution, held back by its leaders and followers alike.

Remaining latent for almost twenty years, this contradiction between the PCI’s stated objectives and its actual policies was to erupt violently in the turbulent decade of 1968–77. Faced with the demands raised by a plethora of new social actors, the PCI failed to understand the reasons and meet the expectations of these new generations, opting instead to join the DC (the Christian Democrats who had ruled the country since 1948) in the staunch defence of the existing social and political institutions of the country in the name of national solidarity.

In 1967, the conference held in Cagliari reproposed a historicist version of Gramsci, unhelpful for explaining the situation of social and political turmoil in which Italian society was engaged.⁶ Gramsci was celebrated as one of Italy’s ‘greatest intellectuals’ and portrayed as a democratic rather than a revolutionary thinker. His most controversial choices, including those that had sometimes embarrassed the Italian Communist leadership, were deliberately neglected or neutralised by referring everything back to the historical context in which these choices had taken place.

The presentation that generated the most heated debate was undoubtedly Norberto Bobbio’s. The Italian philosopher tracked the origins of the Gramscian concept of civil society back to Hegel rather than to Marx and suggested looking at Gramsci as a ‘theorist of superstructures’ as opposed to the Marxist thinkers who, Bobbio claimed, had traditionally focused on the economic structures alone.

From 1975 to 1977, in light of the new critical edition of the Prison Notebooks edited by Valentino Gerratana, a series of readings appeared that were solidly rooted in careful philological reconstructions. This was undoubtedly the most vibrant period of the studies

⁴. A good account of the Italian debate can be found in Liguori 1996.
⁶. See the reports of the conference in Rossi 1969.
on Gramsci in Italy. Starting with the volume by Leonardo Paggi (Antonio Gramsci e il moderno principe, 1970) the legacy of the Sardinian thinker was increasingly appreciated in its own right rather than in connection with the policies of the PCI. A host of new approaches to the study of Gramsci emerged, such as those exploring its Leninist dimension, its relationship with the elitists (Michels, Mosca, Pareto), the influence exerted by Sorel, and more in general, the influence on his thought of the European culture of the time. It was also in this context that Gramsci was rediscovered as the theorist of ‘hegemony’, and the Prison Notebooks’ influence was felt on Althusser’s ‘ideological State apparatuses’. The Althusser-Gramsci confrontation turned out to be exceptionally enlightening in this period, both in terms of the criticism that the former made of Gramsci (the charges of heavy historicism and of the lack of any developed form of theorisation) and in terms of the influence that the latter exerted on Althusser, an intellectual debt that the French Marxist was to acknowledge only later in his life. Despite this revival, the interest in Gramsci was soon to fade away again and the 1987 anniversary passed by almost without notice. Throughout the 1980s, Gramsci was largely neglected. This can be explained both by pointing to the ‘crisis of representation’ of the PCI and by the fading of those movements which could have dared a rereading of Gramsci according to ‘heretical’ interpretations. As the historian of the workers’ movement, Paolo Spriano, sadly noted in 1986: ‘hardly anybody is reading [Gramsci’s] work these days’.

It was only with the 1990s that the Italian debate on Gramsci began to revive, albeit not without some hesitations. It was marked by the rediscovery of an anti-dogmatic Gramsci, who could not be reconciled with the ‘real socialism’ which had just been crushed under the heavy burden of its own internal contradictions. After this initial fascination with an almost postmodern Gramsci, the interest then shifted to readings of his work coming from other parts of the world as well as to philological interpretations of the key concepts informing his work. After the unproductive years of 1980s, the debate has been revived again thanks to a series of initiatives, not exclusively editorial, promoted by a group of scholars belonging to the Italian section of the International Gramscian Society (IGS). This group of people, belonging to intellectual traditions close to some currents in the old PCI and to some other areas of the Left (especially DP, Proletarian Democracy), has rekindled interest in Gramscian studies by working mainly on two fronts: on the one hand, lexical-conceptual research aimed at investigating in depth the internal nexus of the Gramscian discourse as it is crystallised around certain expressions (Brescianism, Lorianism, war of movement/war of position, integral journalism) or at studying the central concepts of Gramscian thought (passive revolution, philosophy of praxis, hegemony, ideology). The first fruits of this work can be appreciated in the volume Le parole di Gramsci (2004), which is the product of a year-long seminar examining and discussing the key and defining concepts developed by Gramsci. On the other hand, this group has reconstructed the intellectual parabola of Gramsci’s life by looking at the evolution of his thought through

7. The leading figures of the group are Giorgio Baratta, Guido Liguori and Fabio Frosini. See <www.gramscitalia.it>.
8. Baratta 2000 and Frosini and Liguori 2004. The volume by Frosini and Liguori collects lectures offered as part of a series of seminars held in Rome on the ‘Gramscian lexicon’. A second series of seminars is scheduled for the years 2006–8 and will most likely be followed by the publication of a second volume.
works of theoretical genealogy, such as Fabio Frosini’s *Gramsci e la filosofia*, or anthologies of selected writings, such as Angelo D’Orsi’s on the Turin chapter of Gramsci’s career. Furthermore, the IGS Italian section is currently working on a further and very promising project that is soon to be published: a *Dizionario gramsciano 1926–1937* [*Gramscian Dictionary*] comprising over 600 entries, each clarifying the specific meaning that Gramsci gave to them.

During the decade in which Gramsci was most appreciated worldwide, the Italian contribution, while clearly the most significant in quantitative terms, has nevertheless remained rather limited in terms of innovative thinking. Besides the above-mentioned works, the turn of the century has witnessed the publication of a series of collections of essays on Gramsci by renowned intellectuals and politicians, such as Palmiro Togliatti (the leader of the PCI between 1927 and 1964) and Valentino Gerratana (editor of the critical version of the *Prison Notebooks*); a series of thematic anthologies; and a series of political-historical reconstructions in which specific events are contrasted with Gramsci’s theoretical choices. Very few, however, have been authentic studies of Gramscian thought or accounts of the contradictions of late modernity through some of its categories, or even serious attempts at coming to terms with a way of thinking in which the subjective element is central. The international debate, as suggested above, has seen a lively production of works on Gramscian ideas and concepts in different disciplines: from sociology to anthropology, from linguistics to the political sciences, from philosophy to international relations. This growing interest has had two consequences: on the one hand, the adaptation of Gramscian categories to the most diverse contexts and political events, a sign of a thought whose significance is continuously updated; on the other hand, a corresponding lack of philological accuracy, of adherence to the actual text, in the interpretation of the theses of the Sardinian Marxist. Paradoxically, or perhaps not so paradoxically, this sort of betrayal of Gramsci seems to be very rewarding politically. The international debate is, in this respect, arguably much more interesting than the Italian one: without regard for philological accuracy and without reference to any standard interpretations, Gramsci has been embraced by theorists engaged and interested in the new social movements (the subalterns in India, the masses of peasants of the South of the world as well as the ethnic groups in the West) as a powerful theoretical weapon for understanding and criticising the dynamics of oppression. The rediscovery of the concepts developed in the *Prison Notebooks* around the world thus seems to be following a trajectory along which Gramsci’s theories are used to wage a political struggle, rather than employed for the teleological search for a *theory of history* or the repropposition of Eurocentric historicism. These readings thus redraw the contours of Gramsci’s thought and defy traditional interpretations. Italy, unfortunately, is lagging behind in the interpretations of Gramsci. Too often, we witness a portrayal of Gramsci similar to the interpretation traditionally proposed by idealistic historicism – an interpretation that, then and now, remains functional to a clear political position. In my view, a recent example of this tendency is Alberto Burgio’s *Gramsci storico*.

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13. See, for example, the use of Gramscian concept of ‘political society’ in Chatterjee 2006.
Gramsci and history

In Gramsci storico. Una lettura dei ‘Quaderni del carcere’, Alberto Burgio attempts to gather the fragments of the Prison Notebooks by following a particular narrative: the history of the advent and crisis of the bourgeois world. Burgio’s book is philologically accurate and well documented; it is the product of twenty years of interest in the subject, reconstructing piece by piece the fragmented structure of Gramsci’s notes with the expressed aim to ‘attempt to free this book [of history] from the prison of notes’ (p. 3). Gramsci wrote twenty-nine notebooks while in prison, in which there are more-or-less two thousand notes, many of which do not exceed one page in length. If this attempt at reconstruction restores, on the one hand, the unity of a thought that is certainly coherent despite its mode of expression, it risks, on the other hand, providing a unilateral interpretation in which some passages are privileged over others. However, as the book’s subtitle rightly makes clear, it aims not an exhaustive analysis but to present one particular interpretation of the Prison Notebooks.

Burgio reads Gramsci’s work as a book of history, or more precisely, as a theory of history, in which the emergence of the revolutionary subjectivity is followed and accompanied through its contradictions, so as to constitute ‘a critical theory of modernity, built on the background of a solid faith in rationality and progress’ (p. 286). This conclusion, significantly given in the last line of the book, expresses a significant dimension of Burgio’s rendition of Gramsci’s thought. In what follows, I will consider the strengths and weaknesses of this approach by commenting on some crucial passages of Burgio’s reconstruction.

According to Burgio’s reading of Gramsci, the history of the bourgeois world begins with the French Revolution and with its international victory: its principles, thanks to the restorations of the beginning of the century, are not defeated but rather, paradoxically, accepted and mediated with the interests of the feudal class through ‘passive revolutions’, which will lead to the instauration of nation states all over Europe.

This initial stage is characterised by the ‘conflictual cooperation between the bourgeoisie and the proletariat in the light of the “expansiveness” of the “new ruling class”’ (p. 56). The state abolishes some of the autonomies of the subaltern social groups, which had been kept limited by the use of force, only to recreate them within the state, this time tied to a hegemonic relationship within a tendentially unitary organic structure. With the bloody repression of the Paris Commune of 1871, the limit of the expansive capacity of the bourgeoisie begins to reveal itself for the first time: the pretention to assimilate society in its entirety does not go beyond economic interest, the very nature of the bourgeoisie as a class does not allow the overcoming of the principle of private property to take place. From this point forward, the relationship between expansion and dominion reveals the two sides of the process: on the one hand, hegemony favours dominion by transferring ‘into the power-systems the characteristic dynamism of its [the bourgeoisie’s] social praxis’ (p. 74); on the other hand, the enhancement of the role of the hegemonic function widens the sphere of the ruling class, modifies the power-relations and ends up becoming a factor of crisis.

In these passages, it is worth noting how Burgio reads the Gramscian text by following a very strict historicist approach, along the lines of those contributions of the 1960s which presented a Gramsci centred on elaborating a Marxism (in his words, a ‘philosophy of praxis’) that departs from the tradition of Hegel and the form in which his thought was imported into Italy in the idealism of Benedetto Croce. Needless to say, these readings of Gramsci are substantially supported by detailed references to the text: Gramsci studied
Croce in his youth and it was thus not by chance that his first training took place within the realm of idealism. Nevertheless, one could question the opportunity and usefulness of reading Gramsci in this way, that is, the correctness of the view according to which his ‘absolute historicism’ is in line with the tradition of idealist historicism. Historicism, as a theory of history, is, in my view, completely absent from Gramsci’s work. What Gramsci actually means by ‘absolute historicism’ is the crucial role that history has in the verification of the operative concepts of Marxism, and not a form of historical relativism, of empty empiricism according to which every fact is interpreted and read in its contingency and individuality. History, in Gramsci’s works, cannot be reduced to this idealist historicism; there is, in fact, something more at stake, something quite different, which seldom is taken into account in the interpretative dichotomy of Marxism as historicism or science. The most innovative elements of Gramsci’s discourse – that is, his studies on the subalterns, on ‘common sense [senso comune]’, his insistence on the complexity of the social groups that cannot be reconciled with the scheme bourgeoisie/proletariat, his interest in the cultural aspects of dominion and in their relationship with the mechanisms of discipline through hegemony – cannot be reconciled with the re-proposition of an image of Gramsci as merely the historicist Italian importer of the Third International. This reading is characterised by the following elements: the theme of a crisis that intensifies as it proceeds; the hegemonic dynamic that cumulatively open more and more prospects of action; the rigidity in the dyads structure-superstructure and objectivity-subjectivity. This interpretation leads to a somewhat mechanical translation of the Gramscian discourse: the action of the historical subjects is almost entrapped in a linear development and unable to revolutionise the real if not within the rigid boundaries of the given objective conditions and of the development of its own organisations such as the party and the labour-union.

The conception of historical time is, in this respect, of crucial importance. According to Burgio, Gramsci portrays the ascent of the bourgeoisie in Europe in the form of a ‘radical historical non-contemporaneity’ (p. 64): in France, there was a radical caesura exempt from any compromise, whereas, in the rest of Europe, ‘passive revolutions’ broke out that metabolised – instead of suppressing – the old ruling class. This scheme, which initially seems to have the effect of causing the crisis of the linearity of historicist time, is, in Burgio’s account, amended by the advent of 1871, which instead marks the re-consolidation of historical time. The ‘passive revolution’, from now on, in Burgio’s reading of Gramsci, becomes the form in which the old social structure persists, until the subjective conditions can develop and let the elements of the new structure impose themselves.

Gramsci’s concept of ‘passive revolution’, imported from the Saggio storico sulla rivoluzione di Napoli (1799) by Vincenzo Cuoco14 and re-elaborated in its meaning, can be interpreted in other ways as well: one interpretation, for instance, could consider it as the most genuine expression of the form of historical time of the bourgeoisie, a form which is not altered – even if corrupted – in its expansive dimension and which does not limit itself to resistance or mere survival (as Burgio would suggest). Its distinctive elements consist in describing history only in its ethical-political dimension, which, in molecular fashion, modifies the objective conditions and from which every element of conflictuality has been expunged. This reading restores a concept that describes the truth of bourgeois modernity, and not only a symptom of its residual phase of decline. To propose an interpretation of the passive

revolution as an incomplete revolution, as a bridge crossed only halfway because popular support never materialised, does not help us to understand the logics of consent and coercion that originate from that historical episode. The passive revolution is, instead, complete precisely because transitional. The historical time in which it is tied up is very similar to the ‘homogeneous and empty’ time of Walter Benjamin’s ‘Theses on the Philosophy of History’ (well known as ‘On the Concept of History’): a time in which any subaltern insurrection threatens the whole structure by elevating itself to a subjective principle of a new order and of a different temporality. Benjamin’s critique of progress seems to be developed along the lines of Gramsci’s passive revolution. The time of the victors, the time of the bourgeoisie, does not allow any other path but the one determined by its linear progression: homogeneity imposes conformism just as emptiness prevents any possibility of subjective construction. Common to both Gramsci and Benjamin is the perception of the historical time of the bourgeoisie and of the way in which the revolutionary class may break its statute. It is not accidental that Benjamin developed his theses exactly in opposition to Social-Democratic historicism – a fair representative of a ‘history of the victorious’ (Thesis VII) that ‘culminates in universal history’ – by pointing out that ‘nowhere does the materialist writing of history distance itself from it more clearly than in terms of method’ (Thesis XVII). If, for Gramsci, the sources of polemical engagement are the speculations of the idealist philosophies of Croce or Gentile, in Benjamin the rejection of historicism is associated with the critique of Social-Democratic parties and the idea of progress that characterised their action. As much as it may seem odd to an Italian reader still attached to the cultural habits or paradigms of the former PCI, the encounter between Gramsci and Benjamin may reveal more that is of interest for the current age than the an encounter with Croce.

Along these lines, it is also possible to re-read the two phenomena which Burgio sees as the main answers to the ‘crisis of civilisation’ of the bourgeois word: fascism and Taylorism. The latter are two different answers, two passive revolutions in two different contexts, but which converge in their purpose: to amend the destabilising elements and re-propose a model of development able to relaunch the hegemony of the bourgeoisie. In this context, fascism, however, seems to present itself as a regression to premodern logics of dominion: more precisely, a ‘regression to the economic-corporative phase’ (p. 170). Politics is once again about a mere exercise of power: the reasons of class surface again in their brutality after a period of progressive compromises. This regression is apparent, Burgio contends, with the emergence of private powers that are not subjected to democratic control in the sphere of public policies: bureaucracy, ‘the very embodiment of the pre-modern autocratic principle’ (p. 181), becomes a political party, thus causing the collapse of democratic legitimacy. In my view, however, to read the advent of the bureaucratic forms of organisation and of power as a return to a premodern past is, at the very least, misleading. The analyses of Max Weber, while not studied directly in prison, were provided to Gramsci via Robert Michels and other German sociologists. The analysis of the Italian case induces Gramsci to acknowledge the preponderant role of bureaucratic administration in the creation and preservation of consent, its role as mediator of claims made by different social groups, and the role it plays as the main structure of the hegemonic balances between the dominated and those dominating in a country where, to use Gramsci’s own words, ‘the bureaucratic

hierarchy replaced the intellectual and political one’. This role, therefore, is not at all premodern, but, rather, quintessentially modern.

This (alleged) return to premodern logics notwithstanding, the hegemonic relationship remains, in Burgio’s reading of Gramsci, central to the understanding of fascism.

The idea is that the ‘pure coercion’ cannot neutralise the effects produced by the development of the ‘modern world’ and that therefore the contemporary society cannot accept a rule carried on with methods which in the past assured the power of those who held greater military power. (p. 188.)

The necessity of the hegemonic relationship is considered as an irreversible element of the ‘organic crisis’. Fascism is undoubtedly archaic in its ends, but is modern in terms of its means. Hegemony remains at the core of its dominion, even if it is now deprived of its assimilative function, ‘reducing itself to the instauration of relations of subordination that are functional to the conservation of the existing political order’ (p. 189). As a result, the fascist project, according to Burgio, does not differ for Gramsci from the liberal one in the nineteenth century: both defend a social order in which the state guarantees the private interest that is hierarchically superordinate and that, in so doing, forestalls that mobility which would be incompatible with it. Fascism is therefore unable to solve the crisis of civilisation, limiting itself to addressing it in its gravest phase, by providing a counter-strategy that contains but cannot ‘set the epoch’ (p. 20).

The view on Taylorism is, in some respects, different from that on fascism. The methods of organisation of the production-cycle developed by Taylor have an objective significance: they are rational, and potentially able to overcome the old economic individualism. The challenge of the American bourgeoisie is carried out in a social context that has been rationalised in comparison to the stagnant one of old Europe; it is thus capable of giving new impetus, starting with production, to the expansive phase of the bourgeoisie. However, the careful examination of Fordism provided in Notebook 22 and of the hegemonic relationships characterising it in Burgio’s reading of Gramsci reveals the failure of the American challenge, its clash with the limits of the bourgeoisie as a class, and its reduction to a solution of containment. The defeat of Fordism, Burgio further argues, does not consist in a stronger coercive pressure that the system is required to exert on the workers, but in the failing attempt to generate and to instill in the labour-force the automatisms key to the productive-process. Automatism is not, in this case, synonymous with alienation: on the contrary, when self-regulated and not imposed, automatism becomes an authentic ‘collective freedom’, as opposed to ‘individualistic discretion’. The only practices that may become automatic without coercion (or better, with a new type of coercion) are those that entail ‘behaviours that are capable of satisfying effectively the actual collective needs’ (p. 224), not those that are functional to the interests of American capitalists. It is exactly this limit that expresses the incapacity of the Fordist-Taylorist system to become a solution to the crisis:

17. ‘Setting the epoch’ is my translation of Gramsci’s expression ‘fare epoca’ (Gramsci 1975, p. 1681). It entails a caesura of the historical continuum by a historical-political movement and distinguishes itself from the simple notion of ‘duration’ in that it opens a new historical age. See Burgio 2003, pp. 18–21.
the partiality of the bourgeoisie as a class cannot withstand the autonomy of producers, as long as the bourgeoisie does not accept the end of its role as a ruling class. The results in automatism achieved through coercive imposition are mechanical and not internalised. Americanism cannot ‘set the epoch’.

In Burgio’s reading of the Prison Notebooks, bourgeois answers to the ‘organic crisis’ – fascism and American industrialism – both enlighten a hegemonic project doomed to clash with the partiality of class of the rulers. Furthermore, in the context of a consolidation of capitalism, the hegemonic function, in its distinctive ambivalence, favours both the strengthening of the logics of dominion and the growing autonomy and the critical consciousness of a potentially revolutionary historical subject.

It is in this consequentiality, in this inverse proportion established between bourgeois crisis and the consciousness of workers, in this predominant role of the historical (historicist) development at the expense of subjectivities, that Burgio’s provides, in my opinion, too linear a reading. The claim made at the end of the book – that is, of Gramscian thought as a ‘critical theory of modernity; built on the background of a solid faith in rationality and progress’ (p. 286) – does not do justice to the deep complexity of the Prison Notebooks. A very different reading can, however, be provided. Regarding fascism and Taylorism, for instance, one might emphasise how both are answers to the irruption of the masses in politics, to the eruption of the social and of the relations that constitute it in the sphere of power. Taylorism represents, above all, the attempt by the ruling class to organise this new scenario: while being a failure with regard to the ultimate elimination of contradictions, it succeeds (case-by-case) in disciplining the bodies and lives of the workers and thus allowing a more substantial extraction of relative surplus-value. The technical innovations of ‘objective significance’¹⁸ are therefore governed at the level of capital; the sociological analysis functional to social discipline finds its prototype in Ford’s inspectors. Capital starts its reflection on society in the age of its politicisation. Very few present and past Marxists have been able to argue at the same level. The rediscovery of Gramsci’s Marxist analysis of society, of what is in fact an authentic sociology of politics, certainly deserves more attention.

However, those readings insisting on the linearity of History (with a capital H), on the unfolding of the crisis of the bourgeoisie, on the formation of class awareness, within a quantitative time wherein the conditions for a revolution slowly accumulate, have as their political premise a relationship with the social forces of a paternalistic and passive character, subaltern to the modes of control of the dominant class. It is the history of the Left in Italy in the past thirty years. But it is also the history of a very particular use of Gramsci that has contributed to a lack of engagement with Gramsci among some of the most active social groups and the new intellectual generations engaged in social contestation, including many intellectuals and activists from the workerist tradition.

There remains, therefore, the interest for a heterodox reading of Gramsci that has never had much currency in Italy. This reading, for instance, could pay attention to the fecund and promising intuitions of ‘Americanism and Fordism’, an essay that deals not only with assembly-lines and rationalisation but also with the disciplining of the work-force in spheres such as sexuality, morality, and instincts. Such a reading would be able to give credit to Gramsci’s search for a social science for the proletariat, able to group and regroup classes along multiple lines that do not necessarily coincide with their relationship to the means of

production alone. Finally, this reading would acknowledge the work of the Prison Notebooks as a first attempt to refound Marxism in the epoch of the advent of the social. Some elements of the international debate, in this respect, have certainly taken the direction of a heterodox reading of Gramsci's texts. The latter has attempted to extrapolate – sometimes too mechanically, unfortunately – some of Gramsci’s concepts or intuitions in order to read the dynamics of late capitalism. The risks involved are considerable, not least of which is that of distorting the ultimately coherent structure of Gramsci’s theoretical production. These interpretations, however, are praiseworthy because they attempt to come to terms with the present.

Reviewed by Michele Filippini
University of Bologna
michelefilippini@yahoo.it

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Abstract
Markku Ruotsila’s impressive new biography of John Spargo is an incisive assessment of one of the earliest architects of neoconservatism. Spargo, a British socialist who spent most of his life in the United States, had moved gradually to the right of the socialist movement, advocating a gradualist and anti-revolutionary interpretation of Marxism. Having defended the American intervention in WWI, he was an early and avid critic of the Bolshevik Revolution. It was Spargo who composed the Colby Note that formalised the Wilson administration’s anti-communist doctrine, and engaged in a political alliance with Benito Mussolini which he maintained through Italy’s Fascist years on account of Mussolini’s intransigent anti-communism. A harsh critic of the Roosevelt administration’s ‘New Deal’ and its recognition of the USSR, he moved to the hard right in his domestic politics, supporting the Dies Commission and McCarthy, and later supporting first Richard Nixon then Barry Goldwater in the 1964 elections. This review examines Spargo’s journey to the right in the light, not only of the peculiar Hyndmanite Marxism into which he was initially inducted and the reformist socialism to which he later graduated, but also of his social Darwinism, his support for colonialism, and his perceptions of the global racial order. I argue that Ruotsila, while providing an unprecedented glimpse into a neglected prehistory of neoconservatism, is mistaken to see Spargo’s transition as a logical and linear progression in which he successfully preserved the core of his ‘Social Gospel’ even as he became a Republican activist. He also understates, I will maintain, the role of Spargo’s racial concerns in the fervent anti-communism that he espoused after 1917.

Keywords
anti-communism, Mussolini, Colby Note, Hyndman, Spargo, neoconservatism, social Darwinism

The First Neoconservative
The figure of the apostate revolutionary is a dispiritingly familiar one. From The Cold War anti-totalitarians to the French ‘new philosophers’ and today’s pro-war ‘Left’, the trajectory from far Left to the political Centre, and then often to the hard Right, is common enough to have produced a widely believed but insupportable theory about the origins of neoconservatism in Trotskyism. In truth, as Markku Ruotsila’s impressive new biography of John Spargo shows, the contours of neoconservatism were being mapped out long before Leon Trotsky’s exile from the bunkerized authoritarian state that emerged from the degeneration of the Russian Revolution. John Spargo was a Marxian socialist who became a Goldwater Republican. Steeped in a tradition of Marxism that was increasingly gradualist and anti-revolutionary, Spargo became a defender of Wilson’s intervention in WWI. He composed the Colby Note that formalised the Wilson administration’s anti-communist doctrine, formed an association with Benito Mussolini which he maintained through the latter’s Fascist years on account of his anti-communism, and supported the Nationalists in the Spanish Civil War because he believed the alternative was communism. A harsh critic of Roosevelt’s ‘New Deal’, he moved to the hard Right in his domestic politics, so that his favourite candidate in the 1964 elections was Richard Nixon, with Barry Goldwater a comfortable second.
Methodism and Marxism

John Spargo was the son of a marriage between cousins in West Cornwall, abandoned by his mother in his youth to an alcoholic father. A creative and intelligent child, he developed a sense of righteous anger about the poverty and miserable situation into which his family had fallen. ‘Often hungry and never happy’, as he was to put it, he was put through a tough régime of physical and mental punishment at home and in school. Spargo was drawn early to Methodism, which in Cornwall was suffused with radicalism and practised democratically, against the intentions of its High-Tory founders. Methodism was notable for the role of hymns in its evulugation, and the hymnal style would be present in much of Spargo's subsequent writing, just as his Christianity would decisively shape his socialism. Even in the secular environment of the Social-Democratic Federation, and even when his socialism induced humiliating antipathy from fellow church-goers, he would retain the faith. Indeed, particularly during his later life, he tended to portray ‘Marxian socialism as but the modern guise and correct praxis of Methodist Christianity’. Attracted to political figures who appeared to speak for social justice, Spargo absorbed a variety of influences – Gladstone, Disraeli, John Stuart Mill, Herbert Spencer and, eventually, Henry Hyndman (pp. 1–15 & 24–7).

Hyndman, a natural Tory patrician and a devotee of empire, had been persuaded by Marx's interpretation of history and founded the Social-Democratic Federation (SDF) as a fusion of Marxist principles with older forms of English radicalism, and his own paternalistic Toryism. In fact, Hyndman's doctrine bore some similarity to the reactionary anticapitalism assailed in the Communist Manifesto, evoking nostalgia for the petty feudal production of the fifteenth century, a 'golden age' for England, and yearning for its reproduction on a new level.1 Further, Hyndman's account of transformation was profoundly gradualist, and would influence reformist socialists such as George Bernard Shaw, Ramsay MacDonald and Herbert Morrison (pp. 17–19). The SDF's early analysis had been that capitalism was preparing an apocalyptic funeral for itself, and that the increasingly immiserated workers would revolt rather than seek amelioration. The party's task was to educate the workers to their purpose. When a wave of 'New Unionism' overtook their efforts and confronted them with a situation they did not understand how to relate to, the Hyndmanite position was one of hostility to the new trend.2 Instead, the SDF advocated palliation, judging that the proletariat would require years of education in order to make it fit for industrial democracy (pp. 18–19).

Such was the Marxism into which Spargo was inducted when he read, and was persuaded by, Hyndman's 1881 opus England for All. While working as a stonemason on building sites in Barry, south Wales, where he followed his father to seek work, Spargo began organising for the SDF. He launched into the most frenetic activity from November 1895, building a local of branch of fifty members within nine months, and winning a spot on the national executive of the party as a result. He also became a shop-steward in the Stonemasons' Union. Spargo was a doctrinaire supporter of Hyndman and faithfully reproduced his precepts and prescriptions, including his growing hostility to trade-unionism and other such strategies which the SDF saw as a barrier to the education of the proletariat, and

1. Hyndman 1881, pp. 7–8.
which Hyndman saw as anti-social. And on foreign policy, he echoed Hyndman’s call for British forces to avenge the 1896 Turkish massacre of Christian Armenians, and secure for them ‘English liberty’. Only on the question of antisemitism did Spargo part seriously with Hyndman’s bigoted counsel (pp. 19–24).

Though sharing Hyndman’s English nationalism, Spargo accepted an invitation from the campaigning journalist W.T. Stead to join his Stop the War Committee during the Second Boer War (1898–1902). Hyndman also opposed the War, seeing it as the result of the workings of a few Jewish monopolists and speculators, a version of events which Spargo repeated without the racist slur. The ‘Pro-Boers’, as they were known, were not received well in what proved to be an upsurge of patriotic war-fever, and Spargo suffered severely for his fervent antiwar-preaching. During one of his speeches, he was attacked and beaten by over a hundred members of the public and, having fled to the house of a socialist friend, tracked down and beaten again, almost to death (pp. 28–30).

It was in antiwar-activity that Spargo first discovered an affinity with ethical socialists and trade-unionists whom he believed could form the basis of an independent labour-party. Spargo did not agree with the SDF majority, including Hyndman, who did not want to unite with non-Marxist political groups (pp. 30–1). Nonetheless, the SDF was willing to engage in the Labour Representation Committee (LRC) and the negotiations over a future labour-party, even if its intervention was compromised by its having called for workers to vote Tory in order to oust the Liberals, and the SDF were often at loggerheads with another main constituent of the LRC, the Independent Labour Party, over the latter’s ideological timidity. And so, Spargo found himself in the milieu of Keir Hardie and Ramsay MacDonald whose admiration he apparently won.³ The attempt to form a united party of the working class based on moderate, non-Marxian socialism would make a lasting impression on Spargo, particularly as he embarked on what would prove to be permanent exile to the United States.

**Evolutionary socialism, eugenics and war**

In January 1900, John Spargo married a fellow socialist named Prudence Edwards and shortly thereafter began to receive correspondence from his penitent mother, who invited him to visit her family in New York. Seeing that Spargo intended to migrate to the US, his comrades in the labour-movement, including Keir Hardie, actually launched a petition to urge him not to leave, such did they value his Pentecostal zeal. He and his wife arrived in America penniless, and Spargo had to spend the first few months living with an activist he knew through the Hyndmanite journal, *Justice*, while he wrote frantic letters to socialists he knew by name offering articles and pleading for work. Eventually taken up by a New York lawyer from the Socialist Labor Party (SLP), Morris Winchevsky, Spargo initially aligned with the ‘Kangaroo’ faction of the party, led by Daniel DeLeon. However, DeLeon belonged to the international tendency known as ‘impossibilism’ which disdained parliamentary politics and, while his faction appeared to sympathise with the aim of building a broad Socialist Party, it eventually split from the SLP, leaving Spargo quite unimpressed (pp. 32–9).

A Socialist Party, under the decisive influence of the recently converted Marxist and railway-union leader Eugene V. Debs, did emerge following a Unity Conference in July 1901, and Spargo joined immediately. Initially, he continued to advocate the politics of class-struggle that he had been steeped in, and to call for workers' control of industry. However, by 1904, he was gradually demoting that aspect of his socialism, particularly as he noticed the rapid growth and success of the British Labour Party. He brought to the fore the Christianity that had been scorned in the SDF but which hit the right note for American political culture. Socialism was now the proper embodiment of Christ's preaching, which could 'only be realized under Socialism'. He dogmatised relentlessly on 'ethical' principles even if he did not always live up to these in his personal conduct. Increasingly, instead of working-class rule, the remedial possibilities of artisanal labour were stressed in the fashion of William Morris, another former SDF stalwart whom Spargo greatly admired (pp. 39–49).

Spargo's socialism was becoming Americanised, but it was also becoming revisionist. Social change, according to his 1906 guide to socialism, had to be 'piecemeal and gradual', as well as purely legal. This, he maintained, was what had been intended by Marx and Engels. By 1907, he was ready to explicitly break with Hyndman's sectarian strategy as ineffectual compared with that of the Labour Party, and, by 1909, he had read and endorsed Eduard Bernstein's *Evolutionary Socialism*, which argued that Marx's predictions of immiseration and capitalist crisis were unproven religious-style dogma – a critique that would motivate much of Spargo's later attacks on the Bolsheviks. Socialism would evolve from the maturation of capitalist relations, it now seemed, albeit an adulterated version of socialism replacing equality of outcome with equality of opportunity (pp. 50–1 & 65–5). Profoundly influenced by social Darwinism, Spargo was also a believer in eugenics, a common position in the Progressivism of the era. Thus, his 1914 eulogy to motherhood maintained that socialism would, in conjunction with eugenic science, contribute to 'regenerating the race', fortifying the 'life of the race', and finally permitting the birth of 'the Superman'. Human beings were naturally unequal, Spargo held, but could best realise their genius and creativity given a 'communism of opportunity'. Though in favour of political equality for African-Americans, and fiercely opposed to antisemitism, he discouraged 'miscegenation' and intermarriage between African-Americans and white Americans, arguing that this would 'accentuate the weaknesses and defects of both races'. Similarly, just as American Progressives were obsessed with the putative impact of immigration on America's democratic institutions, so Spargo insisted that immigrants had to be acculturated before they could be fully accepted as American workers (p. 49).

The Hyndmanite critique of anarchism was one means of passing toward the more pragmatic, 'Applied Socialism' that he adopted after 1909. For, while Spargo had long hoped for the unions to form 'one big union', what he had not anticipated was that the

5. This is a persistent theme in Ruotsila's exposition, in which Spargo emerges as an indifferent husband, a poor father, and a sex-obsessed womaniser.
7. For a discussion of these tendencies in early twentieth-century progressive thought, see Kline 2001, and Black 2003.
8. Spargo 1914.
amalgamation would be an anarcho-syndicalist movement that vociferated direct action, the International Workers of the World (IWW). It was in his tireless polemising against the IWW and any influence it might have in the Socialist Party that he rigorously defined a gradualist, anti-revolutionary interpretation of Marxism. He led the Socialist Party right wing in trying to break with the IWW and strengthen links with the Samuel Gompers-led AFL (pp. 56–61). The AFL was profoundly conservative in its politics and strategy, and, while the IWW sought to organise Japanese Americans, Chinese Americans and Native Americans among others, the AFL explicitly barred them. However, Spargo now argued that the IWW goal of ‘one big union’ was an incipient autocracy in itself and that its politics belonged to an irrationalist, pre-Marxian utopianism that would only set the movement back. The fight within the Socialist Party culminated in the expulsion of Bill Haywood at the 1912 conference, who took with him 23,000 of almost 118,000 members – a development that Debs had tried to prevent, but which Spargo considered a decisive victory (pp. 59–61).

Just as Spargo’s revisionism was winning out in the Socialist Party, he and his co-ideologues began to see the bourgeois reformists as potentially critical allies. Spargo was himself an early supporter of the ‘Bull Moose’ reformists under Theodore Roosevelt, and a harsh critic of Woodrow Wilson in 1912, whom he damned as a false friend of labour. That changed rapidly. The Progressive reforms introduced by Wilson were increasingly seen by Socialist Party right-wingers, including Spargo and William English Walling, as having dealt with many of the Party’s immediate demands. Even if the Socialist Party suffered in its electoral fortunes as a result of Wilson’s stealing their thunder, Spargo was content to accept liberal political élites as his allies, and, by 1916, he had offered his full public endorsement (pp. 68–72).

In the meantime, the fact that war had broken out in the European continent, and the German Social Democrats (SPD) had connived in the Kaiser’s aggression and embraced ‘Prussian barbarism’ led Spargo to begin revising another of his beliefs. For, while he had never accepted that the European working classes could resist war with mass strikes, he had expected parties to the Second International to try and resist war and bring it to an end as quickly as possible. Like other socialists, Spargo held that capitalism was ultimately responsible for the War. However, he also put a great amount of stress on a particular German responsibility, and insisted that Germany had to be ‘decisively beaten’. For the first three years of the War, he opposed American intervention, fearing it would bring to an end the period of social-democratic reform and lead to an authoritarian militarisation of American life. But, unlike the antiwar majority in the Party, he did not accept that there was no difference in principle between the belligerents. He was, in fact, convinced that the War was one for democracy, and sought ways to conjoin American war-preparations, should they occur, to domestic reform (pp. 73–6). This is not a position unique to Spargo. It was the hope of socialists, radical and progressives of various stripes, particularly once Wilson declared for war, that it could somehow be the basis for a domestic renewal, an abolition or amelioration of its class- and racial hierarchies. And, unlike many of his

11. See, for example, Thompson 1987. This tendency was excoriated by one of the few remaining antiwar-liberals, Randolph Bourne. Resch (ed.) 1964.
confederates, Spargo did not suddenly adopt a prowar position once America was involved, but, instead, worked for a compromise resolution within the Socialist Party that would recognise what he saw as the unique threat of ‘German militarism’ and endorse bourgeois democracies as a lesser evil. Nevertheless, when the Party refused this stance, Spargo resigned from the national executive and then from the Party itself, which he accused of producing ‘pro-German policies and propaganda’. Thus, by the summer of 1917, he was explicitly aligned with the prowar-socialists (pp. 75–9).

The psychology of anti-Bolshevism

The revolution of February 1917 that swept away Tsarism was greeted with jubilant endorsements in the United States. Part of the reason for this is that, since the late nineteenth century, American politicians, businessmen and journalists had looked forward to the Americanisation of Russia. Fed by misleading reportage by the journalist and explorer George Kennan (twice removed cousin of the Cold Warrior George F. Kennan), Americans believed that the revolutionaries in Russia were anxious to become the Yankees of their continent, overthrowing an ‘Asiatic’ and ‘backward’ despotism. The extent of their anticapitalism was sufficiently obscured that, when the revolt happened, Woodrow Wilson deemed it proof that the Russians were ‘always in fact democratic at heart’. So it was that, when a further Bolshevik-led revolt overthrew the Provisional Government, it was seen as a vicious usurpation and a betrayal of the American dream. Secretary of State Robert Lansing fancied that the revolution was proof of the veracity of the ‘Protocols of the Elders of Zion’.12 Such a racialised view of the Russian Revolution was not, in fact, uncommon among US intellectuals. Thus, Madison Grant regarded Bolshevism as an Asian assault upon Western Europe, under a ‘Semitic leadership’ and with ‘Chinese executioners’. Lothrop Stoddard held that, because Bolshevism was ‘anti-racial’, it was ‘the arch-enemy of civilization and the race… the renegade, the traitor within the gates’ which consequently ‘must be crushed out with iron heels, no matter what the cost’. Stoddard also maintained that white world-supremacy was co-extensive with democracy, a theme that had been common to theorists of ‘Anglo-Saxon’ racial lineage since the nineteenth century.13 Meanwhile, US political élites tended to argue that the Bolshevik movement was a product of German propaganda and subversion in Russia.14

Spargo had also welcomed the first revolt, expecting it to produce a bourgeois state managed by evolutionary socialists and reformists, and he too regarded the Bolshevik revolution as an usurpation. The Social-Democratic League (SDL) that he had helped build as part of a prowar-alternative to the Socialist Party was populated by those who had for years anticipated a progressive alteration of Russian politics among American lines. Thus, William English Walling, who would succeed Spargo as chairman of the League, had been engaged in the Friends of Russian Freedom campaign along with Kennan, and anticipated

13. Quoted, Horne 1999, pp. 451–2. Significantly, the name of Stoddard’s famous anti-Bolshevik tract is often rendered as The Rising Tide of Color Against White-World-Supremacy, but it was also known as The Rising Tide of Color against World-Wide Democracy. On the doctrine of Anglo-Saxonism and its ‘democratic’ inflections, see Horsman 1981.
a ‘United States of Russia’. Aside from this, the SDL expressed the revisionist line to which Spargo had cleaved since before World War I, and so was deeply hostile to revolutionary socialism. In his polemics against the Russian revolutionaries, Spargo again accentuated the religious basis of his socialism, perceiving in Bolshevism a pseudo-solution to a profound spiritual crisis. The revolution was yet another dogmatic, hot-headed, pre-Marxian movement modelled more on Proudhon than on Marx, and would lead to some kind of industrial autocracy. By the time Spargo was vituperating against Lenin and his supporters, he had already become a co-founder, with Samuel Gompers, of the government-sponsored American Alliance for Labor and Democracy (AALD). At the same time, he had become accustomed to seeing American patriotism as co-equivalent to the defence of democracy, liberty and internationalism. He had been part of a delegation sent by Wilson to Europe to keep fellow socialists on-side, and he re-established relations with Henry Hyndman, who had forged his own pro-war National-Socialist Party in 1914 to pressure for the most vigorous prosecution of the conflict, and who was an implacable opponent of the Zimmerwald Left that Lenin represented (pp. 79–80). But what most consolidated Spargo’s developing anti-Bolshevism was his contact with Benito Mussolini, during his work for the Committee on Public Information in Rome in the Summer of 1918 (pp. 83–4).

Mussolini had made the transition from a socialist street-fighter to a pro-war-ally of some of the most right-wing currents in Italian politics in the early months of the War. He, like most of the left belligerents, portrayed the conflict as a war for democracy and Italy’s role in it as ‘democratic interventionism’. When Spargo met him, Mussolini was enthusiastically publishing the articles written by Spargo under the rubric of the CPI, in the newspaper Il Popolo d’Italia. The two discussed Bolshevism a great deal over the next two months, and Spargo found himself in sympathy with Mussolini’s view that, if rational argument could not resist the Bolshevisation of the Italian Left, then he would have to lead an army of volunteers against it. Here, Ruotsila implies that Spargo might have endorsed Mussolini’s paramilitary attacks on the organised Left, a judgement that would seem to conflict with Spargo’s commitment to gradualism and purely legal political action. However, this commitment proved to be dispensable in the face of the communist threat, and Spargo forged a relationship with Mussolini that would survive the Duce’s emergence as the first leader of European fascism (pp. 84–5).

Spargo’s energetic writing on the subject of Bolshevism preceded Karl Kautsky by some months, and his Bolshevism: The Enemy of Political and Industrial Democracy espoused a revisionist critique similar to Kautsky’s. The Russian working class, he maintained, was unready to take political power, and could only rule by means of military violence and ‘tyranny of the worst kind’ – with which he duly charged Bolshevism. The Bolsheviks, he maintained, had latched onto a mistaken prediction of Marx’s, namely that the working

16. For a detailed account of the activities of the Social-Democratic League, see Ruotsila 2006b, pp. 327–45.
class would become increasingly immiserated, not just economically but also politically, and would therefore inevitably revolt and produce a ‘dictatorship of the proletariat’. That prognosis had been mistaken, as both wealth and democratic rights had improved gradually through palliative measures and reform movements. What the Bolsheviks were establishing, he thought, was a dictatorship of a small minority of the proletariat over a society pathologised by war, and trying to forge a state based on the rule of a haphazard collection of Soviets which were as yet insufficiently mature to govern.\footnote{Spargo 1919a, Chapter VI; Spargo 1919b, pp. 1–20 & 123–7.}

Perhaps more than anything else, he and his colleagues in the SDL worried about the impact that Bolshevisation would have on the socialist movements outside Russia. If the imported doctrine and tactics were indeed a throwback to the pre-Marxian anarchist movements, they would surely inspire state-repression and turn the movement back. Spargo and his allies began to cultivate liberals and conservatives as crucial auxiliaries to their own anti-Bolshevik campaign, while pressing for Wilson to send troops to Russia (pp. 86–7).\footnote{Ruotsila 2006b, pp. 331–3.}

Spargo himself lobbied Wilson to undertake a process of social-democratic reforms to meet the basic aspirations of workers, especially as a wave of strikes broke out across the country in 1919, in order to avoid revolution. He also urged Wilson to abandon his authoritarian crackdowns on civil liberties, which were turning the prowar-socialists against him and dividing the patriotic anti-Bolshevik bloc. But he was increasingly exasperated, as was Hyndman, by Wilson's unwillingness to take military action to fight the Bolsheviks. In fact, unbeknown to Spargo, Wilson did commit troops for covert action – it was just that the expectations of a warm welcome from the Russian masses and a cake-walk to victory were not borne out. And Wilson did send millions of dollars of military aid to the White Army (pp. 91–9).\footnote{Foglesong 2007, pp. 54–6.}

As it became clear that a military strike against Bolshevism was not a viable option, Spargo began to depend on Russian resistance to the Bolshevik state. In 1920, he communicated with Boris Bakhmeteff, the ambassador of the Provisional Government to the United States and, based on his advice, lobbied Wilson's new secretary of state Bainbridge Colby for a memorandum on the government's Russia-policy that would reflect his own anti-Bolshevik strategy. Noting that there was growing dissent among segments of the peasantry, and a Workers' Opposition emerging, Spargo looked to the Wilson administration to actively destroy Bolshevism by stimulating that backlash into a successful revolt. This became the Colby Note, which expressed the policy of non-recognition of the Soviet government, moral disapprobation of the Bolsheviks, and support for the original February Revolution which had placed power in the hands of the Provisional Government. This was a crucial success for Spargo – it was anti-communism that would, in his view, place Russia in the hands of democratic socialists. He was also successful in persuading the subsequent Republican administration of Warren Harding to adopt the same policy, and it would remain in place until 1933 (pp. 111–23).\footnote{Ruotsila 2006b, pp. 340–2.}

One surprising omission in Ruotsila's text is any discussion of the critique of revolutionary politics contained in *The Psychology of Bolshevism*. In that text, Spargo crafted an anathematising rhetoric, based partially on crude psychoanalytical devices and on religious

\begin{thebibliography}{9}
\bibitem{Spargo 1919a} Spargo 1919a, Chapter VI; Spargo 1919b, pp. 1–20 & 123–7.
\bibitem{Ruotsila 2006b} Ruotsila 2006b, pp. 331–3.
\bibitem{Foglesong 2007} Foglesong 2007, pp. 54–6.
\bibitem{Ruotsila 2006b} Ruotsila 2006b, pp. 340–2.
\end{thebibliography}
critique, which would become quite familiar in the Cold War. Seeking to explain intellectual support for Bolshevism, he diagnosed a ‘psycho-neurosis’ known as ‘hysterical hyperesthesia’. The thought-processes of Bolsheviks and supporters were ‘spasmodic and violently emotional,’ and they were given to thinking like religious zealots.25 ‘For them the complexities and intricacies which trouble the normal mind do not exist.’26 They were ‘easily moved to ecstasy’, swept along by -isms whether they be socialism, feminism or the ‘bizarre and grotesque travesties of art produced by Cubists, Futurists, et al.’ Bolshevik intellectuals were characterised by ‘exaggerated egoism, extreme intolerance, intellectual vanity, hypercriticism, self-indulgence’ and so on.27 The rich women who allegedly funded Bolshevism also suffered from ‘hyperesthesia’ (in general, Spargo thought women were more susceptible to this problem). The only exceptions were ‘creatures of pure intellect’, ‘crass materialists’ with an ‘arrested or abnormal’ sex life, who were ‘hard, dried-up, brilliant, and capable of great callousness and cruelty’.28 Cold-War anti-communist liberalism had much to say in a similar vein about the supposed spiritual and psychological mal-adaptation of Bolshevik-sympathisers.29

One other aspect of John Spargo’s anti-Bolshevism that does not emerge as clearly as it could is that it was permeated by profound foreboding about the prospects of an East-West civilisational clash. Just as he feared a Berlin-Tokyo axis that, he said, would threaten ‘the great Occidental nations’ and force the militarisation of ‘every civilized nation’,30 he worried about the loss of Siberia to an alliance with the ‘semi-Oriental’ Japanese monarchy, an ‘Asiatic Prussia’.31 And, just as some US policymakers saw the revolution as the result of a German conspiracy, so Spargo feared that the Bolsheviks would form an alliance with the ‘Teutonic forces’ on the one hand, and eventually cause the country to fall under an ‘Oriental yoke’ on the other. Thus ‘linked to the civilization of the East’, it would ‘become an important element in an orientation of power full of peril to all the democratic and progressive nations of the world’, against the naturally pro-American inclinations of the ‘Slavonic race’. This interpretation which, in a classic colonial trope, placed America as the

27. Spargo 1919b, pp. 31–3.
29. The religious metaphor, which Spargo was apt to use because of his grounding in religious sectarianism, was a staple of anti-communism, from The God That Failed onward. As for unmanly psychological weakness, Arthur Schlesinger Jr. held that communists were impaired individuals who derived ‘social, intellectual, even sexual fulfilment’ from the party, which they were unable to obtain by other means. Quoted in Ehrman, 1996, pp. 11–15. The Cold-War psychologist Abraham Maslow upbraided radicals as closet homosexuals. Identifying with the oppressed was really ‘spitting on Daddy’, which concealed the ‘tendency to present to the dominant one’, and the underlying fantasies of ‘offering yourself up to the strong one, who deserves to be the fucker & the penetrator & the mounter’. It is a small irony of history that stigmatising dissent as a symptom of psychological derangement is a tendency generally attributed to ‘communist’ régimes. Quoted in Cooke, Mills & Kelley 2005, pp. 129–52.
31. Spargo 1920, p. 36.
leader of a democratic and civilised world against Asiatic despotism, was crucial to Spargo’s rationale in proclaiming communism an ‘American problem’ (pp. 112–13).32

At any rate, having decided that socialism as a distinct movement was finished, and that its aims were best accomplished by agencies other than the working class and its socialist organisations, Spargo gradually ceased to advocate socialism of any kind. Dismayed by Wilson’s inadequate commitment to anti-communism, he began to flirt with the right wing. He worked alongside the former Secretary of War, Senator Elihu Root, in conservative anti-communist organisations, and acquired a growing prominence within them. If he initially maintained his socialist commitments, he and his new allies shared ‘proximate goals’ and ‘congruent assumptions about human nature and the dynamics of social change’. He left the SDL by January 1920 over its increasingly authoritarian version of anti-communism. However, if he was not ready to move to the right just yet, by 1921 he had become a private investor in large capitalist concerns, using the royalties from his writing and the lecturing fees he accumulated. At this time, he thought that class-relations were changing – working-class men and women were becoming shareholders and the structure of capital changing in such a way that the main antagonism in society was between consumers and producers. Having been effectively ex-communicated by American socialist leaders after 1917, he increasingly aligned with Republicans and religious conservatives in his home state of Vermont (pp. 99–110 & 131–7).

Throughout the 1920s, as he moved away from socialism, he worked with the Republican Party on ensuring that the principles of the Colby Note were proselytised for as fervently as ever. He kept touch with British politicians, and with Mussolini, to maintain the broadest international isolation of the Bolshevist régime. He joined the Republican Party in 1923, and began to solicit votes on their behalf, declaring socialism an ‘outstanding casualty of the great war’, now decidedly ‘on the shelf’ because the people were not ready for it. Worse, as he later explained in articles for US Chamber of Commerce, socialism would lead inevitably to an ‘oppressive bureaucracy’. Instead, the best work was done in alliance with the capitalist class, to redirect its efforts in such a way as to gain the maximum advantage for all. Like Hoover, he came to believe that voluntary associations could counteract the need for socialism or capitalist bureaucracy, by providing for social needs and attenuating the worst effects of laissez-faire competition. This ‘American Individualism’ became the byword for Spargo’s own ‘socialized individualism’ – such was the terminus of his ‘communism of opportunity’ (pp. 128–9 & 140–6 & 148–9 & 160–1).

Between Communism and fascism

Ruotsila is at pains to stress the continuities in Spargo’s politics, perhaps even to the point of over-stating them. It may be that Spargo, in his rightward swerve, still cleaved to an essential social vision that had served him throughout life, but this could just as well coincide with an *ad hoc* rationalisation for apostasy. Whatever the social Gospel was by the 1930s, it was one that was vigorously opposed to collectivism. This was clear when he had to confront the ‘New Deal’. Although Spargo had supported Hoover in the 1932 elections, he had no reason to believe that Roosevelt represented any threat to the existing social

32. Spargo 1920, pp. 45 & 261.
order, as he had campaigned on a policy of fiscal conservatism. Initially impressed by some of Roosevelt’s efforts to deal with the financial crisis, he drew up a plan to assist the Roosevelt administration on inter-governmental war-debts (pp. 167–70 & 209). However, Roosevelt not only refused Spargo’s serenade, he overturned the policy of non-recognition and embarked on a legislative programme of social-democratic reform that Spargo might have endorsed in his most moderate socialist phase, but which now confirmed him as an agitator against the administration on the grounds that such policies destroyed the moral fibre of each individual. Ruotsila describes this antipathy as ‘Left-libertarian’ in nature, but it is hard to see any justice in the epithet. Spargo worked for the success of the most right-wing Republican politicians and for a political platform that could in no sense be reconciled with even the most commodious definition of the Left. Further, whatever remaining libertarianism he entertained, he would go on to support the Dies Committee and its Cold-War sequels, and his judgment on other matters reflected essentially reactionary politics (pp. 227–8).

Spargo insisted, as Cold-War ‘anti-totalitarians’ would go on to insist, that ‘between Communism and Fascism, per se, as political and social entities, I personally find it impossible to make a choice’. Nonetheless, ‘so intense was his hatred of Bolshevism that for most of the period from 1933 to the Munich crisis of 1938, Spargo was willing to turn a blind eye to most of the things that Hitler and his confreres did’. Indeed, his initial response to the Spanish Civil War was to side with Hitler and Mussolini, preferring ‘any outcome to an increase of Communism as an active European force’ (pp. 201–3). In reality, the Spanish Communist Party was busily subordinating the revolution’s aims to the defence of the Republic and was explicitly defending the interests of property-owners. Nonetheless, this particular kind of anti-communism, in which right-wing dictatorships are preferable to socialism of any kind, is familiar enough. Given his social Darwinism, Spargo was also reluctant to criticise the fascist conquest and absorption of smaller states. The attempts to ‘preserve petty racial and cultural units as entities, in the form of states . . . run counter to the inexorable laws of evolution’ (p. 203). Further, although he remained hostile to the Soviet Union and to revolutionary socialism, he was encouraged by the fact that Stalin

33. Ruotsila casts a wearly satirical eye on these efforts: ‘Just how a mere museum director from rural Vermont could be regarded as competent for drafting this kind of plan, or how one could have genuinely expected political leaders to take such a plan seriously, may not have been apparent to everyone. But Spargo was much in earnest. As ever, he indulged his inflated sense of his own intellectual, economic and political acumen.’ This is not completely fair. Whatever his exaggerated estimation of his own abilities, Spargo had been able to insinuate himself both with Republican and Democratic administrations at key junctures in the past, and make his influence decisive. Nonetheless, Spargo’s chutzpah is at times stunning – as when, in 1941, he requested an audience with the Queen of the Netherlands to discuss the War. Alas, she was too busy to comply with his request.

34. See, for example, Kirkpatrick 1979. Similarly, Kirkpatrick’s essay for the American Enterprise Institute, ‘The Hobbes Problem’ argued that the ‘traditional death squads’ that Reagan was supporting in El Salvador were rooted in the Salvadorean political culture and were the necessary for legitimate and effective authority. The neoconservative William Safire agreed, given the ‘aggressive totalitarian alternative’. Quoted in Grandin 2006, p. 106.

35. This familiar imperial logic had also been deployed by the Fabians in their collective theoretical response to the Boer War: ‘The state which obstructs international civilization will have to go, be it big or little.’ Shaw (ed.) 1900, p. 49.
appeared to have abandoned the communism of the Bolsheviks in favour of militaristic nationalism. Moreover, he fancied that Stalinism had replaced socialist internationalism with Tsarist imperialism – a blessing since Russians were ‘more like the Anglo-Saxons than any other people on earth, especially in their capacity for empire-building and Colonial management’. If Russians subjugated Asian peoples, they would respect their culture and demonstrate their ‘fundamental gift of tolerance’. Ruotsila maintains that this exposes Spargo’s ‘long-standing idealization of the Russian people’. Perhaps, but far more importantly, it exposes Spargo’s prejudices about the global racial order (pp. 211–15).

When World War II broke out, Spargo did not blame the Nazis first and foremost for the War, but the Soviet Union, and, in particular, Roosevelt’s policies of recognition, whose logical end – he argued – had been the Nazi-Soviet Pact (pp. 204–5). When Pearl Harbour was attacked, one of Spargo’s first recommendations to the Roosevelt administration was that it should purge ‘Communists and near-Communists’ from the administration and treat sympathy for communism as ‘something close to treason’ (p. 212). And, despite a brief period of praise for Stalin and the Great Alliance in the course of the War, he emerged from it a determined Cold Warrior, exceedingly fond of Harry Truman’s belligerent stance, and urged his administration to entice the USSR into some kind of dissipating war beyond its borders, perhaps in Korea, in order to incite Russians to rebellion (p. 225). As a Cold Warrior, Spargo was also unapologetically in favour of domestic repression and surveillance. McCarthy did ‘a great good . . . a splendid service to the nation’ (pp. 227–8). He remained active on the Right until his death on 18 August 1966, having vigorously campaigned for the strongly anti-communist Barry Goldwater, whom Spargo defended against charges of illiberalism, maintaining that he was superior in his commitment to individual liberty than New-Deal liberals and the socialist Left. He agreed with Goldwater that the UN was now a threat to American security and a vector for Soviet aggression, and was enthused by Ronald Reagan’s televised address unapologetically expounding Goldwater conservatism (pp. 234–6).

Spargo’s anti-communism was, at least from the 1930s onward, vigorously authoritarian, right-wing on economics, pro-colonial, and tended to prefer fascism where he felt the choice had to be made. It is hard to rescue the ‘Left-libertarian’ in all of this.

Conclusion

As a glance at the bibliography reveals, Spargo was an astonishingly prolific writer and activist throughout his life. Markku Ruotsila has accomplished a Herculean feat in both distilling such a sprawling life into a concise political biography and being largely judicious in his assessments. The material he presents seems to tell against the heuristic, however. For Ruotsila, Spargo’s transition from Marxian socialist to anti-communist Cold Warrior is a process of immanent critique of the Left, a unilineal process of gradual evolution rather than a syncopated excursion from socialism to the Right. This narrative involves a level of consistency that even has Spargo re-shaping Republican Party discourse on the basis of an individualistic egalitarianism commensurate with his own social Gospel. The lead here is supplied by Spargo himself, who insisted in 1945 that the ‘ideals which inspired me as a youth . . . are still the dominant force in my life’ (p. 230). These could eventually be realised if and when the Soviet threat was taken care of. However, we are not obliged to take Spargo’s word for this. His arguments against socialism were arguments of principle, not
pragmatic concessions to the exigencies of anti-communism. Further, as I have indicated, the developments that Ruotsila describes militate against Spargo’s declaration of fealty.

There is also not much attention given to the importance of race and colonialism in Spargo’s account of the global order, perhaps because Spargo had little to say about it himself. If Spargo seems to have shared with Hyndman a basically pro-colonial orientation, he had little to say about America’s colonies in Haiti or the Philippines, and seems not to have been interested in the Anti-Imperialist League. Yet, as Ruotsila shows at times, this was quite an important counterpart to his anti-communism. His commitment to social Darwinism and his tendency to cleave the world into ‘races’ with particular cultural expressions of tyranny or liberty was arguably uncontroversial in his age, but it surely deserves to be registered that this had some role in preparing Spargo for the idea of American global supremacy. Arguably, he came to see these clashes as being far more important than domestic class-conflict, at least when the latter seemed to him to be giving way to an easily manageable consumer-producer antagonism.

This ideological pattern is hardly absent in the neoconservatism that, Ruotsila argues, was ‘prefigured’ by Spargo. Explicit racial interpretations of global politics may no longer be respectable among American intellectuals, but the neoconservatives who today cheerfully vaunt empire draw on the same Victorian liberal imperialism that Spargo did, with its insistence on pathologising the resistance of peoples and states to Euro-American dominance as little more than a pseudo-religious reflex. Given their culturalist reading of social structure, neoconservatives have been quite content to accept that some peoples, by virtue of their putative cultural backwardness, are just not fit for self-government until they have been schooled by American tutelage.36 If the language of white supremacy and Anglo-Saxonism is no longer tolerated in polite conversation, democracy remains cognate with the ‘West’ or the ‘Anglosphere’ in neoconservative discourse, while the fantasy of ‘Oriental despotism’ remains as irresistible a motif as for Orientalists of the nineteenth century. Domestic conflict continues to be seen as either subordinate to international, ‘civilisational’ combat, or as an extension of it. By construing Spargo’s shift exclusively in terms of his relationship to a ‘social gospel’, Ruotsila misses this.

John Spargo and American Socialism is, for all that, an elegant and incisive exposition of a crucial figure and period in American anti-communism. Until now, we have lacked a sustained account of Spargo’s politics and life, perhaps in part because, as Ruotsila writes, his Socialist Party allies wrote him out of the history of their movement when he joined the war-chorus in 1917. Ruotsila does a sterling service to his subject, and to his readers, by illuminating a neglected dimension of American history and showing how the lineaments of its fanatical counter-revolutionary politics were first devised.

Reviewed by Richard Seymour
leninology@gmail.com

36. Thus, Irving Kristol justified America’s attempts to dominate postcolonial Asia partially on the grounds that ‘South Vietnam, like South Korea, is barely capable of decent self-government under the very best of conditions.’ Quoted, Gerson 1997, pp. 112–13.
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Abstract
In Homo Juridicus, Alain Supiot argues that law has an ‘anthropological’ function – constituting people as rational beings by linking together their biological and symbolic dimensions. The law also serves a ‘dogmatic function’, embodying Western values and serving as a bar to totalitarian scientism and tempering the excesses of technology in the workplace. However, the anthropological function of the law has been undermined by the advance of science and economics and widespread privatisation, contractualisation and deregulation. This article contests Supiot’s claims, especially as regards Marxism, counterposing his position to that of Bolshevik legal theorist Evgeny Pashukanis. Pashukanis’s insights into the relationship between law and capitalism are used to re-frame Supiot’s argument and to undermine his contention that globalisation is inimical to law. Pashukanis is also invoked to contest the claims that the anthropological function of the law is the only alternative to totalitarianism and that law serves to ‘humanise’ technology.

Keywords
Law, Pashukanis, jurisprudence, Alain Supiot

Homo Juridicus is not an easy work to pin down, although primarily a work of legal theory, it draws on anthropology, sociology, social theory and philosophy. This eclecticism also makes the book somewhat difficult to review, as it veers from defence of the law, to polemic against ‘scientism’, to concrete analysis of contemporary French labour-law. However, it is possible to trace a consistent argument throughout this work, one that Marxists would do well to address.

Supiot begins by outlining his particular philosophical vision. ‘Human beings’, he writes, ‘are metaphysical animals’ who inhabit ‘not only a universe of things but also a universe of signs’ (p. vii). A sign is anything in which human beings have invested meaning, including material products and even other humans. We apprehend these meanings through our senses and it is these meanings that give ‘sense’ to life. In order to gain access to these meanings, we need language, which is the ‘primary resource of the dogmatic beliefs necessary for the constitution of the subject’ (p. viii). The only way to gain the ‘autonomy’ that comes from language (the ability to think and express ourselves freely) is to submit to the radical heteronomy of the limits that give words meaning.

Before we can be free beings, able to say ‘I’, we are already bound by words, which tie us to other people. Supiot argues that here the bonds of law and speech come together and endow our lives with meaning; this is the ‘anthropological function’ of the law:

It is by transforming each of us into a homo juridicus that, in the West, the biological and symbolic dimensions that make up our being have been linked together. The law connects our infinite mental universe with our finite physical existence and in so doing fulfils the anthropological function of instituting us as rational beings. (p. ix.)
For Supiot, law is based on dogma (indemonstrable propositions) and serves a dogmatic function itself, insofar as it posits human beings as rational and autonomous. Supiot does not think that ‘dogma’ is necessarily negative; instead, it is a resource that allows human beings assign meaning to their lives (p. 186). Indeed, for Supiot, dogma serves the role of ‘closing the gates’ to lunacy (p. xvii).

Supiot argues that ‘our’ ‘Western’ legal conception of the human being ‘as an abstract universal, born free, endowed with reason, and equal among equals’ is the result of a drawn-out historical process stretching from the Renaissance to the Enlightenment (p. 11). The central moment here is when God disappears as a formal reference-point in Western politics, and the state and law take His place (p. 12). However, although God is formally displaced, His residue remains and the Western (legal) human being is conceived in His image. This *imago dei* rests on three dualistic pillars – man as an individual, a subject and a person.

Man is an individual insofar as he is unique and identical. Man is unique in the sense that he is considered a ‘whole’, distinct and separate from that which surrounds him. Yet each man is also ‘identical’ to all other men, insofar as all human beings share the common quality of being human. Supiot sees this as a fundamentally Christian idea. Here, since all men are made by God in His image, they are ‘brothers’ cast in the same image and, as such, ‘identical’. Yet, at the same time, God has given each man free will, which – when exercised – makes every man unique. Man is a ‘subject’ insofar as he is capable of ‘causing’ things, although this can embrace many different actions, man is primarily ‘a cause’ through *words*, the practical outcome of this being *law*. Supiot argues that Christianity is the only religion in which *any* individual is able to appropriate ‘the Word’ and create law (p. 17). However, human beings are also bound by – *subject to* – law; again, Supiot sees shades of Christianity here, which he characterises as the only religion in which God creates the laws of nature and is also bound by them.

The final element of this conception is man as a ‘person’. Western legal systems typically separate persons from things, whilst things may be bought and sold with impunity, persons may not. Supiot argues that this concept of personality is derived from the Christian notion of God as a being who only gains personality when incarnated in Christ’s flesh. Christianity generalised this conception to all human beings, whose immortal souls are realised through their earthly bodies. In non-Christian religions, this relationship is reversed, with the bodily aspect being subsumed beneath the spirit (p. 24). These three pillars are the ‘dogmatic legal conception’ of the person that structures ‘our’ thought. However, because these pillars have a dogmatic foundation – that is to say that they are treated as axiomatic and so asserted rather than argued for – they can always be challenged, either through the assertion of a new dogma, or simply through arguing that they are without foundation. This means that it is necessary for a third party to ground them, acting as a guarantor of their existence, and historically, this guarantor was religion, but it is now primarily the state.

Of course, none of this argument is particularly new, and the idea that the Western legal thought is a secularisation of Christian theology has been expressed by both Left1 and the Right.2 Perhaps Supiot’s most unique contribution in this respect is his argument against ‘scientism’. At various points during his philosophical exposition, Supiot compares the

'legal' approach to that of 'science'. He argues that, whereas legal dogma sees each person as an inviolable individual (and as such protected), science, both its biological and social variants, sees man as purely 'biological' or the product of social structures, meaning they no longer view the person as 'sacrosanct'. Those who believed in such 'materialism' viewed themselves as the instrument of a 'higher law' to which state and law were subject (p. 57), meaning that certain groups could be eliminated as and when 'science' demanded it. Thus, for Supiot, both Nazi racialism and Marxist materialism – in neglecting the anthropological function of the law – lead inexorably towards totalitarianism.

After the Enlightenment, European commentators assumed that the 'contract' would become universal, seeing it as the mark of a civilised society. Following decolonisation, it seemed like this prediction might come true, as many countries adopted the contract. However, Supiot notes that often these countries adopted the contract as a necessary response to European expansion, with the contract remaining alien to their own cultural traditions, which emphasised 'social harmony' (p. 82). Somewhat unsurprisingly, Supiot traces the notion of 'contract' as an abstract legal category to Western Christianity. He argues that the notion of pacta sunt servanda (the duty to honour one's promises) was invented by medieval canonists as a general moral duty of all Christians. It was premised on the idea that there was one omnipotent God before whom none could speak falsely. Here, the idea of the third-party guarantor emerged once again, although the contract form appears to be a 'horizontal' relationship between equals, it always requires a 'vertical' dimension, in its secularised form this is taken by the state (p. 93).

The differences between Western and Eastern culture lead Supiot to posit the difference between 'contractualism' and 'contractualisation'. The former rests on a political theory of social contract, whereas the latter simply denotes the objective extension of contractual techniques. This helps explain how it is that a country can adopt some contractual techniques, yet curtail their use internally and maintain their own cultural traditions. This division also illustrates the new 'justification' for the extension of the contract, it is no longer based on a theory of social contract, but, instead, on 'economic' analysis; contractualisation becomes synonymous with globalisation (p. 86).

After establishing this theoretical and historical groundwork, Supiot moves on to more concrete analysis of the law. Having noted the central role of the state in guaranteeing both contract and legal identity more generally, Supiot goes on to chart its steady decline in the age of globalisation. Internationally, the state is now viewed as an obstacle to exchange, with its 'material power' (budget-allocation) and 'spiritual mission' (spreading free trade) taken over by international bodies (p. 102). This allows the contract begins to 'break free' of its bounds, resulting in widespread 'deregulation' and contractualisation. Furthermore, with the state's role as guarantor increasingly under threat, numerous 'regulatory bodies' spring up, designed to oversee the contracts of particular specialised sectors. This means that the abstract nature of the contract as a general category begins to erode, as do equality and freedom of contract. Supiot argues that the net result of this has been the emergence of a new type of contract, the purpose of which is to 'legitimate the exercise of power' (p. 104). These contracts are characterised by the subordination of the activities of one party to the interests of another party:

What all these versions of the contract have in common is that they place a person – whether real, or legal, private or public – within the sphere of power of
another person, but without thereby infringing, at least in formal terms, the principles of freedom and equality. (p. 106.)

Supiot argues that this is a ‘hybrid’ of contract and law, which represents a ‘re-feudalisation’ of the law, since it is analogous to the feudal relation of vassalage, whereby a free man was subjected to the interests of many lords (p. 125). Having made such an extraordinary claim, Supiot moves on to consider the relationship between law and technology.

Supiot’s basic argument is that law and technology have had a mutually determining relationship, in which each reinforces developments in the other. Law occupies a very special position, insofar as it ‘placed between humans and their representations . . . and thus fulfils the function of dogma’ it ‘imposes and interdicts’ and is therefore ‘a technique of humanization of technology’ (p. 117). For instance, when electric and gas lighting freed industrial work from ‘the rhythms of nature’ the law ‘humanized’ this by limiting the length of the working day (p. 133). However, according to Supiot, technology has moved away from ‘centralization’ and towards ‘networked’ forms of organisation. This has led to changes in the organisation of the work-force, which is now permanently ‘on call’ owing to email, the internet and cellular phones. Consequently, the ‘network’ of technology has led to a ‘network’ structure in the workplace, transforming labour-law accordingly. This is Supiot’s ‘feudalism’, where ‘[s]ubordination is not enough, and workers who simply obey are no longer desirable’ instead they must ‘behave as though they were independent and wholly accountable’ (p. 125). Law must humanise this situation by ‘reconstituting the working community’ and re-establishing the division between ‘free time’ and ‘work time’ (p. 134).

This ‘network effect’ is not confined to the sphere of work. Supiot argues that, following to the World Wars, humanity lost faith in ‘sovereign’ power. Henceforth, it was necessary to justify uses of power, which was also to be decentralised (p. 152). Legislative power was increasingly subject to ‘proceduralization’, meaning that legislators withdrew from making substantive decisions (e.g. about whether it is correct to fire someone or not) and instead simply created procedures (such as consultation, disciplinary hearings etc.). Side-by-side with this, the content of government-legislation is increasingly left empty, to be filled in later by negotiation between certain interest-groups, a process which has been intensified by the European Commission and its ‘framework agreements’. Thus, with the decreasing legitimacy and power of the state, there has been a shift from government (where the state directly intervenes in given areas) to governance (where the state sets standards and targets) (p. 149).

Supiot’s final chapter considers the question of ‘human rights’. He argues that, as a ‘global’ dogma, human rights are necessary to ‘bind humanity’ and prevent it from sliding into ‘collective madness’ (p. 186). However, this universal potential is undermined by the fact that the ‘human’ in human rights is the Western \textit{imago dei}. Furthermore, European states suffer from a hangover of Roman law, which had ambitions of a \textit{universal ius commun}, leading them to impose their ‘universal values’ on the rest of the world. In order to arrive at a \textit{truly} universal set of human rights, it is necessary to avoid the three fundamentalisms – messianism, scientism and particularism – and recognise that various national legal dogmas can enter into ‘negotiation’ (p. 212). Supiot’s ultimate solution is to attempt to temper the processes of globalisation through a concept of ‘solidarity’, which will allow the creation of a global welfare-state. In practice, Supiot seems to default to a rather limp reformism, calling for a ‘social clause’ in the World Trade Organisation, which would allow states
to take their cases to the various international social bodies (for example the ILO and UNESCO) (p. 214).

This summary cannot possibly do justice to the richness and depth that characterise Supiot’s work. Indeed this richness is sometimes its failing. The structure of the first four chapters of the book is extremely chaotic, with numerous asides criticising ‘scientism’, ‘materialism’ or economism. Whilst these polemics clearly do have their place, the book would perhaps have been better served by placing them in a separate chapter, or at the very least towards the end of the initial exposition. The book’s use of sources is also quite problematic. As is common with contemporary theoretical work, Supiot does not engage with large-scale documentary or statistical evidence. Rather, he seems content to select certain rather esoteric events, practices or sources in order to illustrate his points.

Supiot’s work is not quite as original as he thinks it is. The questions that Supiot deals with, the answers he gives to them, and the central role that Supiot assigns to law, place him firmly within the tradition of bourgeois liberalism. The main problematic of Supiot’s work – whether it is possible to reconcile the coercion of the law with ‘freedom’ – is one which has always plagued liberalism. The answer that Supiot poses here – that such coercion is necessary to create a rational community of free individuals – places him firmly within the liberal tradition; indeed, it is very reminiscent of Locke. This means that Supiot’s claims as to the lack of attention legal scholars pay to the ‘anthropological function of the law’ ring slightly hollow, (p. 53) as arguments that law is vital for constituting a particular type of rational community occupy a prominent, if not dominant place in contemporary Anglo-American legal and political philosophy.

Misrepresenting Marxism

This liberalism perhaps explains Supiot’s hostility to Marxism. Whilst Supiot often compliments Marxist approaches to the law, in his haste to assimilate them into his narrative of ‘totalitarian scientism’ he mischaracterises them, sometimes distorting them beyond all recognition. Most egregious in this respect is his treatment of Evgeny Pashukanis, Bolshevik revolutionary and pioneering Marxist jurist; Supiot writes:

Materialist critique was the first to treat law as nothing but a technique of power serving the interests of the powerful, such that only laws ratified by science should be binding on the people. This idea was brilliantly formulated by Pashukanis at

4. ‘[H]owever it may be mistaken, the end of law is not to abolish or restrain, but to preserve and enlarge freedom: for in all the states of created beings capable of laws, where there is no law, there is no freedom’, Locke 1824, p. 162.
5. It is certainly the case that contemporary Anglo-American legal positivism has shied away from such a position, and such positivism is the dominant form of scholarship in the legal academy. But there is also a good deal of non-positivist jurisprudence and political theory which grants law a vital role in the constitution of a society of rational individuals. Although these theories are not identical to Supiot’s, they certainly take the ‘anthropological function’ of the law seriously, see e.g. Dworkin 1998, especially pp. 195–216 and Finnis 2005, especially pp. 134–60.
the time of the Russian Revolution, and was further developed by those for whom
the idea of justice had no place in a 'scientific' analysis of law (even if they
themselves were often aware of the very real injustices produced by existing legal
systems). (p. xix.)

On almost every level, this description does violence to ‘materialist critique’ of the law,
especially Pashukanis’s work. Pashukanis never advanced the idea that law was ‘nothing but
a technique of power’. Such a definition could perhaps be found in the work of Stuchka,
Pashukanis’s mentor and contemporary, who defined law ‘a system or order of social relations’
in which the determinative element is ‘the interest of the ruling class’ which is ‘supported
and safeguarded against violation by the organization of the dominant class . . . the state’.6 For
Pashukanis, this equation of law with class violence was unsatisfactory, since it left the law
‘indistinguishable from social relations in general’.7

Pashukanis argued that this position cannot explain what is distinctive about law as a
social relationship. Instead, legal inquiry had to look for the ‘law-ness’ of law,8 this cannot
be found in the content of law (which after all could be the content of any other social
relationship), or its function (which could be fulfilled by some other social relation). For
Pashukanis legal theory must recognise that ‘under certain conditions the regulation of
social relationships assumes a legal character’;9 the task of the Marxist jurist is to identify the
conditions which gave rise to this ‘legal character’ (or legal form as it is generally known)
and to delimit what this character entails. Rather than collapse law into ‘nothing but a
technique of power’, then, Pashukanis argued it was necessary to understand law ‘in terms
of its internal structure’, lest it ‘be dissolved away into some vager notion of social
control’.10

This failure to engage with Pashukanis’s actual ideas is a great shame, as his theory has
much to contribute to Supiot’s. The legal form is the main site of Pashukanis’s theoretical
c-excavations and, in this respect, his ‘basic materialist strategy is to correlate commodity
exchange with the time at which man becomes seen as a legal personality’.11 In order that
commodities may be exchanged ‘their guardians must place themselves in relation to one
and another, as persons whose will resides in those objects’, this means that they must
‘mutually recognise in each other the rights of private proprietors’.12 As such, commodity-
exchange requires that each party to the exchange recognise the other as his equal, at least
in formal, abstract terms. However, commodity-exchange is also a contentious relationship,
in which each party wishes to possess the commodities of the other, for the lowest possible
price. Consequently, disputes frequently arise in the course of commodity exchange and
these disputes require a specific form of social regulation to deal with them:

Where there is even the potentiality of disputation between the sovereign, formally equal individuals implied by commodity exchange... a specific form of social regulation is necessary. It must formalise the method of settlement of any such dispute without diminishing either party's sovereignty or equality. That form is law, which is characterised by its abstract equality...13

Thus, the legal form is one which posits human beings (and other entities which act through it) as abstract, formally equal 'legal subjects'. As the exchange of commodities becomes the primary force in the economy, so too does the legal form become the predominant form of social regulation. Concomitantly with this, the legal form becomes ever more abstract, divorced from the concrete relationships that historically gave rise to legal relationships and '[e]ach man became a man in general, all labour was equated with socially useful labour in general, every subject became an abstract legal subject'.14

Hence, rather than treating law as 'nothing more than a technique of power,' Pashukanis takes law seriously on its own terms, as a specific form of social regulation which posits individuals as legal subjects. The parallels with Supiot's work should be evident here. What is more, the legal form that Pashukanis describes bears a striking resemblance to Supiot's homo juridicus. Where Pashukanis sees the legal subject as an abstract, formally equal individual, Supiot sees it as 'an abstract universal, born free, endowed with reason, and equal among equals'. It is a shame that Supiot never engages fully with Pashukanis's work, as its close proximity to his own work allows us to see some of the substantive criticisms that might be levelled against Homo Juridicus.

One of the most important differences between Supiot and Pashukanis is that, where Pashukanis sees the legal form as primarily a product of commodity-exchange, and therefore the market, Supiot sees it as originating 'Western Christianity'. In order to support his position, Supiot frequently cites 'non-Western' traditions that have no notion of law or contract in the sense that we understand it. However, the non-Western traditions that he cites are almost exclusively precapitalist. Supiot tends to explain the increasing marginalisation of these cultural practices as the forced response to the introduction of an 'alien' culture, that of the West (p. 82). The problem here is that, when dealing with imperialism or globalisation, it is very difficult (if not impossible) to disentangle the 'economic' from the 'cultural' and the 'political', since the spread of the market in the periphery has always been tied up with political coercion from the core. Nevertheless, the fact remains that the spread of homo juridicus to the periphery has been tied up with the spread of capitalist property-relations. The question is perhaps one of primacy. Did the West spread its 'cultural practices' simply because of its belief in their supremacy, or was it laying the groundwork for economic exploitation?15

15. This question is made ever more complicated by the fact that if the former was correct, it might nonetheless be the case that 'Western' belief in its own superiority was itself a component of an ideology whose purpose was to justify the exploitation of the periphery. Indeed, the supposed primacy of the cultural motive might serve to better buttress this justification, as it allows imperial expansion to be portrayed selfless, moral mission.
If the question is difficult to answer with respect to the spread of *homo juridicus* to the colonies, it is easier in terms of its internal consolidation. Again, Supiot emphasises law’s religious roots, focusing in particular on the role of medieval canonists in developing the abstract concept of the ‘contract’. As discussed above, Supiot argues that the belief in one omnipotent God was vitally important here. This seems unconvincing, especially since Supiot fails to discuss the very real material power of the Church in the thirteenth century as opposed to the strength of religious belief among Christians. Furthermore, culture alone cannot explain how the supposedly Christian ideas of law and contract were able to survive secularisation, and indeed grow to become the predominant forms of social regulation. Here, it seems that Pashukanis has the more convincing argument, that the legal form was spread through the growth of market-relations, which were part and parcel of the process of ‘secularisation’. Whilst Supiot does recognise the close proximity of law and the market (p. 94), he never seems to draw the connection between the preservation and spread of *homo juridicus* and the rise of capitalism.16

This also renders problematic some of Supiot’s claims about the ‘Law and Economics’ movement. For Supiot, ‘Law and Economics’ is misguided insofar as it ignores law’s role as a ‘shared heritage’ (p. xxi). However, this critique loses force when one considers law’s close connection to the economy. It becomes very difficult to counterpose *homo economicus* to *homo juridicus*, when *homo juridicus* is nothing but an ‘abstract commodity owner elevated to the heavens’. 17 In fact, as Bob Fine notes ‘[c]lassical jurisprudence arose in close conjunction with studies of the economic foundation of capitalist society conducted by classical political economy’.18

This lack of attention also taints Supiot’s practical proposals for reforming the law. Supiot places great stock in the African concepts of ‘people’s rights’ and ‘solidarity’ (p. 206) as an antidote to international law’s complicity in globalisation. Supiot seems completely unaware of the fact that in the 1960s, 1970s and 1980s the Third World was successful in incorporating its concept of people’s rights into a number of international instruments. However, rather than rolling back globalisation, these rights ended up strengthening the hold of international institutions over the global South and buttressing development-discourse.19 Recognition of law’s structural connection with capitalism helps us understand the ultimate limitations of any legal strategy.

Pashukanis’s work might also lead us to question Supiot’s claims about the anthropological function of the law. On the one hand, Supiot views law as a ‘shared heritage’ which serves as a reference-point for individual reason, yet on the other hand, he views law as creating subjects who are complete, self-contained individuals (p. 16). Thus, Supiot is faced with the classical liberal paradox: in a society of diverse, unconnected individuals, it is necessary to create some kind of stable reference-point. However, this stable reference-point has to be one that creates and guarantees these self-contained individuals. But, if the content of this shared heritage does nothing more than guarantee individual diversity then how can it serve

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16. For a useful historical description of this relationship (although one lacking in theoretical sophistication) see Tigar and Levy 2000.
17. Pashukanis 1980, p. 81.
as a shared reference-point for these individuals? This paradox constantly recurs in the law, as Pashukanis notes:

Law is simultaneously a form of external authoritative regulation and a form of subjective private autonomy. The basic and essential characteristic of the former is unconditional obligation and external coercion, while freedom is ensured and recognized within definite boundaries. Law appears both as the basis of social organization and as the means for individuals ‘to be disassociated, yet integrated in society’.21

As previously noted, Supiot assigns law an incredibly important role, arguing that it is able to guarantee human reason, by ascribing meaning to human existence. The recognition that human reasoning is shaped and guided by its social context is an important one, and Supiot is right to emphasise this. What we might question is how important law is to this process, and whether law has a necessary role in the institution of human reason. Marxists have long recognised that the ideological importance of law extends far beyond its immediate, narrow sphere and that it has an important role in shaping human subjectivity.22 It does, however, seem doubtful that we can ascribe this role exclusively, or even primarily to law. In truth, Supiot does not do this; indeed, part of his polemic is despair at the decline in the role of law in favour of economics. What Supiot does seem to suggest is that neglecting the anthropological function of law, or replacing it with ‘science’, tends inevitably towards totalitarianism (p. xix).

This is another area in which Supiot’s failure to engage with the actual arguments of Marxists severely detracts from his work. According to Supiot, Pashukanis argued that ‘only laws ratified by science should be binding on the people’. This is a distortion. It is true that Pashukanis did distinguish between law and what he called ‘technical regulation’ but this is not as simple as Supiot supposes. For Pashukanis, the ‘basic assumption of legal regulation is… the opposition of private interests’, to this he contrasts ‘technical regulation’ which is characterised by ‘unity of purpose’.23 Famously, he used the example of a railroad, which contains a technical element, the achievement of ‘maximum freight capacity’, and a legal element, which might concern the responsibility of the railroad-operator for any negligently caused deaths.24 Whilst the content of technical norms might be dictated by science,25 this is not necessarily so, all that is needed is ‘unity of purpose’.

It is certainly true that the idea of ‘unity of purpose’ can be abused by authoritarian régimes. Various régimes have created a false or exclusive unity, which has had the effect of rendering some people outside any form of protection and often condemned them to death. This is not a fact that has escaped Marxists.26 But it does not follow that any form of social regulation not based on homo juris eius leads towards totalitarianism. In his

24. Ibid.
25. Ibid.
examination of ‘Eastern culture,’ Supiot does recognise that it is possible to articulate a vision of man which while non-individualistic is also non-totalitarian. However, these formulations still tend to ‘dissolve’ individuals in a broader notion of society (p. 83). So, although Supiot gestures towards a rapprochement between Western and non-Western cultures, he maintains the typical liberal opposition between ‘individualism’ and ‘communitarianism’. An engagement with Marxism would have helped Supiot to realise that there is a position beyond both individualism and communitarianism. This position recognises that individuals are the product of dense webs of social relations and argues for a mode of social regulation suitable for a world in which ‘the free development of each is the condition of the free development of all’.  

Labour, technology and ‘feudalism’

This critique of Supiot’s philosophical position allows us to see some of the problems with his more concrete analysis. Firstly, there are his claims about law’s role in humanising technology. At first sight, Supiot’s position on these issues is quite appealing. Although he stresses the close connection between law and technology, he refuses to argue that there is any unilateral determination operating between the two (p. 113). Such a position is, of course, useful, insofar as it represents an attempt at a materialist analysis that does not descend into technological determinism. However, although Supiot’s description of the mutual transformation is quite powerful, it is weaker on why law tracks technological developments so closely. Supiot simply states that the purpose of law is to be placed between humanity and technology, without really explaining why this is the case, so, whilst he persuasively shows that law has closely tracked technological development, he is at a loss to explain this relationship. This is where Pashukanis again becomes useful. In showing the deep connection between law and exchange, he also shows that there is very little distance between law and the labour-process. Precisely because the employment-relationship is the commodity-exchange relationship par excellence, changes in its structure have almost immediate legal consequences.

Conversely, Supiot’s discussion of technology lacks any notion of agency. In his discussions of the regulation of the working day, Supiot frequently argues that ‘law objects’ to certain states of affairs (p. 133), or ‘law serves to limit’ (p. 135) certain practices. But, of course, ‘the law’ cannot ‘act’ on its own, law is made by people (directly or indirectly). It is useful here to turn to Marx’s seminal account of the struggle to limit the working day. Rather than endowing the law with agency, Marx shows – in great detail – that the legal limits placed on the working day were only won at the end of a great struggle between labour and capital. The virtue of this approach is that it recognises that law will not

27. Marx 1978, p. 491. For a fascinating fictional exploration of how such a system of regulation might operate, see Miéville 2000, pp. 86–9.
28. As Pashukanis notes, the commodity-form assumes ‘a dual nature, economic and legal’, insofar as it always necessitates the recognition of the other party as a legal subject. This means that any struggle around the conditions of work – that is to say the contract of employment – is immediately a legal one; see Pashukanis 1980, p. 67. For the best – if flawed – contemporary Marxist account of labour-law, see Miéville 2005, pp. 101–9.
necessarily have a ‘humanising influence’ on technology. Supiot adopts the typical position of liberal legalism, whereby the problem is always identified with a lack of legal regulation, rather than ‘bad’ legal regulation. In recognising that law is a distinctive form through which social conflict is articulated, the Marxist approach is able to grasp that these conflicts will not always be won by progressive forces, hence law will not always ‘humanise technology’, but will sometimes buttress its inhuman tendencies and perhaps even exacerbate them.

This brings us nicely on to Supiot’s analysis of contemporary labour-law. Central to Supiot’s analysis is that we are witnessing a ‘re-feudalisation’ of the law. In order to properly address this claim it is necessary that we disaggregate just how Supiot thinks that the law has been transformed. The overarching theme that Supiot identifies is that new contracts are emerging that ‘place a person . . . within the sphere of power of another persons, but without thereby infringing, at least in formal terms, the principles of freedom and equality’ (p. 106). To characterise this as a new development seems highly problematic. As Franz Neumann noted in 1937, the legal person is frequently a ‘mask’ which obscures the fact that private property is ‘the basis of “master-slave relationships”’. This is particularly evident in the labour-contract, where ‘[t]he legal equality of the contractual partners hides their economic inequality’. The important point to note here is that right from the outset, the contract of employment has been one which places a person under the power of another, whilst maintaining the legal equality of both parties. Indeed, the particular defining type of exploitation under capitalism – the ‘free worker’ alienating his labour-power to the capitalist – is only possible through the contract-form, which recognises the worker as a legal equal who ‘chooses’ to sell his labour-power. China Miéville is exactly right therefore when he argues, in another context, that ‘[t]he notion that the relation at the heart of capitalist exploitation is a feudal atavism is quite clearly untenable’.

It is difficult to know whether Supiot actually believes his more general claim. Immediately after making it, Supiot does admit that the employment contract is a ‘model’ for later developments (p. 104). A charitable reading of Supiot would suggest that he cannot possibly be saying the employment-contract itself represents a return to feudalism. This is because the generalisation of the employment-contract represents the decisive break with feudalism, where status and social position determined the exploitation of surplus-value. If Supiot seriously believes that contracts placing a person under the power of another person represent feudalism per se, then it seems feudalism never really went away. The more charitable interpretation of Supiot’s work focuses on the transformation in the particular shape of employment-contracts and the substantive obligations they entail.

Here perhaps, Supiot’s claims become more intelligible: essentially, he argues that what is distinctive about these new contracts is that although they place a person with the power of another individual, they do so without establishing a relationship of direct control. These contracts, therefore, are designed to create bonds of allegiance, analogous to those of vassalage. These new contracts are marked by very little direct managerial control, with workers behaving ‘as if’ they are independent contractors (p. 125). These claims are neither

30. For some excellent discussion of how this liberalism operates in international law see Johns 2005 and Marks 2006.
new nor uncontroversial and this sort of account of the transformation of the employment-
relationship has become popular over the past ten years, particularly with the publication
of Hardt and Negri’s *Empire* and *Multitude*.

Thus, the usual objections apply here, and we can legitimately question how widespread
this transformation has really been and how important it is (both nationally and
internationally). Rather than dwell on these criticims, which have been well-elaborated
elsewhere, this review will briefly focus on whether these developments ought to be
termed ‘feudal’. This is a difficult exercise, insofar as there is no single ‘essence’ of feudalism
(or for that matter capitalism) which can be used to designate a particular social relationship
as such. All that can really be done is to look for the ‘defining features’ of any given mode
of production and see how far they are instantiated in the relationship. So what, precisely,
is it that makes labour (and its exploitation) under capitalism different from that which
preceded it? As Pashukanis notes, exploitation in general is ‘in no way bound to the
exchange relation’, it is ‘only in bourgeois capitalist society’ that ‘the proletarian figures as a
subject disposing of his labour power as a commodity’. This is in contradiction to the
defining form of exploitation under feudalism, which was based on status. The defining
feature of capitalist wage-labour therefore is not the control that the capitalist exercises over
the labourer, but rather the ‘free exchange’ of labour-power for a wage. On this reading,
whilst these new contracts may represent a change in the ‘shape’ of traditional labour-
capital relationship, they are not a fundamental repudiation of this relationship.

Supiot’s makes a double error here. Firstly, he is unnecessarily privileging the substance
of a contractual agreement over the fact that it remains a contractual agreement.
Secondly, he seems argue that a relationship that existed under feudalism is *ipso facto* a ‘feudal one’, thus
ignoring the fact that social formations are never perfect instantiations of a given mode of
production but are composed of differing, contradictory elements. A deeper engagement
with Marxism would have allowed Supiot to analyse the defining features of feudalism, and
so avoided the mistake of designating any relationship which bears a similarity with one
that existed under feudalism as ‘feudal’.

### Conclusion

It is impossible in the short space of a review to cover all of the issues *Homo Juridicus* raises.
Perhaps most important amongst these is the particular role Supiot envisages for the state,
but there are also questions as regards ‘regulation’ which deserve greater consideration. The
critical tone of this review may be misleading. Although Supiot’s book has many failings, it
is nonetheless a powerful one, which can be fruitfully engaged with on several levels.
Despite some of the blurbs on the dust-jacket, the book should not be read as a radical
critique of the law but, rather, a sophisticated restatement of classical liberalism, couched
in contemporary theoretical garb. This means that the book falls foul of the problems that
have always plagued liberalism. It is for this reason that it is so useful to counterpose Supiot’s

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33. See e.g. Camfield 2007.
35. The obvious point to make here is that – within limited bounds – markets were tolerated
under feudalism, very few people would argue that, on this basis, markets are ‘feudal’.
ideas with those of Pashukanis, who – whilst taking law and liberalism seriously – subjected them to a sustained historical and theoretical critique.

Whilst Homo Juridicus is not solely concerned with the law, it may be difficult for those with no legal background to fully appreciate. Many of his claims require some background knowledge of the continental legal tradition, such that even this reviewer (educated in the common-law tradition) occasionally had trouble following the argument. As stated earlier, there are also serious problems with the form of the argument, which could be much clearer. Nonetheless, the book addresses some contemporary issues with great erudition, and, as such, can profitably be read by anyone interested in the legal direction of advanced capitalism.

Reviewed by Robert Knox, robertjknox@googlemail.com

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Hegemonic Apparatus


Gramsci analyses, with the concept apparato egemonico or apparato di egemonia, the social terrain on which ‘leadership’ is contested. Against the background of the defeat of the Italian workers’ movement by Fascism, the beginnings of Stalinisation in the Soviet Union and the new formation of capitalism by the Fordist mode of production and way of life, the concept aims at an analysis of such forms and dimensions of domination, or of the conquest of power of the subjugated classes, that are based upon consensus (and not directly on violence or its threat): ‘A hegemonic apparatus can be defined as any institution, place or agent that organises, mediates and confirms the hegemony of a class over other classes’ (Francioni 1984, 175). The increasing significance of hegemonic apparatuses can be expressed, despite civil achievements, in the growing subalternity of the ‘many’ in relation to the ‘few’. In contrast, Gramsci sketches out his ‘philosophy of praxis’ as a project of overcoming such subalternity. The installation of a hegemonic apparatus is equivalent to a ‘philosophical reform’: insofar as it ‘creates a new ideological terrain, it effects a reform of consciousnesses and of methods of knowledge, its a fact of knowledge, a philosophical fact’ (Q 10, § 12).

1. The etymology of ‘apparatus’ represents an initial difficulty of the reception of the notion of a hegemonic apparatus. In Latin, apparatus means formulation, preparation, decoration, pomp, military and liturgical accoutrement as well as equipment. In the course of the eighteenth century, the German meaning of the term was extended to the totality of people and arrangements for the fulfilment of certain tasks (Etymol WB 1, 65). While the dimensions of meaning of ‘formulation’ and ‘assembly’ (from the verb appare), ‘decoration’, ‘ornament’ as well as ‘pomp’ or ‘display’ are still present in the Romance languages, the notion of ‘equipment’ is dominant in German; thus the tendency of understanding the Italian ‘apparatus’ one-sidedly as ‘machine’. The active or sensuous dimensions (e.g. as dimensions manifested as ‘fascination’) thus remain underexposed. Still less is the practical dimension to be dismissed. ‘Hegemony’, for example, is used by Thucydides in numerous passages in his history and is related to the characterisation of political and military leadership or power. When the concept was used in the Russian Marxism of the Second International at the end of the nineteenth century, or later by the Comintern, it also was used to express questions of political strategy (cf. Anderson 1977, 15 et sqq.).

2. Marx and Engels use ‘state machine’ and ‘state machinery’, not ‘state apparatus’. However, the perspective is both genetic and structural. As against bourgeois-civil society, the state machine has consolidated its position (MECW 11, 186; trans. modified), Marx claims in the 18th Brumaire: ‘the first French Revolution, with its task of breaking all separate local, territorial, urban and provincial powers in order to create the civil unity of the nation, was bound to develop what the absolute monarchy had begun: the centralisation, but at the same time the extent, the attributes and the agents of governmental power’ (MECW 11, 185). After Napoleon had perfected this ‘state machinery’, the following régimes added a ‘greater division of labour’:

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Every common interest was straightway severed from society, counterposed to it as a higher, general interest, snatched from the activity of society’s members themselves and made an object of government activity [...]. All revolutions perfected this machine instead of breaking it. The parties that contended in turn for domination regarded the possession of this huge state edifice as the principal spoils of the victor (MECW 11, 186; cf. MECW 22, 485; MECW 22, 532–7).

The revolutionary opposing position is that of the Paris Commune: ‘While the merely repressive organs of the old governmental power were to be amputated, its legitimate functions were to be wrested from an authority usurping pre-eminence over society itself, and restored to the responsible agents of society’ (MECW 22, 333; cf. Engels, MECW 27, 179).

The dimension relevant for hegemony was already presented by Marx and Engels in the German Ideology: from the ‘contradiction between the particular and the common interests, the common interest’ in class-societies ‘assumes an independent form as the state, which is divorced from the real individual and collective interests’ (MECW 5, 46). It is ‘the practical struggle’ of these as well as ‘particular interests’ that run counter to these ‘common and illusory common interests’ that necessitate ‘practical intervention and restraint by the illusory “general” interest in the form of the state’ (47). The statal articulation of society as an ‘illusory community’ (46) means that ‘each new class which puts itself in the place of one ruling before it is compelled […] to present its interest as the common interest of all the members of society, that is, expressed in ideal form: it has to give its ideas the form of universality, and present them as the only rational, universally valid ones’ (60). In reality, we are dealing here with a comprehension of the level and ‘grammar’ of the contestation for hegemony.

Engels drew attention in 1895 to the changed conditions of the struggle for power, which prefigure Gramsci’s proposition of the war of position: ‘far from winning victory by one mighty stroke, [the proletariat] has slowly to press forward from position to position in a hard, tenacious struggle’ (‘Introduction’ to Marx, Class Struggles in France, MECW 27, 512). With the example of the right to vote, he refers to an ‘entirely new mode of struggle of the proletariat’, which was becoming effective and would be further extended. ‘The state institutions, in which the rule of the bourgeoisie is organised, offer the working class still further levers to fight these very state institutions’ (516). The time of surprise attacks, of revolutions carried through by small conscious minorities at the head of masses lacking consciousness is past’. Much more must the masses themselves be for a complete transformation of the social organisation, ‘the masses themselves must also be in on it, must themselves already have grasped what is at stake, what they are fighting for, body and soul’ (520; cf. Texier 1998, 169–224).

3. Lenin sees the task as one of making the masses capable of an ‘independent involvement in the historical destiny of the country’ and of throwing off the ‘hegemony of the bourgeoisie’ (LCW 17, 238 et sq.). That can be achieved only through the formation of a bloc of all ‘intermediary democratic groups and sections’ around the working class (LCW 17, 215), ‘criticising the narrowness and shortsightedness of all bourgeois democracy’ (LCW 17, 80). In State and Revolution, he refers to Marx’s views in the 18th Brumaire and affirms: ‘All early revolutions have perfected the state machinery, but it must be smashed, broken’ (LSW 2, 32).

Against the background of his experiences of the Revolution, Lenin affirms in 1921 that indeed ‘quite a small party is sufficient to lead the masses […]. But to win, we must have the sympathy of the masses’ (‘Speech in Defence of the Tactics of the Communist International’ at the III Congress, LCW 32, 476). In his late work, he attempted to translate that into practical politics: power is not to be exercised for but rather through the proletariat. In the first great crisis of Soviet Russia in 1920/21, he developed the concept of the ‘realisation of the dictatorship of the proletariat’, in which the party works together closely with the sovi-
ets, state-apparatus and the unions as ‘transmission belts’. In differing ways, they should approach the masses, win them over, binding themselves with the masses (LCW 32, 21). Attempts to advance on this path preoccupied him until his death. If his concept is also intermingled with educationalist moments and related to a party that was also leading in an administrative sense, there are apparent already new forms of influence. For Lenin, the dictatorship of the proletariat contains ‘systematically guiding influence (also = struggle, though of a particular type, overcoming of a determinate completely different opposition and a completely different type of overcoming) on all workers outside the proletariat’ (Lenin 1970, 242). The mechanical dimension in this approach, as expressed in the metaphor of ‘transmission belts’, benefited Stalin’s simplifications (Stalin, Works 8, 34). The sense for a differentiated treatment of the hegemonic dimension of the struggle for power was lost.

4. Gramsci uses the expression ‘apparatus’ already before the Prison Notebooks in different connections like ‘economic apparatus’, ‘political apparatus’, ‘union apparatus’, ‘national apparatus of production’, ‘apparatus of industrial production’, ‘proletarian apparatus’ or ‘military-bureaucratic apparatus’. On the other hand, hegemony appears rarely before 1925 and, when it does, usually as a descriptive concept. Before Gramsci appropriated its usage under the influence of the Comintern in the sense of a strategy, he speaks rather of ‘prestige’ – a mode of expression which was inspired by his study of linguistics: language-geography brought the implementation of a determinate mode of speaking into connection with an overarching cultural and social life (cf. Lo Piparo 1979, 85–151). In ‘The Party and the Revolution’ (ON, 27.12.1919) he demanded that by means of ‘radiation of prestige’ (1977, 143) the PSI should ‘produce an embryonic apparatus of power in which the masses exercise their own government’ (ON 2, 369 et sq.; 1977, 144); through the ‘apparatus of spiritual government [governo spirituale]’ the party ‘exercises the most effective of dicta-
torships, a dictatorship based on prestige’ (1977, 144). The only document that seems to indicate that ‘apparatus’ and ‘hegemony’ have an integral relation to each other appears to be in the article ‘Towards the Communist International’ (ON, 26.7.1919), where Gramsci refers to the ‘enormous administrative and political apparatus’ of the Entente, which had survived the War undamaged and is ‘now effectively the instrument of Anglo-Saxon world hegemony’ (ON 2, 152; 1977, 81).

4.1. The concept appareato egemonico appears in the Prison Notebooks for the first time in the context of the conditions of emergence of Action Française. After the First World War, ‘the hegemonic apparatus cracks and the exercise of hegemony becomes evermore difficult’, Gramsci notes in this context (Q 1, §48; cf. Q 13, §37). This problem is not specifically French: in Italy, ‘the discussion of force and consent’ is ‘relatively advanced’. ‘This discussion is the discussion of the “philosophy of the epoch”, the central motive in the life of the states in the period after the war. How to reconstruct the hegemonic apparatus of the dominant group, which had broken up due to the consequences of the war in all the states of the world?’ (Q 7, §80). Gramsci criticises seeing the cause of the decline in the fact that ‘a strong antagonist collective political will had developed’. ‘If this were the case’, he says, ‘the question would have been resolved in the favour of this antagonist’. Instead, he sees numerous causes at work: ‘1) because great masses, previously passive, have entered into movement, but in a chaotic and disordered movement, without leadership, that is, without precise collective political will; 2) because middle classes that during the war had functions of commanding and responsibility, had them taken away with peace, remaining unemployed, precisely after having done an apprenticeship in commanding, etc.; 3) because the antagonistic force were unable to organise this effective disorder’. The problem consists in reconstructing the ‘hegemonic apparatus of these previously passive and apolitical elements’. That could not occur without force: ‘since in every state the ensemble of
social relations was different, the political methods of using force and the combination of legal and illegal forces had to be different (ibid.).

4.2. These contemporary analyses are later supplemented with theoretical considerations on the historical role of hegemonic apparatuses. Gramsci takes up the ‘affirmation of Guicciardini that two things are absolutely necessary for the life of a state: weapons and religion’. This formula can be translated in ‘various other formulae, less drastic: force and consent, coercion and persuasion, state and church, political society and civil society, politics and morality (Croce’s ethical-political history), right and freedom, order and discipline, or, with an implicit judgement of a libertarian flavour, violence and fraud’. For the political thought of the Renaissance, ‘religion was consent and the church was civil society, the apparatus of hegemony of the leading group which did not have its own apparatus, that it, did not have its own cultural and intellectual organisation, but felt the universal ecclesiastical organisation to be this’. Here is expressed the idea that ‘religion is openly conceived and analysed as an “instrumentum regni” [instrument of domination]’. The Jacobin cult of the ‘supreme Being’ could also be studied in a new way from this perspective, as an ‘attempt to create identity between the state and civil society’ and ‘to grasp the entire popular and national life’ (Q 6, §87).

In Daniel Halévy, Gramsci finds proof that the most important initiatives in France after 1870 did not emerge from political organisations that were based on the right to vote but, rather, from private organisations or relatively unknown high bureaucratic offices. He concludes from this ‘that the common concept of the State is unilateral and leads to enormous errors’, because ‘by State one must understand… also the “private” apparatus of hegemony or civil society’ (Q 6, §137). He develops the theme further in relation to the problem of political leadership in the formation and in the development of the nation and the modern State in Italy (Q 19, §24), ascribing to the intellectuals an important role. The moderates were able ‘to stabilise the apparatus (the mechanism) of their intellectual, moral and political hegemony’ by making ‘individual, “molecular”, “private” initiative’ into their most important instrument and not, for example, a party programme according to a plan elaborated and constituted prior to practical and organisational action’ (ibid.). That was possible, however, only because the moderates were the organic intellectuals of the upper classes: ‘they were intellectuals and political organisers and at the same time bosses, large landowners or bailiffs, commercial and industrial entrepreneurs’ (ibid.).

Indeed, ‘nobody is unorganised and without a party […,] if we understand organisation and party in the broadest and not formal sense. In this multiplicity of particular societies […] one or more prevail relatively or absolutely, constituting the hegemonic apparatus of a social group over the rest of the population (or civil society), basis of the State comprehended strictly as governmental-coercive apparatus’ (Q 6, §136). When there are weak points in this political hegemony, ‘it is to be noted how in the public sphere the improprieties of the administration of justice make an especially disastrous impression: the hegemonic apparatus is most sensitive in this sector, to which the arbitrary acts of the police and the political administration can also be referred’ (Q 6, §81).

Sometimes, the concept is only present in a conceptual sense, not literally in terms of the word itself. Thus, for example, Gramsci speaks of the ‘material structure of the superstructure’ (Q 4, §12; Q 11, §29), of the ‘complex of trenches and defences’ or of the ‘ideological structure of a ruling class’, of the ‘material organisation intended to maintain, to defence and to develop the theoretical or ideological “front”’. The most important part of this is the press and the publishing houses. Additionally, there is ‘all that which influences or can influence public opinion directly or indirectly: the libraries, the schools, circles and clubs of various types, to architecture, the placement of streets and the names of them. The maintained position of the Church in modern society cannot be explained if one doesn’t recognise the
daily and patient efforts that it makes in order to develop continually its particular section of this material structure of ideology’ (Q 3, §49). Francioni holds it for ‘probable that the concept of the material structure of ideology, correlative to that of the hegemonic apparatus, represents for Gramsci merely an early and provisional formulation, a perhaps not entirely satisfying draft, particularly when the note only had one development and was not taken up again in a thematic notebook’ (1984, 179).

4.3. The Hegelian concept of an ethical or cultural state, as it was propagated by Croce, can also be more clearly comprehended with the concept of hegemonic apparatus: ‘every State is ethical insofar as one of its most important functions is that of elevating the large mass of the population to a determinate cultural and moral level. […] The school as positive educative function and the courts as repressive and negative educative function are the most important activities of the State in this sense: but in reality a multiplicity of other so called private initiatives and activities, which form the apparatus of political and cultural hegemony of the dominant classes, aim at this end’. If, for Hegel, ‘the development of the bourgeoisie in its expansion’ could appear to be ‘unlimited’, ‘in reality only the social group that posits the end of the State of itself as the goal to be reached can create an ethical State’ (Q 8, §179).

5. Similar approaches, even if less radical, can be found in the Austro-Marxists, who attempted to theorise the hegemony of the working class in the same period (cf. Albers 1983, 19–50). Thus, in the Linz Programme, we read: ‘in the democratic republic, political domination is based no longer on political privileges, but on the ability, by means of its economic power, the power of tradition, the press, the school and the church, to keep the majority of the people under its intellectual-cultural [geistige] influence’ (Bauer, WA 3, 1022).

Such considerations became relevant again in the 1960s. In particular, the student-movement and the experiences of the democratic-socialist government in Chile in 1970–3 with its bloody defeat by the military coup posed the question concerning the possibilities of a left-hegemonic project once again. Christine Buci-Glucksman directed attention in this context to Gramsci’s concept of hegemonic apparatus, which is a ‘concept of the same order as those of organic intellectual and historic bloc’ and the lack of attention for which had brought forth a ‘number of negative effects’: ‘the primacy of the ideological over the analysis of the superstructures, the primacy of the problematic of the historical bloc over that of the relations of force and the state, a deviation in Gramscian interpretation of a cultural-idealistic character’ (63). Buci-Glucksman discusses the concept of hegemonic apparatus in relation to Althusser’s ‘ideological state apparatuses’ (ISA).

Althusser noted Gramsci’s influence on his own theory: ‘Gramsci […] had the “remarkable” idea that the State could not be reduced to the (Repressive) State Apparatus, but included, as he put it, a certain number of institutions from “civil society”: the Church, the Schools, the trade unions, etc.’ (Althusser 1971, 142). While Gramsci had ‘not systematised’ his ‘acute but fragmentary notes’ and ‘intuitions’ (ibid.), Althusser intends to correct this. ‘No class can hold State power over a long period without at the same time exercising its hegemony over and in the State Ideological Apparatuses’ (146). In distinction to the centrally organised repressive state apparatus, ‘the ideological state apparatuses are […] “relatively autonomous” and capable of providing an objective field’ for the unfolding of the class struggle (149). The experience of 1968 prompts Althusser to formulate that the ISAs, the dominating of which he sees in the school, are ‘necessarily the location and the actual application of a class struggle, which in the apparatuses of the ruling ideology continues the general class struggle’ (Althusser 1983, 456). He distinguishes between religious, educational, family, juridical, political (political system and parties), ‘trade union’ (here including both professional and employer associations), informational and cultural ISAs (cf. 143 et sq.).
While Althusser views the ISAs as means of power of the ruling class, Santiago Carrillo intends, by means of an extensive and energetic 'democratisation of the state apparatus', to deprive 'bourgeois ideology of its hegemony in the ISAs' (1977, 56). Nicos Poulantzas claims that Gramsci had explicitly 'developed the theory of the ideological apparatuses as apparatuses of the State' (1974, 309). The key question for him is that of the 'power bloc', in which, like Gramsci, he distinguishes between classes and class-fractions, which are nevertheless in no way 'merged' on an equal footing: rather, it is much more the case that one of these classes or class-fractions plays an unambiguously dominating role (1975, 141). The 'heart of the matter' consists in the distinction between 'the state apparatus, narrowly defined, in the singular [and] several ideological State apparatuses', in the plural (1974, 305). Poulantzas criticises Althusser for having undervalued the 'distinction between the "private" and "public" state apparatuses' (ibid.). Fixation on the ideological and repressive state-apparatuses threatened to prevent us from locating the state network in which the power of the hegemonic fraction of the bourgeoisie is essentially concentrated [...] it obscures the character of the modalities required to transform this economic apparatus in the transition to socialism (1978, 33).

As in the case of Poulantzas, Althusser's influence on regulation-school theorists is also noticeable in the fact that hegemonic apparatus does not become an operative concept in their work, even though they attempt to investigate the history and present of the capitalist mode of production as a sequence of historically specific political projects, social confrontations and institutionalisation-processes based upon compromise, and even though regulationist analysis works 'with the concept of hegemony or rather with that of the ideological-institutional hegemonic system' (Lipietz 1992, 187; cf. Demirovic 1992, 133 et sqq.).

Althusser later attempted once again to justify why his concept of the ISA was 'more precise' than Gramsci's concept of hegemonic apparatus (1978, 12): with the latter, according to Althusser, the 'apparatus' is defined in terms of its effect or result, hegemony, without mentioning how they function – 'as ideology' (ibid.) – while he defined the ISAs 'in terms of their "motor cause": ideology' (2006, 139). Gramsci contradicted himself when, on the one hand, he identified the hegemonic apparatus as belonging to civil society and distinguished this as the 'private' in opposition to the 'public' of the state in the narrow sense; on the other hand, he identified the state with civil society (ibid.). – However, Althusser here ignores the difference between bourgeois-civil society [bürgerlicher Gesellschaft] and civil society [società civile] just as he does not notice the difference between the state in the narrow sense and the integral state; he misunderstands the sphere of mediation between the private and state in the narrow sense, opened up for Marxist reflection by Gramsci, as private. Finally, it should be noted that, when Althusser speaks of 'ideology', he ascribes an omni-historical meaning to it, which is thus not without difficulties compatible with a use of language that bases itself upon Marx.

Althusser's lack of distinction between statal and civil-society apparatuses has been continually criticised: as Hall, Lumley and McLennan argue, Althusser 'always insisted on the need for specificity as part of the "necessary complexity" of the Marxist concept of totality. But the opposition to the concept of "civil society" has the theoretical effect, here, precisely of leading us to abandon specificity for a rather too convenient generalisation' (1978, 64). Karin Priester argues that this makes the 'distinction between bourgeois democracy and fascism' impossible (1979, 37). With the concentration on 'ideology', one further runs the risk of losing sight of the 'whole organisation of the intellectual "function", i.e. the whole organisation of "technical know how" and specialist knowledge' in the hegemonic apparatus (De Giovanni 1979, 69). Such a hegemony-theoretical perspective would also open up a fruitful point of contact with many studies inspired by Foucault, for 'there is no way of conceptualizing the balance of power between different regimes of truth without society conceptualized, not as a unity,
but as a “formation” (Hall 1986, 48). According to the assessment of the Projekt Ideologie-Theorie, Althusser begins from ‘the statal, solidified instances that have become autonomous over and against society; he puts himself in the standpoint of the “accomplished phenomenon” (MECW 36, 218) (PIT 1979, 115). Gramsci, on the other hand, was interested in the development of the relations of force in political conjunctures and confrontations, for the active ascension of a class to state-power (Hall et al. 1978, 68 et sq.; PIT 1979, 111). – Nevertheless, even on the side of Althusser’s critics, the position of the concept of hegemonic apparatus varies. While Haug, similarly to Buci-Glucksmann, holds the concept (in the plural and in the variant of ‘hegemonic apparatuses’) to be ‘indispensable’ (1985, 174), the concept is not to be found in the texts of Hall.

It is precisely the specifically Gramscian accent on the non-statistified public sphere that qualifies the concept of hegemonic apparatus also for the attempt to understand the fall of state-administrative socialism. Its claim to hegemony was increasingly substituted by a repressive system, in which the contest for the ‘hearts and minds’ occurred only formally, as one-sided state-propaganda (cf. Bollinger 1998). Here, one could have learnt from Gramsci that ‘unity and discipline’ must emerge from loyalty and due to conviction (Letter to the Central Committee of the Soviet Communist Party, Gramsci 1978, 432).

Stefan Bollinger and Juha Koivisto
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Americanism, Austro-Marxism, base, bureaucracy, civil society [società civile], class-struggles, coherence, command-administrative socialism, common sense [senso comune], dictatorship of the proletariat, dismantling of the state, dissolution of the state, educationalism, ethical-political, Eurocommunism, good sense [buon senso], grammar, Gramscianism, hegemony, historical bloc, ideology-theory, ideological power, ideological state-apparatus, integral state, intellectual, Paris Commune, party-apparatus, passive revolution, Prison Notebooks, relations of force, Risorgimento, state, state-apparatus, student-movement, subalternity, superstructure, war of position/war of movement.

Notes on Contributors

Luca Basso is a research fellow in political philosophy at the Dipartimento di Studi Storici e Politici dell’Università di Padova. He has studied at the Universities of Padua, Berlin and Pisa and has spent much research time in Germany. His principal concern has been with the relation between individual and collective subject in modern philosophy. He is also the author of Individuo e comunità nella filosofia politica di G. W. Leibniz (Rubbettino, 2005) and Socialità e isolamento: la singolarità in Marx (Carocci, 2008).

luca.basso@unipd.it


StefanBollinger@aol.com

Paulo L. dos Santos lectures in capital-markets, finance and microeconomic theory at the School of Oriental and African Studies. His research focuses on the political economy of capital-markets, financial intermediation, and the internationalisation of banking. He has written extensively on the transformation of contemporary banking, technological innovation, the entry of foreign banks into middle-income economies and the history and political economy of the Philippine banking sector.

ps45@soas.ac.uk

Gary Dymski is the founding Director of the University of California Center, Sacramento (UCCS). His most recent books are Capture and Exclude: Developing Nations and the Poor in Global Finance (Tulika Books, New Delhi, 2007), co-edited with Amiya Bagchi, and Reimagining Growth: Toward a Renewal of the Idea of Development, co-edited with Silvana DePaula (Zed, London, 2005). He has published more than 100 articles and chapters on banking, financial fragility, urban development, credit-market discrimination, the Latin-American and Asian financial crises, economic exploitation, and housing finance.

Gary.Dymski@ucop.edu


S.J.Edwards@open.ac.uk

Michele Filippini completed his doctorate at the University of Bologna in 2008. In December 2005 he was awarded the Premio Gerratana of the International Gramsci Society Italia for the best essay in Italian by a young researcher on Antonio Gramsci. He is the author of the article ‘Individuo e individualità in Gramsci’, in Critica Marxista, 3–4, 2007,
pp. 35–43. He has contributed articles to the *Dizionario gramsciano* 1927–37, which will be published in 2009. His current research is focused on the reception of the discourse of the social sciences in twentieth-century thought.

michelefilippini@yahoo.it

**Ian Hudson** Ian Hudson is an Associate Professor of Economics at the University of Manitoba. With co-author Robert Chernomas he recently published *Social Murder and Other Shortcomings of Conservative Economics* from Arbeiter Ring Publishing. He has also written several articles in the area of political economy focusing on fair trade, the most recent of which is 'With Friends Like These: The Corporate Response to Fair Trade' with Mara Fridell and Mark Hudson, which appeared in the *Review of Radical Political Economy*.

hudsoni@ms.umanitoba.ca

**Mark Hudson** is Assistant Professor in the Department of Sociology and Social Work at Northern Arizona University. His research interests are in social movements and the political economy of the environment. He is co-author of several articles on fair trade, most recently, 'With Friends Like These: The Corporate Response to Fair Trade Coffee' (with Mara Fridell and Ian Hudson) published in the *Review of Radical Political Economics* 40, 1. He is currently writing a manuscript on the political economy of wildland-fire, and a book on fair-trade coffee.

mark.hudson@nau.edu

**Robert Knox** is currently 'between degrees'. He hopes to be studying for a PhD on the concept of imperialism in Marxist and Third World approaches to international law in the near future. His main interests lie in the fields of legal theory (particularly critical and Marxist legal theory) and international law. He maintains a weblog – which is updated somewhat infrequently – at <http://pashukanis.blogspot.com> that is largely concerned these interests.

robertjknox@googlemail.com

**Juha Koivisto** is a researcher at the Academy of Finland. He is a member of the *Historical-Critical Dictionary of Marxism* workshop, a Fellow of the Berliner Institut für kritische Theorie (InkriT), and a founder and activist in Vastapaino, a co-operative publishing house with over two thousand members. He has written on the theory of ideology, philosophy as a social form, and theory of public sphere in *Das Argument* and *Rethinking Marxism* among other journals.

juha.u.koivisto@helsinki.fi

**Rick Kuhn** is a member of Socialist Alternative and was the convenor of the anti-war movement in Canberra in 2002–2003. He is a reader in political science at the Australian National University, the author of *Henryk Grossman and the Recovery of Marxism* (2007), editor of *Class and Struggle in Australia* (2005) and an editor of the on-line journal *Marxist Interventions*.

Rick.Kuhn@anu.edu.au

**Costas Lapavitsas** teaches economics at the School of Oriental and African Studies, University of London. He has done research in the political economy of money and finance, the Japanese economy, history of economic thought, economic history, and the contemporary world-economy. He has published widely. His most recent books are *Social

cl5@soas.ac.uk

David McNally is Professor of Political Science at York University, Toronto. His books include Against the Market, Bodies of Meaning, and Another World is Possible: Globalization and Anti-Capitalism. His recent writings on the global economic crisis have appeared in Das Argument, New Socialist, Relay, and Marxism 21.
dmcnally@yorku.ca

leninology@gmail.com

Richard Westra is Assistant Professor in the Division of International and Area Studies, Pukyong National University, Pusan South Korea. He is author of Political Economy and Globalization, Routledge 2009 and co-editor and contributor to Political Economy and Global Capitalism: The 21st Century, Present and Future, Anthem 2007 and Marxist Perspectives on South Korea in the Global Economy, Ashgate 2007.
westrarj@aim.com
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