The economic crisis: Whose fault is it, and how can it be overcome? (Reactualising Marxism)

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The period at the end of 2008 and the beginning of 2009 was notable for a whole range of developments. Two of them, however, seem to the authors to have been not only closely interconnected, but also of symbolic importance: a genuinely profound economic crisis broke out, and along with it, sharply increased interest came to be shown in the works of Marx.

The wolf appears on the scene: the crisis and its origins, or why the world has started to take account of *Capital*

Over many years, various Marxists spoke of the crisis of capitalism at such length that the great majority of analysts ceased to take them seriously. The situation thus recalled the old story of the shepherd boy who continually cried "Wolf! Wolf!"even though there was no wolf there. But one day, the wolf actually appeared….

Meanwhile serious Marxists, unlike the party-political propagandists of the Soviet era, began talking of the threat of a world financial crisis and of the possibility of its turning into a world economic crisis only relatively recently, around the turn of the century. This was the point at which it became obvious that the gap between fictitious financial capital on one hand, and human capacities and the requirements of material goods production on the other, had reached dangerous dimensions.

Drawing out the lessons in 2004 of an analysis of the fictitious, "virtual" capital of the twenty-first century, the authors of the present text thus concluded that "the crisis of the world financial system that is entirely probable in the near future might act as the detonator for a series of global cataclysms." In another text, devoted to an analysis of the macroeconomic dynamic in our country, the conclusions was also drawn that in these circumstances, "growing economic difficulties" would become inevitable around 2008-2010. This would also be the result of the persistence in Russia of the state-oligarchic capitalism that had been established since the turn of the century. With the financial, raw materials and energy-based oligarchic groups still dominant, there had been an effective refusal to prioritise the development of the social sectors and to invest in the development of human beings. The present authors were not alone in making this forecast. Unfortunately, it has come true. The "wolf" has appeared on the scene. The world crisis has become a reality.

For the first time after a long interval, and despite all the mainstream arguments about the definitive triumph in the new century of the universally effective mechanisms of market self-regulation, a world financial crisis has broken out and has rapidly become social and economic in character. The crisis has proved to be astonishingly "normal", very similar in all its main parameters to the "usual" cyclical crisis described in the textbooks on economic theory (political economy) back in the nineteenth century. The simultaneous appearance of a mass of unsecured ("bad") debts, panic on the stock exchanges and falls in share prices, a gradual contraction of consumer demand and a fall in production, growing unemployment, plus – and this is something extremely unusual in modern-day economies – the threat of deflation, of a crisis-linked fall in prices. All of this is extremely similar to the classical picture of a crisis as described (or more precisely, drawn out of an analysis of the capitalist economic system) by Karl Marx a century and a half ago.

Amid the events described above, the improbable but vast surge of interest in Marxist theory in general and in Marx's *Capital* in particular is quite understandable. Throughout the world, it has been reported, this book is being snapped up by buyers at an astonishing rate.

Marx, it follows, is once again topical. Are we seeing a return to *Capital*?

Since we are not just self-described Marxists, but Marxists in our very essence, we are obliged to warn the credulous public and the professionals. Not everything here is simple. In the past century and a half, *Capital* has aged to a significant degree. This confirms the correctness of Marxism; our theory and methodology have always demanded self-development and self-criticism in line with the development of life itself. This is fully borne out with the current crisis, since the "classical" causes of the crisis have manifested themselves in a new century and in a new form.

Our first thesis is as follows. The precondition for the crisis (not its cause) is the spontaneous, elemental nature of the development of the market economy. A year ago, any prediction of the present situation would have seemed like a hopelessly antiquated delusion. Now, a few months of crisis have forced many analysts to recognise that a precondition for the crash was the wave of deregulation and desocialisation of the economy which gave a "second wind" to a natural, innate feature of capitalism: periodically repeated crises. Here lies the most profound secret underlying all anti-crisis regulatory measures: ensuring that the producer has social, not market-based, guarantees for production (guaranteed investments, cheap credits, and so forth) and for the sale of the goods produced (state purchases or the "make-believe" crediting of sales).

The second thesis is that the possibility of crisis is linked to a rupture between the acts of sale and purchase and the relatively independent movement of money. This classical nineteenth-century theme has taken on a new resonance in the twenty-first century. A particular type of fictitious capital (money seemingly made out of money – shares, debt obligations, futures and so forth) has emerged. Virtual (that is, existing in computer networks) and footloose, this capital has become radically dissociated from the real sector. In recent decades this dissociation has become glaring. Twenty years ago world share values were roughly equal to gross world product, but on the eve of the crisis they exceeded it by a factor of 3.5, while the volume of derivatives (which can be equated in very crude fashion with the volume of financial speculation) exceeded it by a factor of 12. A gigantic bubble had emerged. It had to burst, and it did.

The third thesis is that the cause of the crisis was an overaccumulation of capital, which could not be profitably employed. In the new century it was intensified by the growth of the fictitious sector – a sector in which the output was of products and services useless for the development of production and for the progress of human capabilities. These ranged from financial speculations to mass culture and symbolic (over)consumption. The economy, as it were, came more and more to create simulacra of money and commodities: derivatives of all types that were quasi-money (before the crisis hit, these represented a liquid resource, afterwards, merely paper); brand names (these inflated the capitalisation of well-known firms, capitalisation which swiftly vanished in the conditions of the crisis); and prestige goods which were in essence useless, and which both oligarchs and the "middle class" have now been forced to renounce.

The fourth thesis is that the material basis of the crisis was the cyclical nature of the renewal of basic capital, that is, technological cycles. Toward the end of the first decade of the new century, the world was having to contend with the fact that the information technology boom was drawing to a close. This was principally because the information revolution had finished up in a dead-end, with computers used mainly for office plankton and by adolescents playing computer games, while the internet in more than two-thirds of cases was a means of keyhole-gazing (porno-sites) and simulated socialising with former classmates. Such a trajectory of development of the economy and society, we wrote long ago, would lead to a crisis. But we were not believed. The most comic aspect is the fact that many people refuse to believe this even now, arguing that the way out of the crisis lies along the road of… reviving the very causes that got us into it.

How, and at whose cost, we can get out of the crisis

This is how socially aware Marxism poses the question of what needs to be done to overcome the crisis. We should stress to begin with that three solutions are possible.

The first of these is the one urged by Bush and Putin not quite six months ago: take taxpayers' money and save the financial speculators! This was the aim of the Olsen plan in the US (more than US$700 billion) and of Putin's first suggestions (more than US$100 billion) – to buy up the bad debts, supporting the crisis-wracked private financial institutions and giving cheap (unsecured!) loans to the commercial banks. All this was argued on the basis of the need to support the financial sector of the economy with the aim (naturally!) of ensuring the stability of the financial system so as to avert the crisis, as was needed to protect the interests of all the country's citizens (avoiding the devaluation of savings, preserving jobs, and so forth). The fact that this would require supporting the owners of financial capital and compensating them for their losses from failed speculations was a "technical" question, a question of the means through which the crisis was to be overcome, not of social (and still less of class) priorities. From the point of view of supporters of this decision, there was simply no other way out of the crisis. In one sense, amusingly enough, they were correct; so long as their rules were abided by, it was impossible to escape the crisis except through pouring "new wine" (vast sums obtained from taxpayers) into the "old bottles" of financial corporations on the verge of bankruptcy.

The fact that the rules can be changed is something else entirely.

This, nevertheless, is the gist of the second group of solutions, which presupposes a more or less radical (depending on the objective preconditions and subjective factors) change in the existing financial system. This would allow an exit from the crisis through reducing not only the incomes but also the wealth (property) of all those who have actively invested in financial speculation during recent decades. The people who took part in the games of chance of twenty-first century casino capitalism should (as in the rules of any private casino) pay their debts not only out of their current income, but from their assets as a whole. If they cannot pay, they should descend into the pit of indebtedness. Society should not have to compensate anyone for their losses in the financial casino; these are the rules of the market, to say nothing of social justice. In this scenario, the funds of state budgets would go not to commercial banks, but directly to support production, public works, and the solving of social problems, without any mediation by private financial institutions (an example of such a solution is the direct allocation in China of more than US$550 billion to developing infrastructure and construction, and to solving social and environmental problems).

The third solution (which is the most radical available within the framework of the capitalist mode of production, at a time when the preconditions for socialist revolution are not sufficient either in Russia or the US), is the socialisation of finance. In essence, this amounts to surgical intervention in the sphere of finance – the removal of a cancerous tumour (the financial bubbles) while retaining the socially useful functions of this system. In particular (but not only), these measures presuppose the nationalisation of the largest banking institutions, while guaranteeing deposits and providing bank shareholders with gradual compensation for their shareholdings to the degree that these retained value *after* the crisis hit (responsibility for failed speculation must lie with the speculator, not with society); the compulsory merger of small and medium banks into a few large structures and their transfer to public control; and so forth. Guarantees of deposits can and should be provided in full measure only in the case of small and middling sums associated with the receipt of wages, pension savings, and so on. Guaranteeing the deposits of people who sought to grow rich from the speculative financial boom, investing large amounts of capital at high interest rates, is illogical. When people enter a casino, they have to know that they could lose their money, and that society is not obliged to provide compensation for such calamities. To support the production of material goods and services, mechanisms of direct state finance and credit can be employed, tied strictly to the implementation of production programs.

The recommendations set out here are not only those of the authors. In recent months experts working with international NGOs (in particular, with the international ATTAC network, which since the early 1990s has set itself the goal of limiting financial speculation) and with social movements (such as the international networks Intellectuals and Artists for Humanism, the World Alternatives Forum and others) have repeatedly demanded that the solution to the crisis should not be at the expense of the mass of citizens.

Here, we shall mention just two aspects.

Demand no. 1: The people who should answer for the crisis – and not just with their incomes, but also with their capital, property and positions – are those who are guilty of having initiated it. Those at fault here are, in the first place, all the initiators and participants in the unrestrained expansion of virtual fictitious financial capital (in highly simplified fashion, they could be termed financial speculators in the broadest sense of the word); that is, all the people who "inflated" the huge bubble of fictitious financial resources. Secondly, those responsible are all the members of political structures (from presidents and governments to the parties which approved and supported this policy, including their ideologues, experts and similar people), who in essence pursued a monetarist policy of boundless trust in the "invisible hand" of the market. Over recent decades, such a policy has been characteristic of most countries and of the "unholy trinity" of the World Trade Organisation, World Bank and the International Monetary Fund. Accordingly, the crisis can and should be overcome through a sharp reduction of the incomes and property of these people and organisations (the already-mentioned socialisation and nationalisation of banks, but not of deposits), and through a broadening and tightening of public and state control over the finance industry. This should be accompanied by complete transparency of financial transactions, the closure of offshore zones and so forth; by the social restriction of investments in financial speculation; and by forcing capital out of this area through direct institutional restrictions, special tax increases, and so on.

Demand no. 2 is for discussion and decision-making in the developing, adopting and implementing of anticrisis programs to be open, frank and transparent. It is true that finance is a matter for professionals, but professionals have already brought the world economy into a thoroughly "professional" crisis. In any case, various professionals are urging different models for overcoming the crisis. Finally, people, the civil society of each of the various countries along with world civil society, will have to know and understand who will pay for overcoming the crisis, and what price; what will be done, how, and in whose interests (and at whose expense); and who will take what specific responsibility on themselves.

These suggestions are not anything new. The experts and intellectuals who number among the opponents of neoliberal monetarist policies in Russia and beyond its borders have long since set out these alternatives in detail. Well over a decade ago they showed that in conditions of unrestrained "financialisation", a financial crisis was possible at any moment. Consequently, we now have ample grounds for demanding that those who implemented "realistic policies" should listen to those who, by contrast, showed how and why a crisis might occur, and who long ago suggested ways out of it – at the expense of those who gave rise to it, not of those who have suffered, and continue to suffer, from the results of financial speculation.
By itself, however, this appeal is a voice crying out in the wilderness.
Now to scenarios for post-crisis development.

Scenarios for post-crisis development as a field of social and political struggle

We shall begin with an assertion: if the relationship of social and economic forces does not turn out to favour the majority of citizens, the exit from the crisis will be according to a scenario that sees an increased concentration of capital and a further strengthening of a few large financial institutions (some of them, of course, will lose out), along with a deterioration of the position of most entrepreneurs in the real sector and a dramatic worsening of the quality of life of practically all layers of hired workers (including the "professional" financiers who before the crisis were in a clearly privileged position). This scenario is for the present the most likely one, to judge from the measures to "heal" the economy which the governments of leading countries are adopting.

If this scenario comes to pass, we can expect a new twist in the path of late capitalism, one that will set it on a course that is regressive even compared to the neoliberal model of the past few decades. This will allow an escape from the dead-end in which global capitalism has once again finished up (and the crisis is testimony to this dead-end). But it is an escape to the rear and to one side.

Even before the crisis we predicted the features of this post-crisis model, and now these traits are standing out in ever-bolder relief. To replace the outward triumph in the economy of the free global market, there will increasingly be imperial protectionism: an intertwining of the power of world mega-corporations (with capital measured not just in hundreds of billions, but trillions of dollars) with state-empires carrying out a recolonisation of the rest of the world. The relations between capital and hired labour will be characterised by a further weakening of trade unions, by a growing differentiation of incomes within the social stratum of hired workers (less and less resembling the classic model of a homogeneous "middle class"), and by a divergence within this stratum into a narrow layer of highly paid "professionals" and a majority of industrial and pre-industrial proletarians leading precarious lives.

To ensure the viability of such an economic model will require pro-imperial geopolitics and an increasingly manipulative political and ideological system, which at best retains only the appearance of democracy.

For the countries of the periphery there will remain the scenario of a semi-colonial existence, while for the countries of the semi-periphery, there will be the status of "peripheral mini-empires". Another possibility is the formation of powerful anti-imperial unions (though also of a relatively reactionary type).
In ideological terms, all this will be accompanied by a powerful wave of right-wing neo-conservatism.
There is also a somewhat different scenario in the spirit of the "Roosevelt-21" plan. This would involve, let us say, a new global economic network with rules analogous to those which now apply in Norway or Venezuela: priority for social-ecological goals, restrictions on big business, and the socialisation of education, health care and finance. The likelihood of this scenario unfolding depends on whether the potential of world civil society and of a number of states now implementing such policies proves sufficiently powerful.

In our view this scenario is unlikely to play out, though we think it is important to give it all the support possible. This is in order to signify that a theoretical and ideological alternative exists, and also to mount a struggle for a compromise, or at least, a contest in the near future between the two counterposed scenarios for post-crisis evolution/development that have been suggested above.

In strategic terms, overcoming the crisis is only possible if a qualitatively different approach is adopted – one that involves going outside the framework of the capitalist system. But that is a topic that lies outside the bounds of the present article.