Reflections on the financial crisis and over accumulation

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One of the striking things about the bailout is that public opinion has been running heavily against it. During the House leadership discussion Congressional mail was as much as 100 to 1 against any bailout. This unheard of rejection was based on two sentiments: anger that those who had created the financial mess would be rewarded and total distrust of what the Administration was telling them (“you lied before to get us into Iraq and we are not going to be suckered again.”) But there is also the reality that we live in an economic system that works only when the rich are able to get richer and if they fall on hard times, then we have to pay the price to help them out in order to get the system functioning again. In effect, we are all being held hostage. That is the reality of capitalism.

Like many of you, I’ve been trying to figure out what is the deeper cause behind this financial crisis and the larger economic crisis that is likely to follow. The conclusion I’ve come to may seem counterintuitive at first blush: the problem is, there’s too much money! I don’t mean the average American has too much money –so many don’t have enough to pay their mortgage, fill their gas tank, buy groceries, send the kids to college. We don’t have enough money. It’s the wealthy capitalists who have too much money. They have so much that there is a problem finding places to invest it profitably –as capitalists, that is what they seek to do: invest money in order to make more money, to accumulate more capital.

But one of the central contradictions of capitalism is that this accumulation of capital runs up against limits. This happens when there is too much capital and not enough places to invest it profitably. This is what political economists call a crisis of overaccumulation. When such limits are reached, there are ways of fixing the problem. (1)

When there is a surplus of capital, one way to find profitable investment is to seek out new sources of lower wage labor. This can be done by bringing into the wage labor force new ethnic, racial, gender or immigrant groups, or by forcing peasants off the land, or by increasing the reserve army of labor, or by globalizing production so as to tap Third World workers, etc. All of these fixes have the effect of driving down wages thereby making investments more profitable. But the expanded reproduction this leads to adds further to capital accumulation and eventually another crisis of overaccumulation. Another fix is to expand consumer demand by making credit available. This increases effective demand and enables value to be realized so that it is available for reinvestment. This also forces workers to keep their noses to the grinding stone so as to keep up with credit payments. But that means more gets produced, further contributing to overaccumulation. The same results occur when capital finds ways to expand commodification (through technological innovation or by privatization of the commons), for these profitable investments also add to accumulation.

In sum, all the fixes for a crisis of overaccumulation are only temporary because they end up eventually leading to a new crisis. The logic of capitalism is to ever expand the accumulation of capital and thus to ever run up against the limits of capital.

Over the last several decades, all of the above fixes have been employed in order to sustain this contradictory logic. Globalization has given capital access to the vast reserves of cheap labor throughout the Third World. In the First World, women entered the workforce in greater numbers as
households needed two incomes to sustain accustomed standards of living. This enabled capital to get two workers for the price of one. Since the mid-1970s incomes have been stagnant or declined for most of the working class, while the incomes and wealth of the top 1% or so have risen astronomically. This would have seriously crimped consumer demand and hampered the ability of capital to realize profits were it not for the credit fix that has been massively extended to consumers. Easy credit became available to most of the population and savings declined or dropped below zero. All of this added further to the overaccumulation of capital. During the 1990s massive quantities of surplus capital was thrown into the dot.com bubble. When this burst surplus capital was redirected into real estate. This had the added advantage of sustaining effective consumer demand by enabling homeowners to take out second mortgages and cash in on the equity in their house as its market value inflated. The consumer demand that sustained the economy for so long was based on debt rather than a redistribution of income. Economic inequality has grown and with it the pool of surplus capital has become so vast that it has had to look to ever lower income groups to extend credit to even though such investments were admittedly risky. These risks were passed off to other unknowing investors by packaging and securitizing them in what was a vast unregulated ponzi scheme. It was this house of cards that began to collapse when the real estate bubble burst.

Kevin Phillips has pointed to the financialization of capital, both in the U.S. and globally. (2) Fortunes are made less by producing and more by moving money and other pieces of paper around. All of this activity does not produce any new value. Like gambling, it only redistributes it. Speculators, money managers and financial advisors devise elaborate schemes in hopes that some of the value that they manipulate will end up in their pockets. And they are willing to take greater risks when the capital they play with is not their own.

It is this speculative game that has now come up short. Overaccumulation crises typically involve assets being devalued and someone having to take a loss. Often it has been Third World countries who have been victimized as they were saddled by bad debt. This time it is First World financial institutions that are threatened as the ponzi scheme collapses. Thus they are trying to pass the bad debt off to the taxpayer by getting the Treasury Department to buy the devalued paper, threatening a financial meltdown if they have to suffer the losses themselves. This is no idle threat since all sectors of society have become dependent on finance capital. As I have said, we are all being held hostage by it. Thus have dominant classes always maintained their dominance.

Now, this week they are trying another fix: governments are making vast investments in the larger banks, buying equity shares with taxpayer dollars (and Euros). But this partial “nationalization” is only temporary to help out the captains of finance. As President Bush said this morning, it is “designed to preserve free enterprise” and the banks will remain completely under private control. It is not a step toward economic democracy, although it could be if governments were controlled by working people. Instead, governments are fumbling around looking for ways to save capitalism with all its undemocratic features and taking extraordinary measures to do so. In effect, we are seeing governments functioning as the Central Committees of the capitalist class. For the time being they have had to abandon the neo-liberal ideology they have been proclaiming for the last 30 years. They have had to accept the fact that markets are not self regulating; they need the visible guiding hand of the state.

One last point. In this increasingly globalized world, we no longer have purely national economies. They have become interconnected. One thing the events of the past week has made abundantly clear is that single states cannot save their own financial institutions alone. What is required is concerted action by a multiplicity of states. We have one global economy but a plurality of states. In the past it might have been possible for a single hegemonic power to have orchestrated a fix for the global economy.
Now that no longer seems possible. This crisis has not only taught us the bankruptcy of neo-liberalism, but the failure as well of the neo-conservative project to make permanent U.S. imperial dominance.