The Systemic Crisis of World Capitalism*

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The hallmark of a systemic, as distinct from a cyclical or sporadic, crisis of capitalism is that every effort to resolve the crisis within the broad confines of the system, defined in terms of its prevailing class configuration, only worsens the crisis. It is in this sense that neo-liberal capitalism has now entered a systemic crisis. It cannot be resolved by mere tinkering; and attempts to go beyond mere tinkering, for instance by introducing protectionism without transcending the broad framework of neo-liberal globalization, i.e. without overcoming the hegemony of international finance capital which is the moving force behind this globalization, as Trump is doing in the U.S., will only worsen the crisis.

The symptoms of the crisis are well-known. The 2008 crisis had been followed by the pursuit of a "cheap money policy" in the U.S. and elsewhere, so that the interest rates were brought down to almost zero. This just barely managed to provide some temporary breathing space to world capitalism; but now again it is faced with a looming recession. In the U.S. business investment is on the decline and industrial output in July was 0.2 percent lower than in the previous month. The British economy contracted during the second quarter of this year, as did Germany. The picture is much the same everywhere else, such as Italy, Brazil, Mexico, Argentina and India. Even China is witnessing a slowing down of its growth rate as a consequence of the world recession.

The response of policy-makers everywhere to this emerging recession is to move once again for a cut in interest rates. The European Central Bank which has already pushed its key interest rate to the negative region, is planning to further lower it. In India interest rates have already been cut. The idea behind such interest rate cuts is not so much that lower rates would cause larger investment; rather that lower rates would cause asset price "bubbles", which would boost aggregate demand through larger expenditure by those who feel wealthier because of such asset price "bubbles".

Why this should be the typical response of policy-makers everywhere should be clarified. In the immediate post-second world war period, i.e. before neo-liberal globalization had got going, government expenditure could be increased to boost aggregate demand whenever there was a threat of recession. Governments could raise fiscal deficits if necessary, since capital controls were in place and there was no danger of any capital flight in the event of a rise in fiscal deficit.

This had been the world visualized by John Maynard Keynes the noted economist who had been one of the architects of the post-war capitalist economic order. He had been opposed to internationalization of finance ("finance above all must be national" he had said), on the grounds that such internationalization undermined the capacity of the nation-State to raise employment by making it a prisoner of finance which was always opposed to larger government expenditure for this purpose. As a defender of the capitalist system, Keynes had feared that unless the nation-State could raise employment sufficiently, capitalism could not survive the socialist threat.

But with massive accumulations of finance with metropolitan banks, because of continuously large U.S. current account deficits on the balance of payments during this period, and also, at a later date, because of large deposits of revenues earned from the oil price hikes of the 1970s by the OPEC producers, there was enormous pressure from finance capital for a lifting of capital controls. It wanted the whole globe to be opened up for finance to move around at will, and ultimately succeeded. The hegemony of international finance capital thus got established, which also meant a withdrawal of the nation-State from its role of keeping up the level of employment through fiscal intervention. The only way of boosting aggregate demand under the regime of neo-liberal capitalism that came into existence therefore was through stimulating asset-price "bubbles"; and interest rate policy was used for this purpose.

But unlike government expenditure which can be regulated at will, a "bubble" cannot be made to appear at will. For a while, in the nineties (the "dot-com bubble" in the United States) and the early years of this century (the "housing bubble" in the U.S.), this way of stimulating aggregate demand appeared to work. But the collapse of the housing "bubble" has made people chary and no new "bubble" of a similar magnitude has appeared, despite interest rates being driven down to zero.

Meanwhile there is another factor working powerfully in the direction of reducing aggregate demand within every country and in the word as a whole; and this is the rise in the share of surplus in total output. Globalization has meant above all the free movement of capital, including finance, across borders, and this has resulted in the relocation of a number of activities from the high-wage metropolis to the low-wage third world countries for meeting global demand. By making advanced country workers subject to competition from third world workers this has tended to keep down the wages of the former. At the same time, the wages of the latter continue to remain at a bare subsistence level, because the third world labour reserves do not get exhausted despite such relocation. The vector of wage rates across the world therefore does not increase, even as the vector of labour productivities across the world increases. This is the reason for the rise in the share of surplus within countries and in the world as a whole.

Such a rise in the share of surplus creates a tendency towards over-production, because consumption per unit of income is much higher among the wage earners than among the surplus earners. This tendency could have been offset through an increase in government expenditure within each country. But since this is no longer possible, the only counteracting tendency that is possible against this tendency towards over-production is the formation of asset-price bubbles. In the absence of such bubbles, the tendency towards over-production operates with full force, which is what we are seeing today.

Since the conventional instrument of lowering interest rates does not work in such a situation, and since government expenditure cannot be increased to offset the deficiency of aggregate demand, the U.S. under Donald Trump has been attempting to overcome its own crisis by exporting it to other countries, especially China, through the adoption of protectionist measures. Over a whole range of imports from China it has imposed 25 percent tariffs and this in turn has led to a tit-for-tat retaliation by China through the imposition of 25 percent tariff on a range of imports from the U.S.

This trade war, which was started by the U.S. as a way of getting out of the crisis, is now accentuating the crisis for the global economy, because it undermines whatever little incentive to invest there was among the capitalists of the world. Far from stimulating a new asset-price bubble, which was the original intention behind lowering interest rates, it has the effect of causing a collapse in sock markets across the world. The Wall Street for instance witnessed the biggest fall of the year on August 14; and in response markets all over the world also registered falls.

If government expenditures could be increased within each country then the need for such "beggar-thy-neighbour" policies would not arise. Even if some protectionism is resorted to for ensuring that the demand increase caused by government expenditure does not "leak out" abroad, this need not lead to any reduction in imports from other countries since the market itself would be increasing. But in the absence of increased government expenditure which international finance capital is opposed to (because of which most countries have enacted laws restricting the size of the fiscal deficit), beggar-thy-neighbour policies remain one of the few possible options for a country to follow; this however worsens the crisis for all.

This is precisely the hall-mark of a systemic crisis. As long as the hegemony of international finance capital continues, and countries remain caught in the vortex of global financial flows, not only will the crisis continue, but every effort to overcome the crisis through whatever means are available within the system, will only aggravate the crisis. Overcoming the hegemony of international finance capital requires, however, that within each country the working people are mobilized around an alternative agenda.

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