

Neo-Liberal Capitalism and its Crisis*

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“Neo-liberal capitalism” is the term used to describe the phase of capitalism where restrictions on the global flows of commodities and capital, including capital in the form of finance, have been substantially removed. Since such removal happens under pressure from globally-mobile (or international) finance capital, neo-liberal capitalism is characterized by the hegemony of international finance capital, with which the big capitals in particular countries get integrated, and which ensures that a common set of “neo-liberal” policies are pursued by all countries across the globe.

The emergence of such international finance capital is itself the outcome of the process of centralization of capital, which had in an earlier period, as Lenin had argued, brought finance capital, or a coalescence of banking and industrial capital under the control of a financial oligarchy, into a position of hegemony within each advanced country; centralization of capital today however has proceeded much further since Lenin’s time, creating this new entity called international finance capital and bringing it into a position of hegemony.

Once an economy has got sucked into the vortex of globalized financial flows, its State willy-nilly has to bow to the caprices of international finance capital and pursue policies favoured by it. This fact has a number of implications; and these implications constitute the salient features of neo-liberal capitalism.

First, neo-liberal capitalism is marked, unlike capitalism in the past, by a re-location of activities by metropolitan capital from the advanced to the underdeveloped world, to take advantage of the low wages prevailing in the latter, for producing for the world market.

Second, it alters the character of the State everywhere, so that the State, instead of apparently standing above classes and defending the interests of all, including even the oppressed classes, despite the pursuit of capitalist development, becomes more openly and directly linked to the interests of the corporate-financial oligarchy which in turn is connected to international finance capital. This means *inter alia* a withdrawal of State support from traditional petty production and peasant agriculture, and hence the resumption of a process of primitive accumulation of capital reminiscent of the earlier colonial era.

Third, State intervention in “demand management” which had been the hall-mark of post-war capitalism during its so-called “Golden Age”, but which had always been opposed by finance capital as it undermines the social legitimacy of the capitalist class, especially of the financial class, gets eschewed under pressure from globalized finance. “Fiscal responsibility” legislation is passed in country after country to ensure that State efforts to increase employment and activity in the economy take the form of providing “incentives” to capital rather than undertaking direct expenditure itself. This however means in effect that the growth of the system can no longer be stimulated by the State (since the capitalists simply pocket all subsidies and transfers that come to them from the State as “incentives” without undertaking any additional investment). Growth comes to depend essentially upon the formation of asset-price

“bubbles” (apart from credit-financed consumer spending, which however has very strict limits).

These features of neo-liberal capitalism in turn have important consequences. On the one hand, even when the system grows, this growth itself is accompanied by an extreme widening of income and wealth inequalities within countries. The workers in the advanced countries are unable to raise their wages because in a world with capital mobility they compete in effect against the massive third world labour reserves. Even the workers in countries into which the outsourcing of activities occurs are unable to raise their wages because the labour reserves in these countries, far from getting exhausted on account of such outsourcing, actually increase in relative size owing to the dispossession of traditional petty producers and peasants. Hence the vector of real wages across countries, both developed and underdeveloped, does not increase over time even though the vector of labour productivity increases. This dispossession of peasants and petty producers and the decimation of their economies even causes, in third world countries, an absolute increase in the level of malnutrition and material deprivation.

While all this occurs when neo-liberal capitalism actually experiences growth, it cannot even experience sustained growth. Its growth process grinds to a halt for the following reason. The faster growth of labour productivity relative to wages everywhere leads to an increase in the relative size of the surplus in the world economy, which creates a tendency towards over-production (since the ratio of consumption to income is greater out of wages than out of surplus); and the only factor within a regime of neo-liberal capitalism which can offset this tendency, namely booms caused by asset-price bubbles, becomes inoperative when these bubbles collapse, as they inevitably must.

The crisis arising from this source can be fairly protracted, since new bubbles cannot be made to order. And when such crises occur, the conditions of the working population become even more pitiable than had been the case when growth was occurring. The capitalist world economy today is in the midst of such a protracted crisis, with no end to it in sight. And even if perchance there is some recovery through the formation of a new bubble, this recovery too will be an evanescent one, lasting only until the collapse of the new bubble.

It is this protracted crisis in which neo-liberal capitalism is sunk that has produced the current world-wide upsurge of fascism. Since globalization of capital and the associated process of privatization of Public Sector enterprises, weakens the trade union movement, and in general the immediate striking power of the working class, fascist movements based on “supremacism” of one kind or another, and appealing to unreason, tend to come up in such periods. They have no agenda for overcoming crisis other than blaming and victimizing “the hated other” and projecting a “messiah” who would miraculously cure society of all the ills that afflict it.

These movements appeal above all to the petty bourgeoisie, but in periods of extreme weakness of the proletarian movement they may even enlist the support of certain segments of workers. But these movements are invariably picked up, promoted, and supported by the corporate-financial oligarchy to thwart even any potential challenge from the working people to its hegemony. Indeed they grow in strength and move centre-stage only when they have obtained to an extent the backing of the corporate-

financial oligarchy. This alliance between the corporate-financial magnates and the fascist “upstarts” (to use Kalecki’s expression) is in different stages of formation in different countries of the world at present. But this threat of fascism is looming large everywhere; and even where the fascists do not succeed in coming to power, let alone push countries towards full-fledged fascist States, they nonetheless greatly vitiate the foundations of any democratic polity by the poisonous atmosphere they create.

There is however a basic difference between contemporary fascism and the fascism of the 1930s. The finance capital that had promoted fascism in the 1930s was nation-based finance capital that had been engaged in bitter inter-imperialist rivalry and had glorified the “nation” as its ideological prop in this rivalry. Contemporary fascism has emerged within the hegemony of international finance capital, and of muted inter-imperialist rivalry because of this very hegemony (since globalized capital does not want its cross-country flows impeded by a world broken up by rival powers into different “economic territories”); and it has no desire to challenge this hegemony. Its “nationalism” therefore lacks any material substance.

For the same reason however it can do little to stem the crisis of neo-liberal capitalism, even though it comes to power, wherever it does, by promising to tackle this crisis. In Germany in 1933 and in Japan in 1931, fascism had actually tackled the crisis in its own way. Rearmament had actually got these economies out of the Depression, so that there was a brief period, before the war extracted its excruciating costs, when the boom caused by militarization had enlarged the support-base of the fascists. But in contemporary conditions, fascist governments can do little to overcome the crisis.

To increase demand, such governments, even if they engage in larger military spending, will have to finance such spending either by a fiscal deficit or by taxing capitalists (since government expenditure financed by taxing workers, who spend their wages anyway, does not lead to any net increase in demand). Both these ways of financing government expenditure however are anathema for international finance capital. Contemporary fascism therefore is singularly incapable of resolving the capitalist crisis even by fascist methods.

Neo-liberal capitalism therefore has reached a cul-de-sac. Traditional establishment Parties cannot think beyond neo-liberalism and are deeply implicated in the policies that have generated the crisis anyway; and many of them, like Hilary Clinton in the U.S.A., do not even take cognizance of the crisis, thinking that the economy would revive on its own from this minor blip even within the framework of neo-liberalism. The fascist forces on the other hand have neither any explicit programme for overcoming the crisis, nor even any implicit agenda that could emerge as a fall-out of their penchant for military spending. Thus neither Trump, nor Marine Le Pen, nor UKIP, nor any of the other fascist elements currently in public focus have any economic programme for overcoming the crisis.

Trump had talked of protectionism as a way out of the crisis for the U.S. But mere protectionism, without enlarging the domestic market through larger government expenditure financed by a deficit or by taxes on capitalists, can generate larger employment only if other countries do not retaliate. If they do retaliate, then a competitive “beggar-my-neighbour” policy ensues which only serves to aggravate the world capitalist crisis, and worsen the condition of all the countries. Hence Trump’s

protectionism is not going to increase employment in the U.S. in the absence of an expansionary fiscal policy.

But far from pursuing an expansionary fiscal policy, Trump is proposing measures that will have a contractionary effect. Since he is planning to give tax-concessions to the corporate sector, and balancing it with cuts in government welfare expenditure meant for the poor, this will only aggravate the crisis in the U.S., because aggregate demand will be reduced by these fiscal measures. (The corporate sector which saves a large part of its post-tax income will simply save its tax- concessions and hence not increase demand, while lower government welfare expenditure will actually reduce demand).

Within the regime of hegemony of globalized finance capital therefore there is no solution to the capitalist crisis. The only possible solution, which any single country can attempt, is for its State to play an active role; and for that to happen the State must shed its character of a neo-liberal State.

It can do so only if the economy is taken out of the vortex of global capital flows, through capital controls, and also, to the extent necessary, trade controls; that is, if the economy delinks itself from globalization. Since the corporate-financial oligarchy which is itself integrated with international finance capital will not countenance this, only a State with an alternative class basis will be able to effect such a change, a State that is based on the support of the working people. And when the working people effect such a change, they will not rest content merely with reviving a capitalist economy, but will rather proceed to build an alternative economy altogether, an economy that will make a transition to socialism. Hence the cul-de-sac in which neo-liberal capitalism finds itself can be broken through; but such a break-through will lead to a transcendence of capitalism itself.

To be sure, as Lenin had said, there is no such thing as an absolutely hopeless situation for capitalism. Even if capitalism itself is unable to break out of the cul-de-sac, it will make every possible effort to prevent the working people from organizing themselves to effect a change in the situation. It will unleash every skulduggery known to fascism towards this end. It will make every effort to push mankind towards barbarism in order to prevent its moving ahead towards socialism. The outcome ultimately of course depends upon praxis. But the current scenario is one which opens up the possibility for the working people to seize the initiative to lift themselves out of the crisis and at the same time to defend and deepen their democratic rights, to carry forward in short the project of the October Revolution.