

Today's Global Financial/Economic Crisis and the Legacy of Rosa Luxemburg

Peter Hudis

June 1, 2009

My main argument is that blaming “greedy capitalists” for the present crisis is completely misguided, misleading, and counterproductive... And we will continue to deflect attention from the inhumanity of capital itself so long as focus on such epiphenomenal factors as greedy capitalists instead of the structural contradictions of the global capitalist system.

The prevailing narrative that has emerged about today's financial and economic crisis is that it is the fault of greedy bankers, shortsighted financiers, and lax government regulators. On all sides of the political spectrum we hear growing demands to bring such individuals to heel. Cut corporate bonuses and tighten financial regulations—so demand most Democrats and some Republicans. Vastly increase government stimulus spending—so proclaim the Liberals and many Leftists. Hang the bankers—so insist many Marxists and anarchists (“Hang the Bankers” was actually one of the banners at the protest at the G-20 Summit this spring). On both the Left and the Right, everyone seems fixated on punishing the greedy capitalists who got us into this mess.

My main argument is that blaming “greedy capitalists” for the present crisis is completely misguided, misleading, and counterproductive. Yes, capitalism is based on greed. And yes, capitalism generates excessive greed. That has always been the case. But that doesn't explain why we're facing the worst financial and economic crisis in *70 years*. It is rather easy, as well as reassuring, to blame the human misery caused by this crisis on individual capitalists and their corrupt practices and personalities. Such an approach, however, will not do a thing to change existing society. On the contrary, in the long run it will only make capitalism stronger. When capitalism encounters a crisis it has always proved willing to let its representatives to be devoured so long as attention is deflected from the inhumanity of capital itself. For example, the collapse of the U.S. shoe industry during the Great Depression, or that of Enron at the beginning of the present crisis. And we will continue to deflect attention from the inhumanity of capital itself so long as focus on such

epiphenomenal factors as greedy capitalists instead of the *structural* contradictions of the global capitalist system. The latter is the real reason for today's crisis, and we *urgently* need to focus on *that* dimension.

This makes today a key moment to revisit the legacy of Rosa Luxemburg, as expressed in her 1913 magnum opus, *The Accumulation of Capital*. It was the first Marxist analysis of what we now call the globalization of capital. It aimed to unravel the economic roots of imperialism. Luxemburg was by no means the first theoretician to critically analyze imperialism. However, unlike earlier studies (like Hobson's classic work) that blamed imperialism on the misguided political judgments of Europe's rulers, Luxemburg sought to show that imperialism was the *inevitable* result of capitalism's inability to consume the surplus product. In *Capital*, Marx pinpointed the "general contradiction of capitalism" as the tendency towards *limitless* production regardless of the value or surplus value incorporated in it. It is integral to the very nature of capitalism to produce more than can be consumed by either workers or capitalists. Luxemburg held that this makes capitalism inherently unstable and crisis-ridden, since no economic system can survive for long if what is produced is not consumed. Capitalism is forced to deal with this contradiction, she held, by taking over non-capitalist lands through imperialism. In this way new markets are opened up that can consume the surplus product. However, she held, the time will come when all non-capitalist strata will be destroyed by capitalism, which will leave it without the means to absorb its surplus product. That will lead to its collapse—unless the workers first rise up to abolish it.

As Luxemburg wrote in *The Accumulation of Capital*, "Historically, the accumulation of capital is a kind of metabolism between capitalist economy and those pre-capitalist methods of production without which it cannot go on and which, in this light, it corrodes and assimilates. Thus capital cannot accumulate without the aid of non-capitalist organizations, nor, on the other hand, can it tolerate their continued existence side by side with itself. Only the continuous and progressive disintegration of non-capitalist organizations makes accumulation of capital possible" (*The Accumulation of Capital*, translated by Agnes Schwarzschild [New York: Modern Reader, 1951], p. 416).

Since Luxemburg's *Accumulation of Capital* was the first effort by a Marxist to provide a theoretical explanation for the *necessity* of capitalist *globalization*, and since we are now facing the first truly global financial crisis in history, it makes sense to ask to what extent does it help us understand what is now unfolding before our eyes?

To explore this, let's review the major factors involved in the present crisis.

At one time, “liquidity” referred to the amount of *assets* owned. More recently, however, liquidity became equated to how much you could *borrow*—that is, to how much debt you ran up! What helped drive this is that in the past decade huge surpluses were produced by some major economies—mainly China and Japan, but also Germany and India. China’s foreign reserves went from \$146 billion in 1998 to \$2 trillion in 2008. By 2008 the emerging economies amassed *\$10 trillion* in foreign exchange assets—at the same that the U.S. was running unprecedented deficits. Much of these immense foreign reserves flooded into the U.S. financial system. This “easy money” was geared up by “leveraging”—borrowing at up to 30 times the principle. Cheap money based on foreign capital, led to a *lending boom* (from their end) and a *borrowing boom* (from our end).

A series of complex financial instruments and securitization (based on derivatives, whose “value” derives from something else) were devised to take advantage of this easy money. Much of this poured into the housing market, which pushed up housing prices. As housing prices went up, even risky mortgages seemed a safe bet, so more people and institutions, especially banks and firms selling securities, invested in the housing sector—driving prices ever higher. Financiers relied on securitization and complex derivatives to dilute the risk that their investments would go bad, which tightly linked the fortunes of each financial institution with each other. The credit default swap market alone went from a few billion dollars in the 1990s to over *\$40 trillion* today.

It all seemed to work splendidly, so long as prices kept going up. But when the housing bubble popped last year, no bank or financial institution was in the position to know how much bad debt they owed. As a result, last fall they all made for the exit—they tried to sell their “assets” (re liabilities) in order to get cash, which sent the market into a free fall. As banks took huge losses, they refused to extend loans. Credit markets seized up and the economy went into a free fall. This proved so serious that many believe that global finance capitalism was on the verge of systematic collapse at the end of last year.

Now the question is what allowed all of this to happen. What the pundits want you to believe is that it was the result of misguided and greedy actions of specific individuals. Corporate execs and bankers got huge bonuses for reporting higher earnings, even though they were often based on an unsustainable level of borrowing. The heads of financial firms obtained enormous political clout through their campaign donations to politicians, which convinced the latter to forgo any regulation of the derivative markets. And the Federal Reserve, always the friend of the rich and famous, worked to keep the game going by keeping interest rates low by historical standards, thereby making the borrowing of cheap money possible. As Henry Kaufman put it, “By guiding monetary policy in a libertarian

direction, the Fed played a central role in creating a financial environment defined by excessive credit growth and unrestrained profit seeking” (See “How libertarian dogma led the Fed astray,” *Financial Times*, April 28, 2009).

All of these contentions are true, but none of them, as I see it, explain very much—because they fail to explain what *structural* factors enabled the Fed to keep interest rates so low and the *specific conditions* that made it possible for government regulators, financial operatives, bankers, etc. to make their specific policy decisions.

Ironically, most “leftist” or radical analyses of the financial crisis tend to stop at this superficial level of blaming individuals and their policy decisions, while the more insightful examinations seem to be coming from within the capitalist class.

An example of the latter is Richard Posner’s new book, *A Failure of Capitalism*. It argues: “The mistakes were systemic—the product of the nature of the banking business in an environment shaped by low interest rates and deregulation rather than the antics of crooks and fools.” But what factors “shaped” the low interest rates and deregulation? Weren’t these the results of decisions made by greedy capitalists? This is spoken to in the special supplement “The Future of Capitalism” issued by the *Financial Times* on May 12. The editors provide the following explanation: “Easy money came from the global macroeconomic imbalances that generated enormous capital flows into deficit countries. These flows helped drive interest rates down and increase access to credit, fuelling a leveraged asset bubble” (p. 39). Please note that this doesn’t say that the low interest rates enacted by the Fed *produced* the easy money; rather, the easy money coming from the “macroeconomic imbalances” generated by the buildup of huge foreign exchange reserves led the Fed to cut interest rates. And what produced these “macroeconomic imbalances” in the first place? In large part, it was due to the dramatic changes in world capitalism of the 1980s and 1990s, which witnessed the collapse of the state-capitalist calling itself “Communist” command economies of the USSR and China and the opening up of larger parts of the Third World to the world market.

Since 1978 over 350 million Chinese peasants mainly engaged in subsistence farming have been uprooted from the land and transformed into proletarians engaged in sweated wage labor for multinational capital. Hundreds of millions more have since joined their ranks in India, Mexico and elsewhere. As hundreds of millions of new hands were forced into the global capitalist labor market, the price of wages declined, and with it, the cost of capital and interest bearing capital. *All of this is completely in accord with what Marx identified as the law of motion of capitalism over 150 years ago.* The “freeing” of the laborers from the objective conditions of production increases the accumulation of capital,

which in turns ends up in the hands of both “communist” (as in China) and “corporate capitalist” titans of industry in the form of monetary capital. The growth of the latter helps explain the exponential growth in China’s foreign exchange reserves, which was a major factor in providing the “easy money” for the credit bubble that finally burst last fall.

This is not to say that the credit bubble emerged solely because of events in the developing world. Its roots go back further back, to the global recession of the mid-1970s, when capitalism encountered a serious decline in the rate of profit. In the face of this crisis, the developed nations responded with a host of measures—from breaking unions and cutting back the social safety net to outsourcing productive facilities to low-wage areas. Technological innovation also played a part, especially the application of computerized technology in the sphere of circulation, which reduced the turnover time of capital and hence led to increased profit rates in the financial sector. Although profit rates also improved in some areas of productive capital by the 1980s and 1990s, they stayed considerably below their pre-1974 level. Capital migrates to areas where profit rates tend to be higher, so it should come as no surprise that since the mid-1970s in both absolute and relative terms more and more capital migrated towards the financial arena.

Undoubtedly, government policy played a role in this, as in (to give one example) the 1982 passing of the Garn-St. Germain Depository Institutions Act, which deregulated U.S. Savings and Loan Institutions. However, such actions on the part of government officials represented a response to underlying economic trends that are far more powerful than the machinations of the particular individuals involved in making them. The determining factor was capital’s effort to take down barriers towards its migration to sectors with higher profit rates. The dramatic changes in world politics and economics since 1989 greatly facilitated this movement. The “freeing up” of vast areas of the developing world to the world market, and the accumulation of massive monetary reserves by a number of nations, provided a pool of cheap money that fed capital’s speculative appetites. This is what led to the credit bubble that finally burst last fall and which continues to haunt global capital. Thus, it was not *the greed of the individual personifications of capital that made possible the specific contours of the present crisis, but rather the depth, breadth, and intensity of capital’s drive over the past three decades to tear the laborers from the “natural workshop” of the soil and transform them into “free” wage laborers.*

How does Luxemburg’s Accumulation of Capital stand up in light of these realities? In one specific sense, it holds up rather well. I am referring in particular to Section 3 of the book, “The Historical Conditions of Accumulation.” Luxemburg there describes in painstaking detail the way in which capital accumulation is generated by tearing the

laborers from the objective conditions of production. Her description of how Western colonialism and imperialism destroyed indigenous social formations in India, China, Algeria, South Africa, and the U.S. remain one of the most brilliant and incisive demonstrations of the how capital comes into existence “dripping with blood from head to toe.” To the extent that today’s economic crisis owes much to the persistence of what Marx called “the so-called primitive accumulation of capital,” we have much to learn from her pioneering work.

She wrote in *The Accumulation of Capital*, “It is an illusion to hope that capitalism will ever be content with the means of production which it can acquire by commodity exchange...Hence derives the vital necessity for capitalism in its relations with colonial countries to appropriate the most important means of production. Since the primitive associations of the natives are the strongest protection for their social organizations and for their material bases of existence, capital must begin by planning for the systematic destruction and annihilation of all the non-capitalist social units which obstruct its development. With that we have passed beyond the stage of primitive accumulation; this process is still going on” (p. 370).

However, what about the central argument of *The Accumulation of Capital*, which contends that the very continued existence of capitalism hinges on the surplus product being consumed by non-capitalist strata? Luxemburg let there be no doubt that she was “deviating” (*Accumulation of Capital*, p. 99) from Marx on this issue, since the formulae of expanded reproduction at the end of Volume II of Marx’s *Capital* assumes a closed capitalist society without foreign trade. Luxemburg held that Marx’s schemas of expanded reproduction in Volume II of *Capital*, as well as his refusal to treat money as a branch of social reproduction independent of the means of production (Department I) and means of consumption (Department II), rendered Marx’s analysis internally defective in that his theory was unable to account for the necessity of imperialist expansion.

Luxemburg’s claim that imperialism arises because capitalism cannot consume the totality of its surplus product makes hers a theory of underconsumptionism. Since underconsumptionist and Keynesian arguments are back in vogue today because of the economic crisis, it behooves us to look more closely at this issue.

We need to first of all note that neither Marx nor Marxist-Humanism denies the fact of underconsumption. Marx’s *Capital* proceeds from two underlying assumptions: 1) production creates its own market, and 2) the workers cannot buy back the full value of the product that they create. The latter fact flows from Marx’s conception of the dual character. In capitalism wage labor is a commodity. However, it is a very specific kind of

commodity. Wage labor is the only commodity that produces a value above its commodity value. It *necessarily* follows that the worker cannot consume the full value of their output. Capitalism exhibits an inherent incapacity on the part of both workers and capitalists to *buy back or consume* the totality of the social product. As Marx wrote in *Capital*, Volume III: “The ultimate reason for all real crises always remains the poverty and restricted consumption of the masses, in the face of the drive of capitalist production to develop the productive forces as if only the absolute consumption capacity of society set a limit to them” (*Capital, Vol. III, translated by David Fernbach, p. 615*).

Raya Dunayevskaya, whose analyses of Marx’s *Capital* take on new importance in light of recent developments, wrote in *Marxism and Freedom*: “The dominant feature remained the fact that production did create its own market. But this did not negate the existence of under-consumption. It merely showed that within capitalist production there resides a disregard for the limits of consumption” (p.126).

Does this mean that Marx was an underconsumptionist? Not at all. For Marx argued that “the ‘market’ that can be enlarged beyond that of the limits of the working population paid at value is the capital market,” as Dunayevskaya noted in *Rosa Luxemburg, Women’s Liberation, and Marx’s Philosophy of Revolution* (p. 43). The part of the social product that cannot be consumed by workers or capitalists is consumed by capital—as when an auto factory consumes the value of steel. Marx held fast to both premises—that workers cannot buy back the full value of the social product and that production creates its own market. Dunayevskaya argued, Marx’s “categories assume that what is produced is consumed because it is capitalist production, and capitalist production is the production of capital and hence is consumed by capital. Marx built his theory of capitalist breakdown on this” (*Marxism and Freedom, p. 131*).

Contrary to Luxemburg’s approach in the *Accumulation of Capital*, Marx assumes, in Volume II of *Capital*, that all that is produced is consumed, even though he is fully aware that capitalism ignores the limits of production and that the workers and capitalists are unable to consume the bulk of the social product. What the underconsumptionists fail to grasp or emphasize is that capital consumes that part of the social product that the workers and capitalists cannot consume.

However, the question we need to ask in light of today’s financial-economic crisis is what kind of capital consumes the surplus product? Does Marx’s position imply that the surplus capital that is not consumed by workers and capitalists is necessarily all consumed by *productive* capital? The answer is clearly no. As Marx shows in Volume III of *Capital*, productive capital does not necessarily consume the entirety of the surplus product left

unconsumed by workers and capitalists. This does not contradict his view that capital consumes the part of the surplus product that workers and capitalists cannot consume, because productive capital is only one of *three* kinds of capital outlined by Marx. The three are productive capital, commodity capital, and money capital. Given specific conditions, monetary capital can consume the part of the surplus product that is left unconsumed by productive capital. Monetary capital, of course, tends to get transformed into productive capital through the phases of capital's metamorphoses. But depending on conditions, some of it may not. The part that does not is known as *speculative capital*.

As Marx wrote in *Capital*, Vol. III: "This plethora of loanable money capital proves nothing more than the barriers of capitalist production. The resulting credit swindling demonstrates that there is no positive obstacle to the use of this excess capital. But there is an obstacle set up by its own laws of valorization, by the barriers within which capital can valorize itself as capital. A plethora of money capital as such does not necessarily signify overproduction, or even a lack of spheres of employments for capital. . . . As we have shown, however, this accumulation can express elements that are very different from genuine accumulation. . . . The very fact that the accumulation of loan capital is augmented by these elements that are independent of genuine accumulation, even if they accompany it, must lead to a regular plethora of money capital at certain phases of the cycle, and this plethora develops as the credit system improves. At the same time as this, there develops the need to pursue the production process beyond its capitalist barriers: too much trade, too much production, too much credit. This must always happen in forms that bring about a reaction" (pp. 639-40).

This brings us to the present financial-economic crisis. As I mentioned earlier, what has proved of decisive importance over the past 30 years is creation of a massive army of low-paid, highly sweated labor through the uprooting of hundreds of millions of peasants from the land, in China, India, and Mexico especially. Trillions of dollars of economic output have been generated by these new proletarians, concentrated largely on China's eastern coast. The mass of this surplus product, however, cannot be consumed by the Chinese masses, whose wages remain very low. What helps keep their wages low is the global reserve army of labor of the unemployed, which number close to 200 million in China alone. *The persistence of massive global unemployment is "the insoluble contradiction which is wrecking the entire system" (see Marxism and Freedom, p. 123).*

If the mass of the surplus product cannot be consumed by the masses, who or what is consuming it? Is the rest being consumed by productive capital? To a large extent, the answer is no. China is one of the few countries (with the exception of parts of India) to

undergo a major industrial expansion over the past 30 years. Much of the rest of the world has been deindustrializing—that is, *dismantling* the domain of productive capital. And even in China, the bulk of the surplus product has not been plowed back into refurbishing and modernizing the productive apparatus, since its low wages create little incentive for technological innovation at the point of production.

If the surplus product cannot be consumed by the masses, and if the rest isn't being consumed by productive capital, what is it being consumed by—since, as we have noted, what is produced must be consumed by someone or something? The answer is that it is consumed by monetary capital in the form of financial speculation. China's net foreign currency reserves are now two trillion dollars, most of it invested in the US equities and securities. The surplus product that can neither be consumed by consumers nor productive capital becomes “consumed”—or at least transformed into—speculative capital. This is how we have a situation wherein fast money is chasing so much fast money that the global derivatives market is now *\$600 trillion*—ten times global GDP!

Needless to say, when dollars chase other dollars and push up the price of equities and securities to such insurmountable heights, we are no longer dealing with real value at all. The “value” of these derivatives is a fictitious number based on expectations of future, imaginary earnings. Such a situation is unsustainable. Once the price of any single tier upon which these derivatives is based upon declines—such as housing prices—the whole speculative bubble begins to burst. Banks and investment firms discover that trillions of dollars of speculative capital vanish overnight, and they stop lending. Businesses can no longer get the loans they need to survive, and go under. Workers get laid off, and have less ability than every to buy back the surplus product, leading to the *appearance* of underconsumption. But the root of the problem lies not in the inability of capital to consume the surplus product, but the manner in which it does so.

This is why Marx's analysis of expanded reproduction is far more on target than Luxemburg's. Today we are not experiencing a mere cyclical depression in the business cycle in which disequilibrium arises between productive output and consumption. The crisis is far deeper. The main strategy which capitalism has used to try to extricate itself from the economic morass that emerged in the 1970s, when it experienced a serious decline in global profit rates, has been undermined by the bursting of a speculative financial bubble. Simply propping up “effective demand” in such a situation can by itself hardly suffice. It's fine to talk about “economic stimulus” to enable the masses to buy back some more of the surplus product, but given what capitalism is now facing that can at best only slightly ease the depth of the decline (and Obama's stimulus package is too

small to do much good in any case; to the extent that the crisis has stabilized somewhat since last Fall, it is not because of Obama's \$780 stimulus package but the *trillions* of dollars plowed into banks and investment firms). Calls to prop up effective demand fail to get to the real problem—the crisis in the global banking and credit system brought on by capitalism's proclivity to invest huge amounts of capital in speculative transactions.

Astonishingly or not, none of the “reforms” proposed to deal with the present crisis—whether coming from U.S. or its European allies—come close to even addressing the need to redress the *structural* problems of the financial system. The Obama administration's announcement, on June 17, of a series of new regulatory measures contains nothing that even comes close to a major alteration of the financial system. As Joe Nocera put, “The Obama plan is little more than an attempt to stick some new regulatory fingers into a very leaky financial dam rather than rebuild the dam itself” (See “A Financial Overhaul Plan, But Only a Hint of Roosevelt, *The New York Times*, June 18, 2009). Yet even Obama's limited proposals on the *national* level far outshine anything being done on the *international* level, where no global mechanism either exists or has yet been envisioned that could even *begin* to implement serious regulatory financial reform on a *global level*. *It is one more indication of how our globalized world remains integrally tied to the limitations of national state-capitalist entities.*

Martin Wolff is on target in writing: “If you look at the way the regulatory community is going, they all assume that the financial system will essentially look as it does now, except that it will be regulated down to the ground in every possible respect. I think there are two problems with this. First, this financial system did a lot of absolutely insane things, and it's not obvious we would want them to go in that direction. Second...the chances that we will actually create a global regulatory regime that will police this are actually quite small” (“The Future of Capitalism,” p. 31).

Here is what I would conclude thus far:

(a) The assumption that underlies all who target the personifications of capital rather than capital itself, whether they are on the Left or the Right, is that capital can be regulated and controlled. *Do not be fooled by the anger and even militancy voiced by those who target the subjective motivations and actions of the agents of capital.* Behind much of this criticism is an illusory belief that capital can somehow be regulated and controlled to suit human needs and that a social revolution that abolishes capital is unfeasible. The assumption that capital can be controlled has proven to be the most dangerous of all illusions within the Left, as we can see from the tragic outcome of so many efforts at social transformation in the 20th century. We must be under no illusions that this tragic

history of directing attention away from the real problem—the structural contradictions of capitalism—may not repeat itself today. As Marxist-Humanists, we have an *urgent* responsibility to redirect the object of radical critique to the nature of capital itself.

(b) The fact that Marxist-Humanism compels us to focus attention on the long-range problems of abolishing capital as the medium of social interaction does not mean that we refrain from advocating *specific* steps in the short-term that can alleviate the human suffering being caused by today's financial-economic crisis. One-third of all human deaths are caused by poverty, and over 300 million people have died from poverty and preventative diseases since 1989. Yet much of the extreme poverty afflicting 15% of humanity—defined by the UN as earning less than \$400 a year—can be alleviated, according to several recent studies, for around \$100 billion a year. That is about half of the cost of the bail out of AIG alone! We must demand, as part of our targeting of the capital relation, the immediate alleviation of this misery.

(c) We are now witnessing a surge of interest in and discussion of Marx because of the present crisis. What Dunayevskaya wrote during the 1974-75 global recession—that Marx's *Capital* comes alive at each new crisis point—is once again being confirmed. However, as the editors of the *Financial Times* put it in "Lessons learn for capitalism's future," "Capitalism's worst crisis in 70 years has not prompted a serious alternative vision of society" (p. 13). This is a sobering truth that we must take very seriously. The responsibility for concretizing the "dialectics of organization and philosophy" by working out that alternative vision is more on our agenda today than at any point in our history.

