

## **AFTER THE CRISIS, WILL CAPITALISM EMERGE STRONGER?**

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The crisis, which started of in 2007 in the US “sub prime” mortgage market is not over yet. The US according to the 2009 third quarter figures, has pulled out of recession, there is growth in Europe and Japan and some emergent markets and equities have been (mostly) doing well in the major exchanges over the last three months.

Nevertheless the London Economist, the Wall Street Journal and other leading imperialist newspapers keep printing warnings of the possibility of a “double dip” recession and urging governments to stand ready for further massive financial market intervention. Fraud cases involving major corporates are once again hitting the headlines. And the stock market recovery in America is widely regarded as unsustainable.

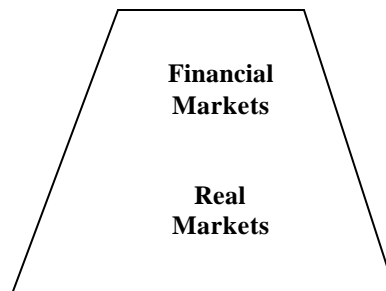
Unemployment levels have created new historical records in America and Western European countries. Income and asset distribution inequities have soared as governments use tax payer money to bail out billionaire bank clients. America is preparing to run away from Iraq and Afghanistan and there is no new global capitalist hegemon to guarantee global “level playing fields” for the leading multinationals and financials.

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Since the collapse of the Bretton Woods system (usually dated from the time of the 1973 Ramadhan War) financial markets have become overdeveloped in two respects. First they are overdeveloped with respect to production and trade. Since the mid 1980s financial value added has been growing at a faster rate than value added generated in the real sectors. Financial growth depends upon the growth of real goods and services production and consumption. For however lofty a financial derivative pyramid may be at its bottom, must be a real good or services — finance must ultimately finance something other than itself.

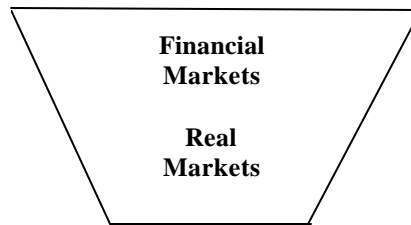
**Figure A**



The overdevelopment of financial markets has stood capitalism on its head — Rudolf Hilferding foresaw this almost a century ago (as did Otto Bauer several decades earlier). In most of its history capitalism's market order looked like Figure A with a wide and widening production and trade base sustaining financial market development.

Post Bretton Woods capitalist market order looks like Figure B with a narrow and narrowing real sector base for a precariously balanced financial sector growing at a furious pace and ever threatened with collapse.

**Figure B**



As many Financial Times columnists have pointed out a most important cause of the 2007 down turn was the massive growth of corporate saving in America and Europe. Corporates had to channel this saving to financial markets because of lack of equally profitable investment opportunities in the real sector. These savings had to be diverted to the financial markets because there were no apparent limits to profitable investment opportunities there.

Why are there no apparent limits to the growth of financial markets? Imam Muhammad Maramaduke Pickthall has called capital “takathur” and translated takathur as “rivalry in worldly increase”. This interpretation of capital focuses upon two foundational attributes of capitalist individuality — “rivalry” .i.e. competition and “worldly increase” .i.e. accumulation. Capitalist individuality (specially in its corporate manifestation) is categorically unconditionally committed to competition and accumulation and financial markets provide apparently unlimited opportunities for accumulation — the price of a Rs 10 security can become Rs 1 billion in one trading session — and therefore “surplus” saving can usually be absorbed in the financial markets when real markets are stagnant (barring episodes of crises)

Unlike financial markets, production and trade growth is physically constrained. It is constrained by (a) the rate of growth of the population and (b) the growth of income and asset concentration. Both these are essential outcomes of the maturing of capitalist order. As women are defeminised through the commodification of their labour the population growth tends to become negative — not only in Europe and America and Japan but also in China and India and Bangladesh. Declining populations generate falling effective demand for real products – a tendency which can temporally be postponed by income distributional strategies.

But the Keynesian policy episode (roughly 1933-1973) has shown the limitations of this macro strategy. It constrains accumulation and the general rate of profit tends to fall after an initial spurt. Stagflationary pressure is gradually built up and the state is enmeshed in insurmountable fiscal crises.

This brings us to the second aspect of present day financial overdevelopment. This is the over development of capitalist markets with respect to the governance structures of the capitalist state. Capitalist markets – both financial and real – are genuinely global. The post Bretton Woods era has seen a historically unprecedented deliberate dismantling of barriers to the cross border transfer of finance, goods and services. To survive in this world capitalist units must face up to the imperative need of either going global themselves or becoming associated with global networks for obtaining access to technology information, finance and other services.

On the other hand the capitalist state remains national. History has shown that capitalist markets are not self regulatory. There are no representatives of capital in general in the market. Each corporation seeks to maximize the share holders' value of its own capitalists. There is no in market agency obliged to ensure the maximization of the general rate of profit. Every corporation seeks to maximize externalization of its costs. Competition ensures that the market is not a sphere of harmony but a sphere of conflict — as Sarott a showed 50 years ago

The capitalist nation state saw itself as the legitimate representative of capital in general at its birth. This is most evident in Madison's Federalist Papers authored in the 1780s, John Locke arguing against Cromwell's Commonwealth advocated the development of a representative democratic governance framework for the legitimate articulation of what Rousseau was to later call "the general will". The national representative democratic capitalist state thus premises its legitimacy to represent capital in general, through defining the national interest as maximization of the rate of profit and accumulation for the nation. Capital in general is defined as an aggregation of all specific capitals working for the nation. Since the late eighteenth century the capitalist state has claimed governance legitimacy on the grounds that it represents the national interest and the national interest is maximization of the rate of accumulation / profit/ welfare of the aggregate of specific capitals working for the nation.

Globalization of capitalist markets requires the emergence of a global regulator for the effective and efficient functioning of these markets. The capitalist state must now transcend its national representational character. It must acquire a regulatory legitimacy premised on its capacity to represent (global) capital in general. It must regulate capitalist markets so that the rate of accumulation / profit / welfare is maximization for the aggregate of total capital. The general interest must now be defined as the maximization for the rate of accumulation / profit / welfare of total capital not aggregated specific capitals working for any nation.

But unlike the capitalist nation states, agencies seeking to represent the interests of total capital lack political legitimacy. America is a declining hegemon and fiercely nationalistic. It prides itself on its exceptionalism. For the last thirty years American leadership has continued to resist all attempts to subordinate its rules, procedures and governance structures to negotiated global capitalist standards, codes and institutional mechanisms. Quite the contrary America has since the establishment of the United Nations continually sought to use all international agencies, rules and procedures as instruments of its own foreign policy

The continuing impotence of international agencies is now increasingly self evident. The Financial Security Forum (FSF) created in 1999 in response to the East Asian crisis remains a coordinating body. The Basel Committee on Bank Supervision has almost no influence over metropolitan central banks. The International Association of Insurance Supervisors (IAIS) and the International Securities Organizations (IOSCO) have no executive powers. The IMF's modestly enhanced writ covers only the poor countries. All these agencies are intergovernmental — not global — bodies. They have no systemic legitimacy which over-rides the legitimacy of their member nation states. Capitalist political order has not transcended the nation state in the sense that there is no super national constituency which can legitimate the action of global political fora.

Nor are there any indications that a global super national political constituency is likely to emerge in the foreseeable future. Quite the contrary Martin Wolf of the Financial Times predicts “financial deglobalization” and the Doha Round's failure has all but destroyed the WTO. Politically capitalist order is regressing — as happened after the crisis of the 1930s when the financial authority of nation states was significantly strengthened by the Bretton Woods arrangements.

The Bretton Woods period saw capitalism strengthened. At the centre strong nationalist states — France, Germany, Japan — flourished under a system hegemon — America — which patrolled the world. The new “inter-polar” world (John Gray's term) will soon lack a hegemon. America is senile as is Europe and Chinese hegemonic capabilities are strictly limited. Bouts of capitalist crisis — financial markets in turbulence — are likely to become more frequent and perhaps more serious. Disorder and dysfunctionality will increase, growth rates will decelerate and distributional inequalities will become more intense. Capitalist order will become less and less inclusive. Islands of opulence will be more and more isolated in a festering planet of slums. The scope for the articulation of systemic anti anticapitalist strategies will expand.

**B**ut like the Roman empire the capitalist life world will probably languish for centuries. This is because capitalism's foundational values — competition and accumulation — at present enjoy universal epistemological legitimacy. An alternative world order has not yet been conceived and the struggle for capitalist transcendence is at an embryonic nascent stage. The crises of the first decade of this century will probably weaken capitalism but these crises will not lead to capitalism's systemic implosion in the foreseeable future.