Crisis of capitalism

The theme of this conference* is the Crisis of Capitalism, Welfare State and Labour. I want to treat this topic from a long term perspective and its multiple dimensions, in contrast to a shorter term treatment and one just limited to the economy, although the latter dimension is the basic one.

I view the crisis in at least five fields: the economic, social, political, ecological and geopolitical (militarization and war) field.

A. Economy: crisis of accumulation

The essence of capitalism is the maximisation of profit in order to accumulate capital. This is done by individual capitalists who compete with each other and who subordinate the state to their common class interests.

In a long term perspective one can see that this accumulation mode has been reaching an impasse.

Profit is created through labour. The basis of profit is the value created by a worker above his or her salary. The lower the wage the higher the profit and vice versa. Three other factors limit the potential profit: the cost of machines (technology); the interchange with nature (raw materials, energy, waste) and taxes.[1]

In the wake of the evolution of capitalism, especially during the last 50 years, the following four factors have tended to limit and undermine profit.

1. **Wages.** As a result of the geopolitical situation (threat of communism) and of social struggles in the core capitalist states wages were raised after World War II and kept on increasing afterwards.

2. **Technology.** To enhance productivity - a necessity for competing with rival capitalists- the proportion of technology went up at the expense of the proportion of labour, the source of profit.

3. **Nature.** The expanding production and the rising capital-labour ratio has caused scarcity of raw materials and energy sources which has resulted in costs spiralling upwards. Pollution and the disposal of waste also increasingly tend to add to production costs.

4. **Taxes.** Social security, education and health care tend to be better developed. This is irreversible, but has its price in the form of rising taxes.
This trend of the declining rate of profit is not a linear process, but a cyclical process of booms and busts. Each capitalist tries to produce as much as possible by keeping the wages as low as possible. But as the aggregate salaries of all workers form the base of consumption (purchasing power) a contradiction arises: production is maximised while consumption is minimised. As there is no plan to connect these two fields, there are frequent reoccurring crises of overproduction. These are painful and asocial readjustments based on the elimination of the weakest parts of the system.

In order to escape the long term trend of the declining rate of profit at least five escape routes have been tried and none of them have been successful. On the contrary, they have actually aggravated the contradictions. Nevertheless they are still being implemented as often as ever.

1. **Neo-liberalism.** This was an offensive to counter rising wages and taxes. On a micro level it was favourable, but on a macro level it undermined purchasing power and thus led to a crisis of overproduction. The economic growth in the 60s and 70s was higher than in the 80s, 90s and after 2000. Neo-liberalism also decreased the possibilities of the state to intervene when necessary. Finally, it created the conditions for a financial derailment.
2. **Globalisation**: the search for cheap labour, new markets and new possibilities for investment. The collapse of Eastern European communism, the reforms in China after Mao and the rise of emerging economies gave capitalism some breathing space. During this time the amount of workers (source of profit) integrated into the capitalist system doubled, cheap products from emerging countries (especially China) kept wages low and foreign trade and investment grew. But the emerging economies by far profited most from globalisation. So globalisation changed and is changing North-South relations in a fundamental way. It is the beginning of the end of the economic domination of the North that started 500 years ago (see further).

3. **Debts.** This is the creation of new (virtual) purchasing power. This route was first used after the oil crisis. Petrodollars were injected into developing countries and enhanced their demand for commodities and equipment from the advanced economies in the North. The result was a severe debt crisis from the 80s onwards. The Structural Adjustment Programs from the IMF and World Bank provoked a social bloodbath in the South but in the case of Latin America they sowed the seeds of a leftwing wave after the 90s. Last year emergency measures were taken by almost all governments in the North causing what will turn out to be a severe debt trap in the near future.

4. **Financial explosion.** Looking for profits in the virtual economy. Speculation or profits in the financial sphere do not create value. Either they create virtual value or they squeeze value (profits) from other sectors. The accumulation of virtual value inevitably creates bubbles from time to time, but these bubbles burst sooner or later, with the known devastating consequences. The financial crisis has reached such proportions that it is able to disrupt the economy as a whole.

5. **Military expansion (US).** The market of arms and military equipment doesn’t depend on the purchasing power of consumers. Even during a crisis one can guarantee accumulation through military orders in specific sectors. Besides, military prevalence is a decisive factor in consolidating spheres of influence and to protect the dominance of currency, especially when the economic base is deteriorating. This is particularly true for the US, with Europe behaving as its de facto junior partner. However, the military adventures in Iraq and Afghanistan cost a lot, (almost two trillion dollars) and have yielded almost no favourable results. The dollar has been weakened and the geopolitical influence has been reduced. At the same time military expenditures aggravate the already high deficit of the US government. The military build up of the US no longer has a sufficient economic base. There is a dangerous threat of overstretching.
Thus, the very essence of capitalism, the drive for endless profit and accumulation is at stake.

B. Social crisis: immorality and inefficiency of the system

The world has never produced so much wealth. There is the potential - if wealth were distributed equally - to offer every family on the planet (two parents and three children) a monthly income of $2,884 dollars. [5] A single person would receive an average of $19 a day. But despite this wealth there is still one out of five persons who has less than $1.25 per day. Almost half of the world population has no sanitary facilities, one out of three lacks electricity and one out of five has no decent house or drinkable water. The wealth is distributed unequally in an extreme way and this disparity continues to grow. Some 950 billionaires have assets exceeding the combined annual incomes of 40 percent of the world's population. [6] Each cow in Europe is subsidized with $900. That's twice the income of an average African and 110 times the amount of developmental aid provided per African. [7]

This huge scandal is not limited to the developing countries. In rich countries you have similar disparities. In my country, Belgium, the average disposable income or purchasing power per capita - children, adults, pensioners - is almost €2,000 monthly. So an average family of two adults and two children has the potential (the average) of €7,700 monthly. [8] That's a huge amount. Belgium is one of the richest countries in the world but still one out of seven persons is poor; one out of ten persons has to postpone or cancel medical treatment because they lack the money, and it's not unusual that people have to work at an inhumane speed for just €1,400.

This data are not reflect the excesses of the system, but are the consequence of the very logic and nature of the system. This is very unethical and is already enough justification to reject the whole system. But beside that, the system operates in a very inefficient manner. To be sure, historical capitalism was responsible for a very important development of the world, be it a very uneven one. That was its merit and
its historical role. But at a certain level it reached its limits and has become incapable of further productive and beneficial development. Never has the gap between the potential of development and the actuality of its use been as wide as it is today. I will give two examples. They refer to the two essential conditions of life: food and health.

The Food and Agricultural Organisation (FAO) calculated that $24 billion a year in public investment, associated with additional private investment would lead to a boost in annual GDP of $120 billion as a result of longer and healthier lives. [9] Conversely, because of hunger poor countries lose $450 billion every year. The investment is a modest 8% of the subsidy of farmers in the North (which disrupts markets in the South and therefore causes hunger in the South). This is a return of 500 per cent! Not to mention the millions of lives that could be saved. But still, the system is not able to implement the logic an necessary investment.

The health situation is equally hallucinatory. According to the World Health Organisation an annual investment of $35 billion, or about 1% of the health care spending of the US and Europe, would be enough to save eight million lives a year and would give a yearly return of at least $360 billion.[10]

C. Political crisis: legitimacy under strain.

Trust and confidence in the current political structure is declining. Political parties are losing members and elections have low numbers of voters. The popularity of incumbent governors is low in almost all western countries. In general confidence and support in the ruling political class is waning. In Belgium for example, only 17% of the population has faith in its political leaders. [11] The outcome of the elections is volatile. Centre parties are losing ground in favour of extreme, populist or/and xenophobic parties. In several countries forging a coalition becomes more and more difficult. In the US the right wing Tea Party is the political expression of deep distrust of the political elite. There are other signs of the awakening of mass movements, like the riots in Paris some years ago, the riots in Greece because of the austerity measures, the protests in England, France and Italy over rising student tuitions and other looming struggles on the horizon.

To be sure, it’s too soon to speak of a full-fledged ‘crisis’, but there is an important loss of legitimacy and stability. The legitimacy of the ruling political class is based on the stubborn illusion that they are not subordinated to class interests of capitalists but look instead after the interests of the broad electorate. This legitimacy is also based on a relatively high living standard enjoyed by a majority. But both of these conditions can weaken during a prolonged economic crisis or because of long-term unemployment. This has the probability in the end to develop into a real political crisis as happened in the 1930’s.

The disastrous consequences of the Washington Consensus, in sharp contrast with the impressive achievements of China, create a huge ideological challenge for the West in the developing countries. More and more countries look eastward for inspiration. The unquestionable hegemony of the Western political and ideological model is over.
D. Ecological crisis: endless profit not compatible with the limits of nature.

There is a fundamental contradiction between the necessity of the *endless* pursuit of profit and accumulation on one hand and the *limits* of nature on the other. This endless pursuit is undermining the earth’s ecological system and threatening the very survival of the human species. Therefore capitalism in its existing form is unsustainable. I want to draw attention to two aspects; the issue of oil and the necessity for a world government to cope with the ecological threat.

Capitalism depends on non-renewable resources for almost 90 percent of its total primary energy supply. Within that supply, oil remains very important because in a lot of areas it cannot easily be substituted by electricity or renewable energy. Oil is still the most essential source of energy, especially for transport. It is also used for the production of fertilizers, plastics, chemicals, steel, etc.[12] Therefore oil continues to have huge geopolitical implications.

The following figures dramatically illustrate the challenge facing capitalism. At this moment the US consumes per capita 13 times the amount that India and China consumes per capita.[13] But with the steady grow of both these countries one may plausibly assume that within twenty years they will consume about a third per capita of what the US consumes today. If that is the case production would have to increase at least 45%. If China and India should consume half of its per capita – in say 25 years - production would have to increase 75%. It’s very doubtful that this is feasible. If this scenario plays out we can expect soaring prices that obstruct making profits, and the huge increase of geopolitical tensions in the near future. It’s no coincidence that 60% of the US Naval fleet with a command of 300,000 marines, is now concentrated in the Pacific region and that the Pacific Command is more active than ever.

Environmental problems represent ‘external’ costs that, if taken into account, will erode profits. Therefore individual capitalists are not motivated to pay for these costs. This problem of ‘externality’ can be alleviated by governments. But this collides with the institutional structure of capitalism. States are subordinated to the class interests
the other way round. So sectors which are threatened by severe measures put heavy pressure on their governments, mostly with success. Moreover, individual capitalist states are motivated primarily to maximize their national rate of accumulation in order to prevail in global competition. That’s why there is no world government that can effectively represent the collective interest of the planet and that is why there is no effective mechanism to regulate the global environment. [15] This is the essence as to why the environmental conferences at Kyoto and Copenhagen were unsuccessful and at least not sufficient to cope with the fundamental ecological threats.

E. Geopolitical crisis: the end of favourable conditions

The rise of capitalism presupposed the subordination of the countries of the South because the rapid accumulation in the North was based upon slavery and on cheap labour later on. It was also based upon the access to cheap raw materials, unequal exchange, favourable labour division, control over key sectors in those countries and upon hegemony of the currency. The world market (commodities, services and finance) was subordinated, manipulated and structured in favour of the core capitalist countries.

Colonisation - Latin America in the first stage and Asia and Africa in the second stage - was the political expression of the accumulation of the developed capitalist nations. This regime was very favourable for the core states and unfavourable for the peripheral exploited states. In other words, the rise of capitalism coincided with the demise of the countries of the South.

This regime lasted until the 1950’s when colonisation came to an end. From then on things started changing, especially in Asia. To contain communism in the region (China, Vietnam, Korea, …) huge amounts were invested in several countries; Japan, Korea, Indonesia, Malaysia, … That already changed the balance of power in favour of that continent. But this tendency was accelerated in a spectacular way by the combination of very high growth rates and large populations (India and China). The result is that slowly but surely the centre of gravity has started moving towards Asia. Also in Latin America and Africa, a lot of countries now have a higher growth rate than the core developed countries.
Many developing countries are slowly catching up. This means that the balance of power is also changing. The South is becoming more assertive and forming their own more favourable alliances. For the first time in the modern era, relatively poor countries have a big global clout, exerting influence through investments, loans and votes at climate change conferences. At the same time the North is losing its grip. The very conditions that were responsible for the rise of the West are now fading away, one by one, including the currency dominance. The only big lead the West, and in particular the US, has with regard to the South, is military power. But the recent history showed this to be relative. In the long term the overstretching of the US is untenable.

The rise of capitalism coincided with the demise of the South. So one can ask if the rise of the South will turn out to coincide with the decline of the capitalist world-economy. In other words, can capitalism survive the rise of the South? I doubt it.

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* Other participants on this Conference were Roberto Savio, Susan George, Ricardo Petrella, Rémy Herrera, Walter Stahel, Eduardo Estévez Martín and Guy Bajoit. The conference was organized by Fundación Instituo de Cultura del Sur, Madrid.

Bibliography


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