Reading David Harvey's *The Enigma of Capital, and the Crises of Capitalism* (2011).

Harvey has some things in common with Robert Brenner. (And also with the *Monthly Review* school of Marxists, exemplified by Paul Baran and Paul Sweezy in their book *Monopoly Capital*.) For instance, he makes it clear that in one sense financial institutions are right to say they're the linchpin of the economy: because incomes are so polarized between the elite and the masses, without absurdly high levels of lending to consumers the economy would grind to a halt. Even those with very low incomes eventually have to receive mountains of credit (as they did by the late 1990s), because confining it to the steadily employed population doesn't provide enough boost to demand. Hence the infamous "subprime loans" for mortgages—in part the product of political pressure on financial institutions to loosen credit strings for everyone. (Not only the home buyers but even the property developers were debt-financed! In other words, "the financial institutions collectively controlled both the supply of, and demand for, housing!") Such loans were risky, but innovations in "securitization" supposedly spread the risk around "and even created the illusion that risk had disappeared."

So that was one way of solving the demand problem of the 1990s and 2000s. Another way was "the export of capital and the cultivation of new markets around the world." We're back to the old imperialism of the 1880s–1910s (dressed in modern clothes), and the old ideas of J. A. Hobson and the classical Marxists. Actually, even as early as England's forcing India to buy its cotton in the early nineteenth century, "the cultivation of new markets around the world" to boost demand was going on. By the 1970s, one form of capital export—a response to the lack of profitable investment opportunities in the U.S.—was to lend massively to developing countries like Mexico and Brazil. (If they defaulted, the IMF could come to the rescue of investors.) In order for capital export to become a really big industry, though, "a globally interlinked system of financial markets needed to be constructed." No more confining banks to their home country; no more "excessive" regulations; no more separating deposit from investment banking. (Accordingly, the 1930s' Glass-Steagall Act was repealed in the late 1990s.) Liquid capital had to roam the world freely, looking for locations with high rates of return. So much surplus capital to be absorbed!

Another way to absorb capital was to privatize state-run enterprises. Hence the global wave of privatization since the 1980s.

Considering all the things that can go wrong with capitalism, it's impressive the system works at all. For example, if organized labor becomes too powerful and wages are too high, the profit-squeeze might cause capitalists to reduce investment. (Alternatively, they might invest more in labor-saving technologies.) They could lay off workers, etc. If this happens on a sufficiently broad scale, stagnation could set in. (But the resulting drop in wages and loosening of the labor market *might* lead to increased

investment, ending the stagnation.) On the other hand, if organized labor is very weak, such that wages are low and unemployment high, effective demand might be insufficient to justify high levels of investment, and stagnation sets in. The Great Depression and the current stagnation fall, at least in part, under the latter category. The stagnation of the 1970s, on the other hand, was apparently partly the result of a profit-squeeze in the context of global overproduction. Hence business's and the government's attacks on organized labor—which, as Brenner says, have helped cause the low demand of the present. This time, though, there probably isn't going to be a revival of labor unions and massive government spending, as there was in the 1930s and '40s. Instead, I suspect, there is going to be a slow collapse of capitalism, starting in the advanced countries. Will growth in developing countries like China and India come to the rescue? Doubtful. They'll be dragged down by the West, and by their own internal social problems.

Anyway, Harvey's formulations in general are illuminating. His whole explanation of economic activity revolves around capitalism's requirement that capital accumulation flow continuously. "The continuity of flow must be sustained at all times." He emphasizes this again and again. Accumulation is always looking to overcome barriers and limits. If it hits a limit of some sort, problems arise, sometimes leading to crisis. One essential role of the credit system is to stave off for a while "the problem of falling profits and devaluations [of capital] due to lack of effective demand"—but over the long term this tends to accumulate the system's contradictions and tensions, spreading the risks at the same time that it accumulates them. Credit has to grow at a compound rate (because capital accumulation occurs at a compound rate), "as indeed happened over the last twenty years. When the credit bubble bursts, which it inevitably must, then the whole economy plunges into a downward spiral of the sort that began in 2007. And it is at this point that capitalism has to create external power in order to save itself from its own internal contradictions." So in the U.S. it turns to the Federal Reserve, which has the power of infinite money creation.

Harvey opposes all attempts to look for one dominant explanation for the crisis-prone character of capitalism. "The three big traditional camps of thought are the profit squeeze (profits fall because real wages rise), the falling rate of profit (labour-saving technological changes backfire and 'ruinous' competition pulls prices down), [and] the underconsumptionist traditions (lack of effective demand and the tendency towards stagnation associated with excessive monopolisation)." Adherents of one school often insist that the others are simply wrong.

> There is, I think, a far better way to think about crisis formation. The analysis of capital circulation pinpoints several potential limits and barriers. Money capital

> scarcities, labour problems, disproportionalities between sectors, natural [environmental] limits, unbalanced technological and organisational changes (including competition versus monopoly), indiscipline in the labour process and lack of effective demand head up the list. Any one of these circumstances can slow down or disrupt the continuity flow and so produce a crisis that results in the devaluation or loss of capital. When one limit is overcome accumulation often hits up against another somewhere else. For instance, moves made to alleviate a crisis of labour supply and to curb the political power of organised labour in the 1970s diminished the effective demand for product, which created difficulties for realisation of the surplus in the market during the 1990s. Moves to alleviate this last problem by extensions of the credit system among the working classes ultimately led to working-class over-indebtedness relative to income that in turn led to a crisis of confidence in the quality of debt instruments (as began to happen in 2006). The crisis tendencies are not resolved but merely moved around.

One barrier to accumulation is repositioned at the expense of another. The crises that result are *necessary* ways of rationalizing (temporarily) an irrational, contradictory system. They are "as necessary to the evolution of capitalism as money, labour power, and capital itself."

"A synoptic view of the current crisis [in 2010] would say: while the epicentre lies in the technologies and organisational forms of the credit system and the state-finance nexus, the underlying problem is excessive capitalist empowerment vis-à-vis labour and consequent wage repression, leading to problems of effective demand papered over by a credit-fuelled consumerism of excess in one part of the world [the West] and a too-rapid expansion of production in new product lines in another [much of Asia]." Similar to Brenner, and a galaxy of other leftists.

Harvey has an interesting discussion of urbanization as one of the primary ways of absorbing capital surplus (i.e., too much capital relative to investment opportunities). As long ago as the 1850s, governments used massive infrastructural investment for this purpose, in other words to rescue society from its economic doldrums. The Europe-wide economic crisis of 1848, which helped cause the political upheavals of that year, was a crisis of "unemployed surplus capital and surplus labour existing side by side with no clear way to put them back together again." In France, the republican bourgeoisie failed to resolve the problem; only after Louis Napoleon became emperor in 1852 was the solution hit upon, namely a huge Keynesian-style program of infrastructural investment at home and abroad, directed by Baron Haussmann. It entailed the reconfiguration of Paris's urban landscape, which helped stabilize society

by employing vast quantities of labor and capital. Paris was transformed, becoming "the city of light"—and of consumption, tourism, and pleasures galore. New financial institutions and debt instruments were used to allocate capital, and apparently they worked well…until the whole speculative financial system and its credit structures collapsed in the crisis of 1868.

A later example is the U.S. in the 1940s, '50s, and '60s. The Second World War lifted America out of the depression, but what was going to happen after the war? In order to contain radical social movements, two things were necessary: repress them (as Napoleon III had in the 1850s), and solve some of the problems that had given rise to them. New ways had to be found to absorb surplus capital and so keep the economy going. Federal, state, and local governments effectively adopted Bonaparte's solution: invest in colossal projects of remaking metropolitan spaces. The "master builder" Robert Moses, a sort of Baron Haussmann of his day, is still the symbol of all this, all the resultant debt-financed highways and infrastructural transformations, the sub-urbanization, the urban renewal, and so on. "Where would the capital surplus have gone," Harvey asks, "had it not been for the making of the New York metropolitan region, Chicago, Los Angeles and other places of their ilk after 1945?" All this investment across the country, supplemented by tax subsidies for home ownership, the GI bill, "productivity agreements" between capital and labor, etc., was crucial to stabilizing not only the U.S. economy but U.S.-centered global capitalism. It also made possible the maturation of Fordist mass consumerism, thus changing people's lifestyles.

Of course there were costs, as you know. The dismantling of public transportation, the destruction of old urban neighborhoods and the hollowing-out of city centers, the U.S.'s dependence on the Middle East for much of its oil, the degradation of the natural environment, the urban crisis of the 1960s, etc. Hence, in part, the radical backlash of the 1960s. Another consequence, Harvey argues, was the weakening of the dollar because of excessive U.S. borrowing, and thus ultimately the collapse of the Bretton Woods system in 1971/73.

"After the 1970s, urbanisation underwent yet another transformation of scale. It went global. The urbanisation of China over the last twenty years has been hugely important." China's urbanization has in fact been partially responsible for the stabilization of global capitalism. Think of all the demand it has generated! But China is really only the epicenter of the global phenomenon of debt-financed urbanization projects. I won't list the dozens of cities everywhere, many of them in the U.S., that have been the sites of building booms. And this new wave of urbanization has depended, "as did all those before it, on financial innovation to organise the credit required to sustain it. The securitisation and packaging of local mortgages for sale to investors worldwide, and the setting up of new financial institutions to facilitate a secondary mortgage

market, have played a crucial role." All these developments in the financial sector had the positive effects of bringing aggregate interest rates down and spreading risk. In the end, though, what happened in the financial crisis of 1868 in Paris and in New York City in 1975 (when it almost went bankrupt due to all its debt) and in many other places and times happened again in the subprime mortgage and housing asset value crisis.

What happened in Paris in the 1850s and across the U.S. in the postwar era has lately been going on all over the world: undesirable or economically redundant people are being brutally pushed out of the way by states and businesses seeking to create or "renew" urban areas. Earth is becoming a planet of slums. And social movements are taking up arms everywhere.

One other thing: landowners have taken an active role in pushing all this urban development, because it raises the value of their property and thus the rents they can charge. "The power of land and resource owners has been much underestimated, as has the role of land and resource asset values and rents in relation to the overall circulation and accumulation of capital. This arena of activity accounts for as much as 40 percent of economic activity in many of the advanced capitalist countries." Wow. That's a lot of parasites.

Regarding the future of capitalism, the basic point to understand is that compound economic growth forever is not possible. In a finite world, capital accumulation at a compound rate has to end eventually. Crises that restore growth by destroying or devaluing excess capital can only postpone the inevitable, not prevent it.

Harvey notes that, broadly speaking, two different kinds of responses have evolved to the current economic downturn. On the one hand is the West, with its policies of deficit reduction through austerity. I.e., lower standards of living for most people, etc. On the other hand is the East and the emerging markets of the South, which are following an expansionary Keynesian strategy. In China there is massive investment in infrastructure combined with moderate empowerment of labor (higher wages, etc.), resulting in an increase of demand that gives a boost to the export economies of Latin America, Southeast Asia, Germany, and so on. –History's twists and turns are fascinating! The erstwhile victors rot from the internal contradictions of the economic system that made possible their global domination, while the erstwhile victims *rise* by virtue of the dynamics of this system that ground them under its boot for so long. Poetic justice! The formerly "independent" economies of the West come to depend more and more on their former dependencies. But ultimately it's all unsustainable anyway.