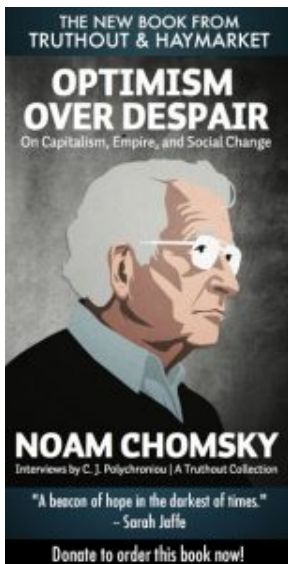


# Is Capitalism In Crisis? Latest Trends Of A System Run Amok



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Having survived the financial meltdown of 2008, corporate capitalism and the financial masters of the universe have made a triumphant return to their “business as usual” approach: They are now savoring a new era of wealth, even as the rest of the population continues to struggle with income stagnation, job insecurity and unemployment.

This travesty was made possible in large part by the massive US government bailout plan that essentially rescued major banks and financial institutions from bankruptcy with taxpayer money (the total commitment on the part of the government to the bank bailout plan was over \$16 trillion). In the meantime, corporate capitalism has continued running recklessly to the precipice with regard to the environment, as profits take precedence not only over people but over the sustainability of the planet itself.

Capitalism has always been a highly irrational socioeconomic system, but the constant drive for accumulation has especially run amok in the age of high finance, privatization and globalization.

Today, the question that should haunt progressive-minded and radical scholars and activists alike is whether capitalism itself is in crisis, given that the latest

trends in the system are working perfectly well for global corporations and the rich, producing new levels of wealth and increasing inequality. For insights into the above questions, I interviewed [David M. Kotz](#), professor of economics at the University of Massachusetts at Amherst and author of *The Rise and Fall of Neoliberal Capitalism* (Harvard University Press, 2015).

*C.J. Polychroniou:* David, corporate capitalism and the masters of the universe have bounced back quite nicely from the global financial crisis of 2008. Is this an indication of the system's resilience, or do we need to think about larger considerations, such as the trajectory of the class struggle in the contemporary world, the role of ideology and the power of the state?

*David M. Kotz:* The severe phase of the economic and financial crisis ended in the summer of 2009. By then the banks had been bailed out and the Great Recession ended, as production stopped falling and began to rise in North America and Europe. As you say, since then profits have recovered quite well. However, normal capitalist economic expansion has not resumed, but instead, global capitalism has been stuck in stagnation.

Stagnation means no economic growth or very slow economic growth. Stagnation has afflicted most of the developed countries since 2010, with some countries, such as Greece, still in a severe depression. US GDP growth has averaged only 2.1 percent per year since the bottom of the Great Recession in 2009. That is by far the slowest expansion following a recession since the end of World War II. Even mainstream economists, such as Lawrence Summers and Paul Krugman, have recognized that the economy is stuck in a severe stagnation.

In the US, the official unemployment rate has fallen to a low level, but that is due to millions of people being dropped from the official labor force as a result of giving up looking for work after finding none for a long period. Most of the new jobs pay low wages and provide little or no job security. Meanwhile, the rich continue to get still richer.

The long-lasting stagnation has brought stagnating wages and worsening job opportunities. This creates a severe problem for capitalism, even with rising corporate profits and growing wealth for the top 1 percent. This problem has an ideological and a political dimension. While capitalism always brings a high degree of inequality, it is tolerable for those holding the short end of the stick as

long as living standards are rising and job opportunities are good for most people. A long period of stagnation delegitimizes the existing system. As growing numbers of people turn against “the system” and the elites who run it, a political crisis develops. The bourgeois democracy that normally acts to stabilize capitalism turns into a source of instability, as anti-establishment parties and candidates start winning elections.

*What do you consider to be the latest and most critical trends in the workings of capitalism in the 21st century?*

Not only has capitalism failed to bring economic progress in this century, it has brought worsening conditions for the majority. The reason for this is rooted in the transformation of capitalism around 1980, when the post-World War II “regulated capitalism” was rapidly replaced by “neoliberal capitalism.” Regulated capitalism arose mainly because of the serious challenge to capitalism from socialist and communist movements around the world and from the Communist Party-ruled states after World War II. The new regulated capitalism was based on capital-labor compromise. It led to the construction of welfare states, state regulation of business, and trade union-led rising wages and more stable jobs for working people.

In the 1970s, regulated capitalism entered a period of economic crisis indicated by a long decline in the rate of profit in the US and Western Europe. The capitalist classes of the developed countries responded by abandoning the capital-labor compromise, attacking the trade union movement, lifting state regulation of business and banking, and making drastic cuts in the welfare state and in the various forms of social provision. This gave us the neoliberal form of capitalism.

The neoliberal transformation resolved the economic crisis of the 1970s from the viewpoint of capital, as profits began to rise again. That transformation freed the banks from state regulation, setting off the process of financialization. It rewrote the rules of the global system, promoting an increasingly globally integrated world economy.

Neoliberal capitalism gave rise to some 25 years of relatively stable economic conditions after 1980, although economic growth was slower than it had been in the preceding period. Capitalists became much richer, but the promised benefits for the majority never emerged. After 1980, working people’s wages and job conditions steadily worsened through 2007. However, as long as the economy

expanded at a reasonable rate, it was difficult to challenge neoliberalism. Every form of capitalism eventually enters a phase of structural crisis, and in 2008 the superficial stability of neoliberal capitalism gave way to severe economic and financial crisis, followed by stagnation.

*We live in the age of the financialization of the planet, in which financial institutions and markets are expanding. In what ways does financialization increase capitalism's inherent tendencies toward economic dependence, inequality and exploitation?*

Starting in the late 1980s, a trend of financialization began, meaning a growing role for financial markets, financial institutions and financial motives in the economy. This is not the first period of financialization in capitalist history — financialization also developed in the late 19th century and in the 1920s. It is an inherent tendency in capitalism, which is released in periods of loose regulation of the financial sector, but it has been halted and even reversed when the state or other institutions have intervened to block or reverse it, as occurred after 1900 and again after the 1930s. Contemporary financialization is a product of deregulation of the financial sector along with the effects of neoliberal ideology and other features of neoliberalism.

Since 2008 the trend in financialization has been mixed. There is an ongoing political struggle over financial regulation in the US. The giant banks have so far faced some restrictions on their ability to engage in highly risky and predatory activities, although other financial institutions continue to pursue such activities. Some major nonfinancial corporations, such as General Electric, have abandoned their financial divisions to concentrate on manufacturing and other non-financial activities.

Whether financialized or not, capitalism itself brings rising exploitation and worsening inequality, unless it is restrained by states, trade unions and other institutions. The financialization of capitalism accentuates the tendency toward rising inequality by promoting new forms of profit-making and generating huge fortunes for unproductive actors, as we have seen in recent decades. The most important determinant of the trend in inequality is the relative power of capital versus labor. The neoliberal transformation of capitalism empowered capital and weakened labor, which has enabled employers to drive down wages while CEO salaries skyrocketed.

If the degree of financialization stops growing or even declines, inequality would not decline as long as capitalism retains its neoliberal form. Only in a closely regulated form of capitalism, based on capital-labor compromise, has inequality actually declined, as in the post-World War II decades.

*Do you think that income and wealth inequality levels pose a legitimization crisis for capitalism in the 21st century? I ask this question in light of the rise and decline of the Occupy movement and other recent efforts to steer contemporary societies toward a more rational and humane social order.*

There is indeed a legitimization crisis for the dominant world system at this time, as discussed above. However, there is a political and ideological struggle over how to define the dominant system and the direction of change that is needed. Leftists and socialists understand that the dominant world system is capitalism, and they have targeted the 1 percent, that is, the capitalists. This was evident in the Occupy Movement and other left-wing upsurges around the world since 2010-2011. The growing oppression and suffering has made millions of people, especially the young, receptive to the socialist critique of capitalism.

However, various extreme right-wing groups have also ridden the wave of anger at the discredited ruling class, with greater success than the left at this time. The right-wing response has taken the form of right-wing repressive nationalism, which targets an ill-defined "elite," which it promises to replace. Right-wing nationalism blames the problems of ordinary people on religious, ethnic and national minorities.... It portrays the ruling elite as weak-kneed "liberals" who are afraid to confront the scapegoated groups. It offers a strongman ruler who will vanquish the scapegoated groups and restore an imagined past glory of the nation.

The recent trend of political polarization is not surprising in a period of long-lasting structural crisis of capitalism that takes the form of stagnation. Such a crisis can be resolved in only three ways: One, the emergence of a right-wing nationalist statist regime; two, a period of progressive reform of capitalism based on capital-labor compromise; three, a transition beyond capitalism to socialism.

The last stagnation of capitalism, in the 1920s, gave rise to all three directions of change. Right wing nationalist regimes in the form of fascism arose in Germany, Italy, Spain and Japan. Progressive reform of capitalism took place in France, Scandinavia and the US — and after World War II throughout Western Europe.

And a state socialist regime was consolidated in the USSR and new ones arose in East-Central Europe and Asia.

Today, the labor and socialist movements are historically weak. This increases the likelihood of the rise of right-wing nationalist regimes. The Trump presidency is an example. Some view the Trump presidency as one more neoliberal, finance-backed regime, but in my view, this is not the case....

If the labor and socialist movements can grow sufficiently — which is possible under the current conditions of delegitimized capitalism — then the other two directions of change become possible. The growing mass support for Jeremy Corbyn in Britain and for Bernie Sanders in the US illustrates the possibility of a shift toward at least progressive reform of capitalism in the short run and, in the longer run, for socialist transition to eventually move onto the political agenda. Thus, this period holds great dangers, as well as great opportunities, for the left and for social and economic progress.

*In discussions among economists today, the economic and social devastation experienced by so many communities here and around the world is attributed either to automation or trade policy and their impact on employment. Is automation or trade policy the real issue, or capitalism itself?*

Neither automation nor trade policy is by itself the root of the trends that have wreaked so much destruction on working people and their communities. Capitalism always brings technological change, and the long-run trend in capitalism has been toward increasing global economic interactions. However, in some periods the regulation of capitalism has held the most destructive tendencies at bay by limiting inequality and creating new good jobs that replace those lost to automation and trade. Labor productivity rose faster under postwar regulated capitalism and global trade and investment grew rapidly, but at the same time, a large part of the working class held stable jobs with rising wages in that period, resulting from the power of labor in that form of capitalism.

Under neoliberal capitalism, so far technological change has been slower than it was under regulated capitalism, measured by the growth in labor productivity, while global economic integration has accelerated. The negative results for working people come from the overwhelming power of capital in this period, which has enabled the capitalists to seize all of the benefits of increased labor productivity, while the largely unregulated global marketplace forces workers of

all countries to compete with one another.

Thus, the real cause of the current high level of suffering is neoliberal capitalism. While regulated capitalism is less oppressive to working people, it is a highly contradictory form of capitalism that is bound to be eventually dismantled by the capitalists. Like every form of capitalism, it is based on exploitation of labor, as well as generating many related problems, such as imperialism and the destruction of the natural environment.

*Do you foresee capitalism's unquestionable ingenuity eventually providing a solution to climate change, or is the planet doomed without a transition to an economic system that is based on sustainable growth and socialist economics?*

There is a sharp debate on the left about whether irreversible global climate change can be averted within capitalism or only through a transition to a post-capitalist system. Those arguing for the former position stress the likelihood that capitalism will not be superseded in time to avert disastrous consequences from rising temperatures, while claiming that strong state action based on popular mobilization can do the job through some combination of incentives and penalties for corporations. They further argue that the promotion of investment in sustainable technologies within capitalism can provide a path to economic progress for working people while containing the rise in global temperatures.

Those who believe climate disaster cannot be averted under capitalism argue that the profitability of the very technologies that are causing global climate change is bound to prevent timely action, as capital uses its power to protect its profits. They claim that neither incentives nor penalties can be effective when confronted with the huge profits to be made by capitalist firms from the use of the atmosphere as a free waste disposal system.

The advantages of a socialist planned economy for overcoming the threat of disastrous global climate change are undeniable. Socially owned enterprises operating in a planned economy could be instructed to pursue climate sustainability as the number one priority, which would be far more effective than trying to restrain profit-seeking enterprises from doing what is most profitable for them.

Stopping the rise in temperatures short of a tipping point requires a rapid restructuring of the transportation, power and production systems of the world

economy, and economic planning is the best way, and possibly the only way, to carry out such a task. Few economists remember that after the Japanese bombed Pearl Harbor in 1941, the US government, facing the need to rapidly restructure the peace-time economy to a war economy, suspended the market for the duration and set up a system of central planning. The results were highly successful, soon producing the ships, planes, tanks and other weapons — and food and clothing — needed to win the war, while incidentally finally bringing the Great Depression to an end.

Socialism has many advantages over any form of capitalism. I believe the serious threat to civilization from looming global climate change gives one more reason for the need to replace capitalism with socialism. The building of a strong socialist movement, in this time of opportunity for the left, is an urgent priority. It is essential if we are to defeat the threat of right wing nationalism. It is the only way to build a sustainable economy for the long run.

At the same time, socialists are obligated to contribute to the solution of urgent social problems while we are working for the replacement of capitalism. It is primarily through the process of mass struggles for reform that people are radicalized and come to realize the need for system change. We should support all reforms that can slow the rise in global temperatures, even if only for a time. It is possible to build a movement to replace capitalism and at the same time engage in the struggle to pull capitalism away from the global temperature tipping point.

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