

# The Monthly Review School and Blaming the Economic Crisis on the Financialization of the Economy

*[In February 2010 I sent out some comments to friends about an article on a website falsely blaming certain particular bourgeois economists for the financial and economic crisis that broke out in such a concentrated way in 2008. A friend, who I'll refer to as "D" then raised the question as to what I think about the analysis of John Bellamy Foster and the [Monthly Review School](#) on the crisis. This led to the short discussion presented below. I have fixed a few typos and slightly edited my own contributions for further clarity. –S.H.]*

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**[Scott's friend D. wrote on Feb. 24, 2010:]**

You mentioned some problems with MR's view of political economy. How do you see JB Foster's writings, especially his theory of the financialization of capitalism, which he credits to Sweezy and Magdoff?

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**[Scott's response on Feb. 25, 2010:]**

Hi D.,

I think JB Foster's writings are always interesting and always have a lot of things in them that I agree with. But there are also almost always statements (or at least implications) of a Keynesian nature that I think are quite erroneous. I think he and essentially all of the economists associated with MR are only semi-Marxists (though some are more Marxist and somewhat less Keynesian than others). Foster may be the best of them. I think that Foster's editorship of MR from a political standpoint has actually been somewhat better than that of Sweezy and Magdoff!

Foster's 1986 book, *The Theory of Monopoly Capitalism* is probably the best overall presentation of the theories of the Monthly Review School from their own perspective. It's a better summary than even the writings of [Sweezy](#), [Baran](#), and Magdoff themselves provide.

Though they may possibly exist, I'm not aware of *any* really good published critiques of the MR School! The old RCP article in *The Communist* against Sweezy was pretty much worthless in my opinion. All of the critiques I've seen are either from a much more thorough (and usually non-Keynesian) bourgeois perspective, or else from Marxists who have what I consider to be quite erroneous crisis theories (most commonly those focused primarily on the "falling rate of profit" notion because of the supposed long-term rise in the organic composition of capital). In other words the abundant criticisms of the MR School are mostly from wrong perspectives and for the wrong reasons!

Foster and the MR School should definitely be criticized, but primarily because they have adulterated Marxist political economy with Keynesianism. And this means that there are still considerable bourgeois aspects to their thinking and theories.

The recent items by Foster that I've read about the current crisis (including the last chapter of his recent book on the crisis, written with Fred Magdoff) do focus mostly on its financial aspects. I think this is already wrong, because the financial crisis—though the most prominent aspect of the overall crisis so far—is not its *central* aspect. The crisis is a major overproduction crisis, and not just a financial crisis, though of course all such crises do have a financial aspect to them (especially early on).

The thing about the financialization of capital is somewhat weird because most Marxists have long since recognized this, at least since the days of Hilferding's *Finance Capital* and Lenin's pamphlet on imperialism. Yes, this financialization has further developed in recent decades and become even more outrageous and extreme, especially in the U.S., but this has not really further changed the fundamental nature of modern capitalism. It has not become a qualitatively new thing (let alone once again become a brand new stage of capitalism).

It is fine to point out these further extremes of financialization, but it is wrong to suggest or imply that this is the fundamental problem with capitalism today or the basic cause of the current crisis. That approach is basically what the follower of Keynes, Hyman Minsky, put forward as the problem with modern capitalism. And Foster has explicitly and positively referred to Minsky's line of argument in his writings.

Foster (and the MR School in general) have a somewhat schizoid conception here. On the one hand Foster recognizes that the growth of the consumer debt bubble in the late 90s and the growth of the housing (and securitization of mortgages) bubble during the last few years did in fact cause the relatively good economic performance (from the point of view of the capitalists) during these periods. But on the other hand he still confusedly thinks that this growth of debt in somehow the *cause* of the crises that develop when the bubbles popped (or partially popped).

Actually, something that wards off a crisis (for a while) cannot really be the fundamental cause of the crisis! (Though it might lead to greater problems when the crisis actually does break out.)

Debt bubbles actually are necessary to capitalism, and policies which promote such bubbles are what create capitalist economic booms. Capitalism could not really exist without such bubbles. So condemning the finance capitalists and the government for promoting bubbles sort of miss the whole point!

It is certainly true that the further financialization of capitalism leads to more parasitism and exploitation (including even more exploitation of other sections of the bourgeoisie and petty-bourgeoisie). There are many things to condemn about finance capitalism, and more so now than ever before. But crises still derive ultimately from the very extraction of surplus value from workers, and from the absolute necessity to constantly build up debt to keep the system functioning.

Our focus needs to be on the nature of capitalist production itself which inevitably leads to crisis, and not on particular policies or financialization, even if that does attract the condemnation of so many people (including sections of the ruling class itself) at the moment.

Marxist political economy needs to be truly radical, that is, to get to the actual root of the problems with capitalism. Focusing so much on financialization seems to strongly imply that some sort of reforms might somehow make capitalism OK and crisis free. But it just isn't so!

Anyway, that's sort of my big beef with Foster and the MR School!

Scott

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**[D.'s Reply on Feb. 25, 2010:]**

Scott,

I don't think that you adequately recognize how the contradictions of imperialism have been concentrated in recent decades in the finance capital sector, which, as JB Foster has well documented, has grown rapidly as a percentage of the overall composition of capital in the imperialist system. You maintain that the central crisis is the built-in overproduction crisis, which I assume you continue to link closely with its underconsumption. I agree that this continues to be a major problem for the imperialists. However, it only tends to produce crisis, and is not the primary determinant of the crisis of imperialism in the current period.

We also must look to the world stage to understand how inter-imperialist contradictions—especially the rising contradiction of the US with China (which I agree with others has developed into a monopoly capitalist/imperialist country that exports capital and is projecting military power well outside its borders)—constrict the ability of the imperialists to develop new areas for imperialist exploitation and find a way out of their chronic crises. The period of the expansion of the US-EU imperialists primarily into Eastern Europe after the collapse of the Soviet bloc only lasted 10 years or so, and there is no prospect of another new period of expansion for the imperialist system.

All that remains is intensified exploitation (driving wages down worldwide) and cutbacks in social services (as seen in Greece now). In the US consumer debt will be expanded and new bubbles will form and burst with serious consequences for all countries. On a world scale US-NATO imperialist adventures to keep a tight grip on the Middle East/Central Asia will continue to be stubbornly pursued, and more intense inter-imperialist rivalry, particularly between the US and China but possibly with Russia allying with China, will develop. All of this may be the pattern for the development of crisis and war in the imperialist system in the decades to come. It will not necessarily produce a depression as deep as the 1930s, but it could very well do so. As previously, the contradictions will be deepest in the countries dominated by the imperialist system—with South Asia, the Philippines/Indonesia, and large areas of the Middle East and Africa particularly hard hit.

The question of course will be whether the international Maoist movement can rise to the occasion to provide leadership to the peoples' struggles that will inevitably arise. With this understanding, the Maoist revolution in India is particularly important in charting the way forward for the development of protracted people's wars in the oppressed nations, as well as for the crucial task of rebuilding the Maoist movement internationally. This situation also underscores the importance of rejecting the new variant of a peaceful transition to socialism that has been practiced and advocated for more than three years by Prachanda and his currently dominant allies in the leadership of the UCPN (Maoist).

[Some further political commentary, though important, is omitted here. –S.H.]

D.

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[Scott wrote on Feb. 26, 2010:]

Hi D. & All,

If you examine how the bourgeoisie looks at economic crises you will find that they *always* focus on the financial sphere. (E.g., things like “speculative excesses”, “insufficient regulation of the financial sphere”, “mistakes by the Fed”, and the like.) That is their understanding of what crises are all about, their source, and how to supposedly “prevent them” in the future.

When John Kenneth Galbraith wrote his classic book about the beginnings of the Great Depression he did not at all focus on the true underlying causes (because he didn’t understand them) but rather on *The Great Crash, 1929*. Actually, that’s really an interesting book if you are only interested in the initial financial crisis. It’s just that it doesn’t even begin to really explain what the (first) Great Depression was all about. The writings by Christina Romer and Ben Bernanke, two other supposed “experts” on the Great Depression, similarly focus on financial matters, especially the most arcane details, and have no conception whatsoever of the real nature of such economic crises.

In every crisis it is the same thing. In *Capital* Marx constantly ridiculed those who think the basic problem is in the financial sphere. And yet, once again today, we find not only the bourgeois ideologists, but most people on the left focusing on the financial sphere, condemning Greenspan for promoting the housing bubble, calling for new regulatory oversight of Wall Street and so forth. It’s not that there isn’t some secondary rationale for all this, it is just that it misses the essence of the problem, and by itself *misleads people!*

The financial sphere is inherently a great rickety edifice built upon the foundation of capitalist production. Of course the financial sphere interpenetrates the sphere of production. Of course with the advent of capitalist imperialism it became qualitatively more important in the structure of capitalism. And of course in the last few decades it has reached ever greater heights of absurdity in U.S. capitalism in particular.

But if you want to understand the basic nature of the current economic crisis (or any other major economic crisis for that matter) the sphere of finance is the wrong place to focus your attention. Most of those who now focus their attention there were not able to predict the crisis in the first place; were not able to see in advance that it would not just “spread” to “the real economy” (massive production cutbacks, severe and continuing unemployment, etc.), but that the biggest problem by far would soon turn out to be in the real economy; they are still not able to correctly predict how the crisis will further develop (at least in its general outlines); do not understand how the crisis could possibly be resolved, and therefore assume the overall crisis is “over” or at least “at the bottom” and beginning to “turn upward again” long before it has even fully developed.

And those who talk mostly about the financial aspect of the crisis will—whether they intend to or

not—give people the idea that such crises are not inherent in capitalism, but rather are merely due to the mismanagement of the capitalist economy. I.e., such people (including the MR folks) have a strong tendency to promote reformist fantasies in people, rather than deepening their understanding of capitalism as a system and why *that system has to go* and not just some particular managers of it and their mistaken policies.

It is true that the financial sphere has greatly increased as a percentage of the overall economy (in GDP terms). That is indeed very telling about the still increasing parasitic nature of capitalist-imperialism.

But you and JB Foster are quite wrong to say that this is where the economic contradictions of capitalism are mostly concentrated today! The fundamental contradiction of capitalism today is the same as it has always been—the contradiction between social production and private appropriation. Or putting it more concretely (as Marx also stated), the contradiction between the restricted consumption of the masses and the tendency (and indeed *need*) for the capitalists to keep expanding production without limit. This is still the basic contradiction in capitalism that leads to economic crises and always will be as long as capitalism continues to exist. And that is the case no matter how enormous the financial edifice on top of production becomes, and no matter what percentage of GDP the financial sphere takes up.

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It is only the critics of the *overproduction of capital* theory of capitalist economic crises which I defend who call it the “[underconsumption](#) theory”. Marx called them *overproduction crises* for a very good reason. It is true of course that overproduction is one side of the coin, while underconsumption by the working class and masses is the other side of that same coin. But it is not just overproduction of commodities we are talking about, but vastly more importantly the *overproduction of capital*. Those who talk about “underconsumption” thereby fail to put the emphasis where it belongs—on the overproduction of *capital*. And this is why the name *overproduction of capital theory* is much superior to *underconsumption theory*.

You say that you agree that “underconsumption” “continues to be a major problem for the imperialists. However, it only tends to produce crisis, and is not the primary determinant of the crisis of imperialism in the current period.”

I find that an incredible statement to be making now that we have entered the beginning stage of what will be developing into the Second Great Depression, one far worse and much more prolonged than that of the 1930s, and one which will become the greatest economic crisis in the entire history of capitalism! (Those who don’t recognize this don’t understand the true nature and significance of the current crisis; that’s why I’ve been harping on it so much.)

It is true, certainly, that U.S. imperialism has political crises to contend with as well as the huge, still developing economic crisis. As you point out there is growing interimperialist contention, especially with the rising new imperialist power China. Then there are all the imperialist wars the U.S. is engaging in to control oil resources especially, but in general just to maintain its dominant political control over much of the world. These political crises would exist even if

there were no great economic crisis. But the fact that this economic crisis exists, and will persist for decades, and overall get much worse, is a major factor that will also aggravate the political crises.

But we don't want to fall into the philosophical muddle the RCP has in failing to distinguish between economic and political crises, and starting to talk about them in a vague combined way that ignores the particularity of contradiction! (I.e., their nutty "conjunction" theory that is little different than a resurrection (with new terminology) of the [General Crisis of Capitalism](#) thesis. See my long critique of them on this point in my essay "[Notes on 'Notes on Political Economy'?](#)")

The economic advantages of the "West" in expanding into Eastern Europe after the collapse of Soviet revisionism have been grossly exaggerated. In any case, as you say, the biggest "benefits" of that penetration are mostly over by now.

All economic crises lead to intensified exploitation of the working class. The neoliberal policies starting with Reagan & Thatcher were themselves a response to the developing economic crisis. (There was a quarter-century boom after WWII until about 1973, then a long slowdown until about 2007 during which GDP in the developed world grew less than half as fast as during the boom, and now a further qualitative turn for the worse beginning in 2008.) So yes, falling real wages and the dismantling of many benefits for workers and much of the social welfare system have already been major factors for several decades now. But I see this as *also* a reaction by the bourgeoisie to the long early stage of this developing crisis. And certainly those attacks on the working class are now being intensified overall.

Those who look only at the financial aspect of things will not fully recognize how bad this crisis will eventually turn out to be for China, India and other countries which have so far escaped most of the financial crisis. (This is partly because the accumulated debt is so far not nearly as extreme there, and partly because of much smarter management of the crisis—especially by much more intense Keynesian deficits in China.) But the world overproduction crisis will strike them too, and things will really start going to hell economically in China in the next few years.

As far as the Maoist movement in Asia goes, there seems to be no serious organized Maoist movement in China yet. Of course we hope one will quickly develop in the next few years, but that is by no means likely until social conditions become much worse. In India, I think the Maoists will be able to hang on pretty well in the countryside but they do not appear to me to be in a position to lead the struggle in urban areas either now or in the near future. I hope I am wrong, but I don't expect a successful revolution there anytime soon. I do think they will be able to make considerable progress in building up the revolutionary movement, especially as economic conditions worsen. As for Nepal, my hopes for a genuine revolution there have greatly diminished, though I still hope for some turn around and a pleasant surprise. But Nepal is not an important country except for the inspiration it might lead to in India and elsewhere.

I don't see Maoists as any sort of serious political force in the advanced capitalist countries either now or for many years in the future. Again, I hope to be pleasantly surprised.

I certainly agree that we need to do more to popularize and support the revolutionary struggles in south Asia and elsewhere. However, I still maintain that our primary revolutionary responsibility is to build a revolutionary party and movement in this country.

Scott