Patnaik's Article on MRZine

[This is a letter I sent to friends on Jan. 14, 2009, about an article by the Indian economist Prabhat Patnaik which was posted on the *Monthly Review* "MRZine" web site. –S.H.]

Hi everybody,

The following article, by Prabhat Patnaik, has just been posted on the MRZine web site, and is worth taking a look at. The first three paragraphs, in particular, are excellent. The author's primary point is that the current financial/economic crisis is due not to the mistakes or failures of those who attempt to guide and control the capitalist economic system, but rather is due to the direct workings of this economic system itself.

But the article starts to go astray in the fourth paragraph, where Patnaik says "The capitalist world came out of the 1930s Depression not because of Keynesian measures, but because of military spending in the run up to the Second World War." That is not correct, in several ways.

First of all, military spending itself was a form of Keynesian deficit spending (since it led to enormous fiscal deficits in the last few years before WWII and even more so during the War itself). This particular variety of Keynesian deficit spending is usually called "military Keynesianism".

Secondly, in Germany public works Keynesianism did in fact *interrupt* the Depression even before rearmament and military Keynesianism became prominent in the economy. By the mid-1930s the Depression already *appeared* to be ended in Germany, and that is when military Keynesianism took over in a major way. In the U.S. and Britain, however, it is correct to say that the Depression was not even fully interrupted by public-works-style Keynesianism (because it wasn't applied strongly enough), and only the military Keynesianism during the War itself really interrupted the Depression in these countries. Either way, the Depression would have *resumed* once the massive deficits stopped—except for something else that happened which *really* ended the Depression.

Thirdly, and most centrally, the thing that really ended the Great Depression of the 1930s was the tremendous *destruction of capital* that had been built up over the preceding decades, especially in Europe and Asia, but indirectly even in the U.S. (because of the inability to replace and reproduce the productive capital for non-war production during the war).

Patnaik goes on to claim that there is some way to resolve the current crisis by ending the dominance of finance capital, but *without* switching from capitalism to socialism. But this is a pipe dream. First of all, there is no way to end the dominance of finance capital in the modern capitalist economy. Secondly, even if this *could* somehow be arranged, it would not end the crisis. The crisis is *not* due to the excesses of finance capital any more than it is due to the mistakes of those governing the economy. Instead, the crisis is due to the *overproduction of capital*, which is inherent in the capitalist system of production. Financial bubbles are merely a symptom of the deeper problem, and one major way in which the capitalists postpone the inevitable for a while.

Just as in the 1930s, there is now only the possibility of interrupting the crisis for a while through ever more massive Keynesian deficit spending. There is absolutely no way to really *end* the current crisis except through the truly massive destruction of all the "excess" capital that has built up since the last debacle (or else the genuine abandonment of capitalism).

Moreover, in the capitalist-imperialist era, it seems that only world war is sufficiently destructive to clear the ground for a new capitalist boom. Such a war is not in prospect at the present time (despite all the smaller imperialist wars in the Third World which are going on continuously), and that is why the current crisis will continue and overall get much worse during the next couple decades. There will be smaller ups and downs, but there is no way to end the basic crisis except through world war or revolution.

I hope humanity has the sense to choose the second alternative, because the first alternative will probably kill us all.

Scott

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The Crisis of the Capitalist World

by Prabhat Patnaik

The current crisis of the capitalist world is commonly explained as resulting from "a lack of government regulation of the financial sector", "insufficient supervision allowing reckless lending by financial institutions", "the unbridled greed of the financiers", in short a series of mistakes and aberrations. These have contributed to a "systems failure" in the words of Joseph Stiglitz, the distinguished economist and Nobel Laureate. This entire line of reasoning however misses the point. The crisis is not a "failure" of the system; it is central to the mode of functioning of the system itself. It is not the result of some "mistakes" or "aberrations"; it is inherent to the logic of the system.

If indeed government regulation in the United States had prevented "reckless lending" by the financial institutions, if indeed there had been no "sub-prime lending", then the housing boom would have been truncated much earlier. Mass unemployment would have reared its ugly head much earlier, and even the entire world economy would have got into a state of recession much earlier. The fact that these things did not happen, the fact that the boom was kept going by sustaining the bubble in the housing market through enlarging the disbursement of credit, is precisely because the policy of the U.S. Federal Reserve was to make the financial system accommodative. And this is now being called "irresponsible" and "reckless". It is precisely this so-called "irresponsibility" and "recklessness" that underlies booms in capitalism. Or, putting it differently, growth in conditions of modern capitalism is caused by financial, or more generally asset price, bubbles. And crises, such as what the capitalist world is experiencing today, are the necessary sequel of the bursting of such bubbles. What Stiglitz calls a "system failure" is actually the "system" itself.

John Maynard Keynes, the English economist who had been perceptive enough to realise this, had therefore suggested an alternative source of growth itself, an alternative to the phenomenon of "bubbles-led growth". This was through what he had called the "socialization of investment", i.e. the capitalist State, as the representative of society at large (being a Liberal he held this theory of the State), should always ensure enough aggregate demand to keep the economy as close to full employment as possible. A necessary condition for such activism on the part of the State according to him was "the euthanasia of the rentier", i.e. the "mercy-killing" of the financial interests, which, he knew, would always oppose such activism. Keynes in other words did not just call for the regulation of capitalism, but its transformation in a manner that would ensure near-full employment and hence undermine a major argument for socialism.

Keynes' ideas, though meant to defend capitalism, were repugnant to finance capital and met with immediate rejection. The capitalist world came out of the 1930s Depression not because of Keynesian measures, but because of military spending in the run up to the Second World War. It is only after the war that the increase in the political weight of the working class, expressed through the rise to power of Social Democracy, and the temporary setback suffered by finance capital, allowed the adoption of Keynesian measures of "demand management" by the capitalist States, which both kept employment rates consistently high and prevented financial crises (as would have occurred if "bubbles" had been allowed to develop as the means for stimulating growth). But the emergence of finance capital to a position of hegemony all over the capitalist world, in the new garb of "globalized finance", which pushed for neo-liberal policies everywhere, put an end to Keynesianism, and the resumption of the process of "bubbles-led growth". The Great Crash we are currently witnessing is the necessary outcome of this process.

Three conclusions follow: first, as already mentioned, such Great Crashes reflect not the failure of the system, but the system itself; secondly, the system they reflect is the system of contemporary capitalism, which is necessarily marked by the hegemony of finance capital, and sustained, because of this hegemony, by a process of "bubbles-led growth". And third, the specific policy measures adopted in such crisis situations depend not upon the "wisdom" of such measures, but upon the balance of class forces or the state of class struggle. In short, what measures the capitalist economies are going to adopt in the face of this crisis today depends upon the extent to which the hegemony of finance capital can be confronted.

Two broad approaches have come to the fore among the governments in capitalist countries for tackling the crisis: the first of these emphasizes fiscal expansion by the capitalist States. But expansion by any single capitalist State, if undertaken in isolation, will have its effects largely "leaking" out of the economy (to a point where the benefits accruing to other countries would be greater than to itself). Because of this, the expansion will have to be a coordinated one among several capitalist States, or else the fiscally-expanding economy will be tempted to put up protectionist barriers which will exacerbate conflicts and compound the problem. But any such coordinated fiscal expansion, or indeed any fiscal expansion for that matter, will have to be based on control over cross-border financial flows, i.e. control over the mobility of globalized finance, since, otherwise, large-scale and speculative shifts of finance from one country to another can easily destabilize fiscal policy.

The second approach is to avoid doing anything positive, to avoid fiscal expansion, merely to support the financial system, and to wait for the next "bubble" to come along. This is the approach that Herbert Hoover, the American President before Franklin Roosevelt, had adopted, which had the effect of prolonging and worsening the crisis, and the approach that George Bush has been inclined towards.

Not surprisingly, the first of these approaches is opposed by finance capital while the second of these is favoured by it. And again, not surprisingly, the first approach has been mooted by European Social Democracy in general and by the British Labour government, while the second is the favoured one among all Right-wing governments.

At one point of time it appeared that the capitalist world was veering around towards a coordinated fiscal expansion, and even Bush started talking about it. That was in the immediate aftermath of the collapse of investment banking on the Wall Street, when the reputation of finance capital was down in the dumps and an anti-finance capital sentiment was sweeping the capitalist world. Since then however the Right (representing the interests of finance capital) has managed to regroup itself. Germany has debunked talk of fiscal expansion; and the British Tories, after initially supporting it, have opposed Gordon Brown's fiscal expansion plans. Fiscal expansion prospects in other words have again receded to the background, and it has become obvious once more that the world will remain steeped in crisis (until some new "bubble" comes) unless the power of finance is broken. But that in effect would mean going beyond contemporary capitalism to a new and humane order.

Prabhat Patnaik is an economist at the Centre for Economic Studies and Planning in the School of Social Sciences of Jawaharlal Nehru University in New Delhi. This article first appeared in the Web site of International Development Economics Associates (IDEAs), a pluralist network of progressive economists across the world, on 1 January 2009, and it is reproduced here for educational purposes.

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