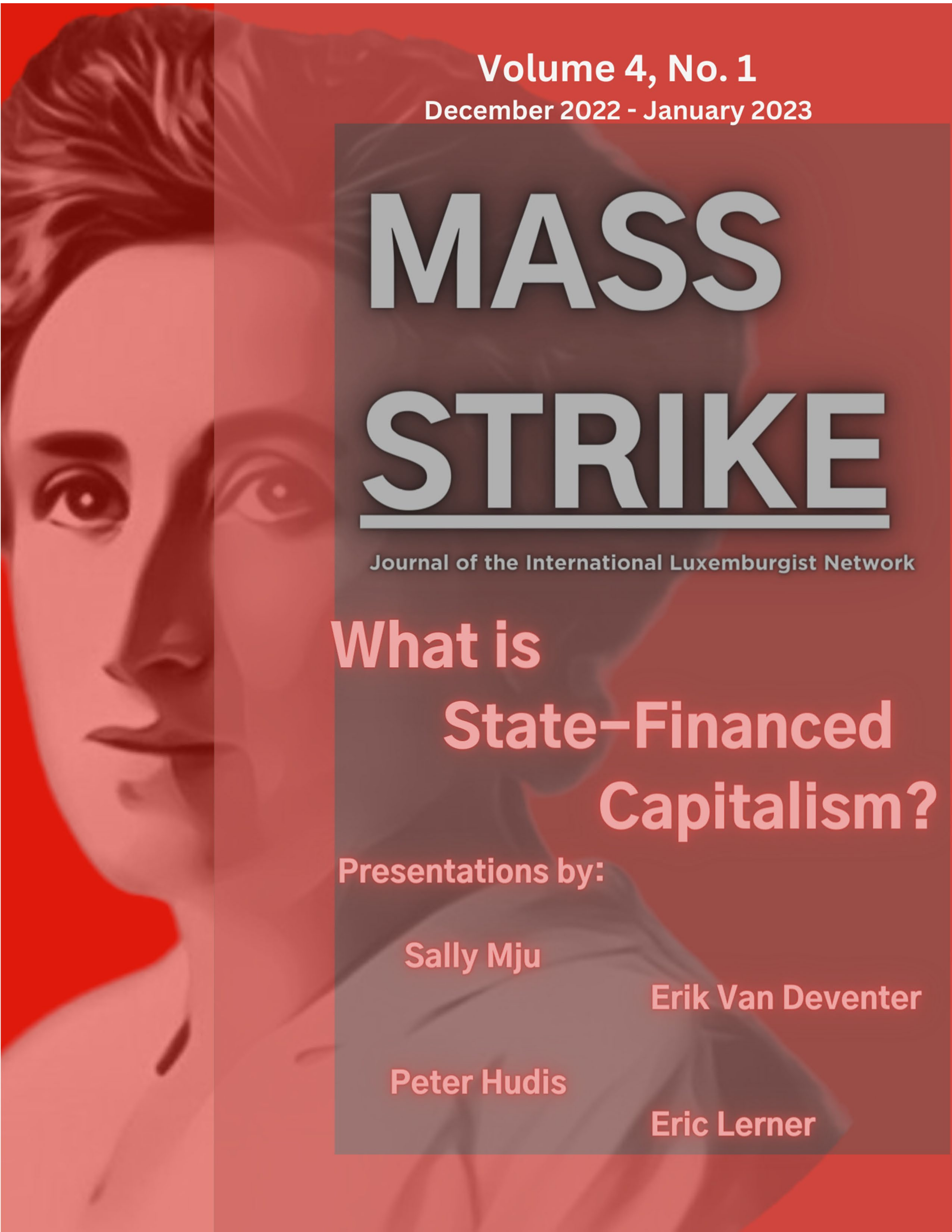

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MASS STRIKE

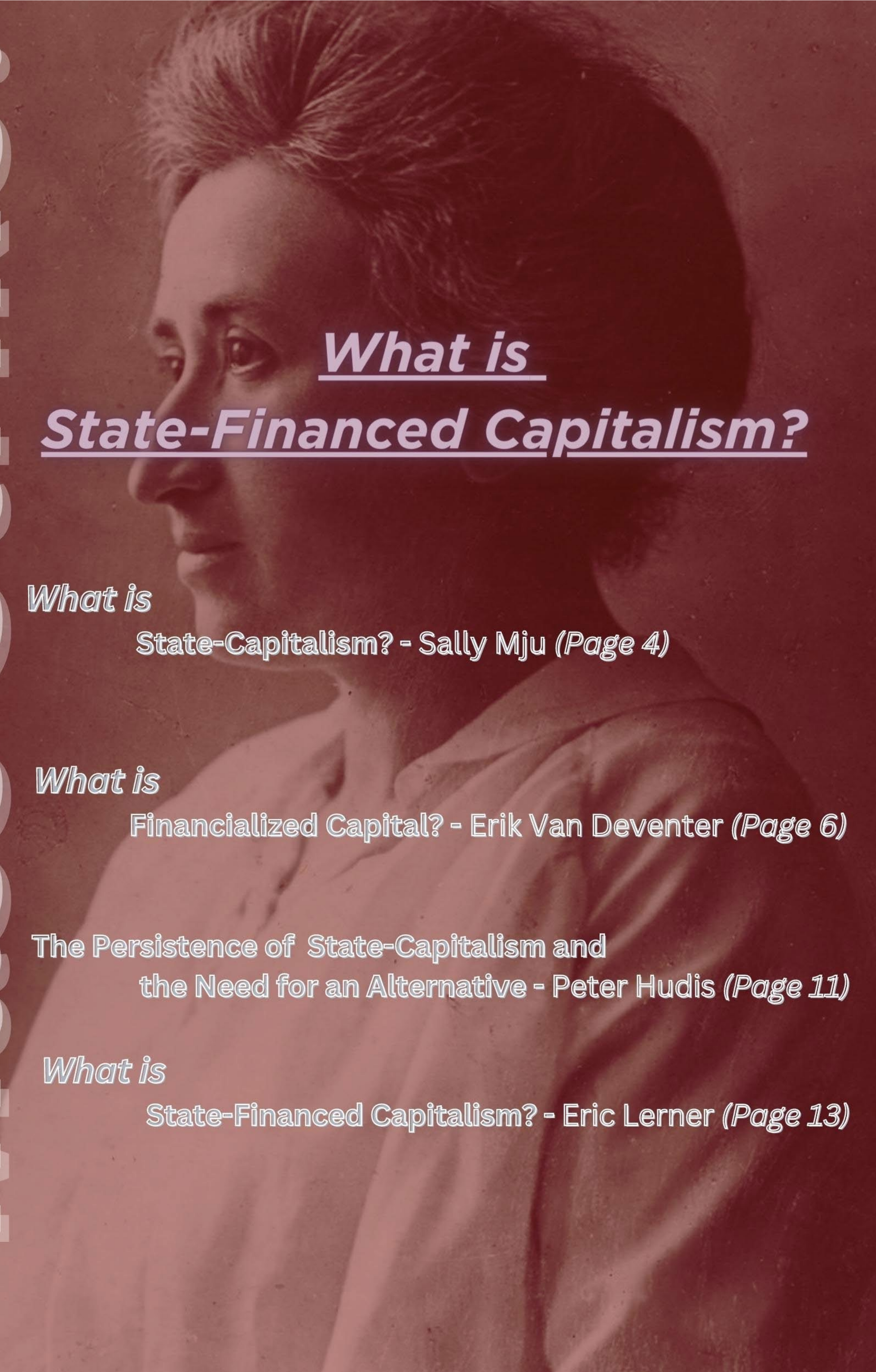
Journal of the International Luxemburgist Network

What is State-Financed Capitalism?

Presentations by:

Sally Mju
Erik Van Deventer
Peter Hudis
Eric Lerner

Mass Strike!



What is State-Financed Capitalism?

Introduction

What is State-Financed Capitalism?
First issue in the "Socialism in the World Crisis" series.

Starting in October, 2021, the International Luxemburgist Network organized a series of four on-line teach-ins on Socialism and the World Crisis. These teach-ins were recorded and the videos are available on the ILN YouTube channel. Starting with this issue, we are publishing edited versions of these presentations. Our aim is to advance the vital debate within the working class on how to deal with the worst crisis humanity has faced since the Second World War. Each issue of Mass Strike will include the presentations from a single teach-in.

In this first issue of the series, we publish the presentations from the Teach-in October 30, 2021: "What is State-Financed Capitalism?" The global capitalist system has metamorphosed into a new stage of state-financed-capitalism. The long period of fading capitalist growth from 1974 to 2019 has been succeeded by rapid global decline.

For the first time in history, in all the industrialized countries, from China to Europe, Japan and the United States, the state has become the main source of capitalist investment. Capital investments are poured into supporting asset prices—stocks, bonds and real estate—while real investment in infrastructure and production continues to shrink.

The authors in this issue address the key questions of this new stage of capitalism: What are the new dynamics of state-financed capitalism? How did the present system evolve through the crash of '08 and the pandemic crash of 2020? What is the difference between the Chinese and US-centric versions of state-financed capitalism? What are the limitations of this new variant? What are the implications for working class struggle?

In the year since this teach-in, these issues have only become more urgent, as the inflation set off by the huge infusions of state capital has become a key mechanism of global capitalism's attacks on workers living standards everywhere. An update on these issues is provided by a new ILN video How do we stop inflation? Dump the Bonds, Dump the Debt, Dump the Plutocracy.

In future issues in this series we will publish presentations on "What is Fascism?"; "What is Socialism?" and "Independent Electoral Politics and Mass Movements"

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What is State-Capitalism?

Sally Mju

This year celebrates Rosa Luxemburg's 150th birthday. What better way to celebrate her life than through this article on State-financed capitalism that addresses issues central to the international workers' movement.

I will address in this paper the following:

☐ What is state- capitalism?

☐ What is state financed capitalism?

☐ What are the differences between the two leading powerful countries China and US?

☐ How has the situation changed since the pandemic?

☐ And what does it mean for our class struggle today?

First to understand State-financed capitalism, I think it is necessary to define state-capitalism. Rosa Luxemburg, in a 1918 work, warned against turning the centralization of the organization of the Party into the way of organizing a revolutionary government. Simply because its consequences will lead to dictatorship, destroying democracy, which is vital for the communist movement and achieving communism. And Luxemburg's concerns were confirmed by the later rise of Stalin.

Luxemburg wrote extensively about the relations between capitalism and the state, however, at this time she still did not have a completely clear concept of "State-capitalism." This was later developed, using Luxemburg's insights, by Raya Dunayevskaya, who argued capitalism survives through the accumulation – profit accumulation, exploitation. Raya Dunayevskaya developed the theory of State Capitalism in 1941 after seeing the dictatorship of Stalinism while at the same time opposing Trotsky when he argued that the Soviet Union was a workers' state. In her work, she argues that workers under state capitalism, be it in the USSR or the USA, were still being exploited, and that the government accumulates capital for another purpose and always protects the profits of industrial capital. (Peter Hudis 2021: 2, 3, 4, 5). So State-capitalism is the concentration of power in a party, or government, they run and compromise with capitalists, to develop the economy.

Then what is state–financed Capitalism? Accumulation is the central dynamic of capitalism that entails the exploitation of workers—that is, the extraction of surplus- value and accumulation for their private Capital purposes. Rosa Luxemburg was not only a Marxist activist, but also a Neo Marxian Economist, a genius, who built on and extended Marx's Capital in her monumental study, The Accumulation of Capital. On accumulation, Rosa wrote that:

> The other aspect of the accumulation of capital concerns the relations between capitalism and the non-capitalist modes of production which start making their appearance on the international stage. Its predominant method are colonial policy, an international loan system—a policy of spheres of interest—and war." (Rosa Luxemburg 2003: 432)

Please pay attention to the international stages because this will be a very important to help us understand state financed Capitalism. Today we have neoliberalism, developed by theorists like Friedman, Hayek, and others, that in reality is international state-financed-capitalism. It was initially practiced in developed countries, in cooperation with the state power for survival, and was later expanded to other countries. Now we can see that state-financed capitalism – that is, neoliberalism— cannot exist without the state. The state acts as the representative of international finance capitalism, and together they exploit the global working class and the environment in the name of "economic growth." As Luxemburg wrote,

> In reality, political power is nothing but a vehicle for the economic process (Rosa Luxemburg 2003: 455).

"Rosa Luxemburg…she is not only a Marxist and politician, she is also a Neo Marxian Economist, a genius woman who continued to write Marx's Capital and review his work objectively."

The state played an important role in managing the conflict between the bourgeoisie and the proletariat and developing a system of thought based on Capital accumulation and related interests. And "International stages" as explained by Luxemburg, are still the driving force in the expansion of state capitalism. Their organizational expressions today are organizations such as the World Trade Organization (WTO) and the World Bank (IBRD).

Next, to give us a clear understanding of today's crises, as well as the huge influence of state-financed capitalism by the two leading capitalist countries, China and the US, we need to engage the work of Samir Amin, a Marxist political-economist Marxist, who praised and drew on the works of Rosa Luxemburg. Amin, a towering activist- intellectual, who passed away in 2018, argued that China has nothing to do with socialism; in fact the Chinese capitalists and their state have become an integral part of a collective imperialism. The difference in state financed capitalism between China and the US, as described by Samir Amin, is that Neo-liberalism—state financed capitalism—came to the US in the 1980s and China rejected it but then adopted and strictly controlled system. That is why, Samin argues in 2008 China did not suffer from the financial crisis (Samir Amin 2018:9).

The difference between China and the US is that the former takes over all power, and is more authoritarian, takes over the entire market economy, suppresses the development of individual freedom, suppresses the entire working class in China. In the US, where you are free to criticize the government, that's a different story. But the similarity between China and the US is that the working class has no way out, they have to work day and night, indeed a large percentage have to work many jobs to earn a living.

So what about today, before and after the pandemic? Well, there's not much of a difference. State Finance capitalism takes advantage of natural disasters such as earthquakes, floods, and as we have seen, pandemics. They use these calamities, when people are still shocked, to restructure society and the economy to increase their power and profits. This is clearly seen in the Covid pandemic today, when the government consolidated power with coercive policies. For example,

I know that wearing a mask is a necessary public health measure to address the pandemic, but capitalist governments take advantage of the fear of the people and the mask to increase their power over the working class. Someone asked me if America is a failed state, and if so, how should people fight. What does the struggle of the working class mean today? It's an important question and I'd say workers are not weak, which is underscored by the wave of organizing and strikes that have broken out in the US since the pandemic. I think it is relatively easier in the US where workers are free to strike, but in Asian countries it is much more restricted. However, I know that in America when you go on a big strike, the government and the police will suppress you. We can't deny that strikes are indeed a good thing since they strengthen the ideology of the working class. As Rosa argued, the worker matures through strikes. One other important ingredient for advancing the class struggle that Luxemburg emphasized is worker education. I also believe that education will advance the struggle by helping workers recognize the exploitation they face, building effective class fight backs, and constructing the solidarity of the international workers' movement we need to finally end capitalist barbarism and win socialism.

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What is Financialized Capitalism?

Erik Van Deventer

In this session we are dealing with the topic of 'state financed capitalism,' which has an obvious resemblance to the concepts of 'financialized capitalism' and 'state-finance capitalism,' with their several interpretations. My research has dealt with the political economy of financialization, particularly the US state's effort to achieve a strong dollar through operations of the Treasury and Federal Reserve, among other policy decisions. I will try, here, to give some of the context for this topic in terms of the historical background and facts about neoliberalism, financialization, globalization, outsourcing, and class interests that back up the related policies in the US. To put this topic as simply as possible, I ask what kinds of 'investment,' real or fictitious, are favored in the US economy, what kinds of development does this lead to, and what means do we have to alter this political economy? I will focus on the US economy because most of the research that has been done on the topic of financialization is focused the US. The true context of capitalist accumulation and power is the world economy, a major topic of Luxemburg's work that recent political economy abstracts away from to its detriment, which I will try, to a limited extent, to discuss and include.

The contemporary political economy of the world has been approached through smaller topics such as *financialization* – the increasing share of financial gains in profits, going to the financial sector, insurance, real estate, portfolio earnings by corporations, rents and so forth; *neoliberalism* – the rising power of the capitalist class and a transformation of economic policies to favor capital over labor; *rentier capitalism* – the phenomenon of capitalists making excess profits based on their market power, influence over the state, or ownership of scarce resources, without necessarily producing things that contribute to economic wellbeing for most of us; and *rentierism* more broadly – capital- ists and the upper middle classes directing their economic efforts towards acquiring wealth through capital gains and playing in the property markets. A common feature of these forms of acquisition is participation in the stock market to seek returns not primarily based on profits from production, but ra- ther speculation on general movements of financial markets to capture fictitious values as capital gains. These windfalls are created by the acceleration and inflation of asset prices, which are greatly determined and boosted by state policies.

To contribute to this discussion, I want to look back at the roots of the state policy of financialization or neoliberalism, and how it can be that an economy, such as the US, should turn so sharply away from policies seeking growth for manufacturing competitiveness and employment, to something like the financialization that we have seen in the past forty years or so. Political economic priorities have shifted from development of the manufacturing industries to the performance of financial markets, and we've seen increasingly that the financial sector and other non-manufacturing or non-productive sectors have reaped the benefits of this change.

In fact, in many cases, there's been *disinvestment* by the productive sector, so that the manufacturing sectors have been deindustrialized to a great extent in the US. But many of these manufacturing firms are actually not only taking all of their operating surplus and handing that over shareholders in the form of stock buybacks, but even borrowing cash to pay out more than they have made in profit, saddling the firm with debts into the future. So these capitalists will effectively hollow out and disinvest from their manufacturing industries in favor of financial payments. The investment shortfall by the private sector creates the situation in which the state, without any effort at planning, takes on such a prominent role in investment. I want to look at how this has happened.

During the 1970s, the US was working with certainly the largest and one of the most advanced industrial complexes in the world economy, coming out of World War Two and postwar investments. But more advanced industries, technologically updated, were being built in places like Japan and in Western Europe, and the US was seeing a falling rate of profit. The US capitalists were presented with a choice between a massive new round of investment, to replace and overtake the existing industrial base of US society, or to do something different. And at the end of the 1970s, they collectively made a decision not to make those investments, in effect, but instead to look for other opportunities. What we have seen since is that those opportunities were found in financial investments and globalization – international kinds of investment.

But it wasn't obvious at the outset that this alternative to further industrialization would be possible, because the returns on financial investments at the end of the 1970s were quite low. Inflation was very high, almost up to the rate of interest and at times exceeding it. So the financial sector was not doing very well, and the result was that US financial capitalists were on the verge of, or actually experiencing, capital losses. Because of the low rates of return, the US was not consistently getting inflows of capital from the rest of the world, and the value of the dollar was deteriorating.

Thus, during the Carter administration, in the well-known the 'Volcker Shock' of 1979, the Federal Reserve sharply raised interest rates to improve returns to finance capital in the US and restore demand for the US dollar from capitalists abroad – all prior to the Reagan administration. These actions worked to correct the inadequate returns, from the capitalist perspective, for financial investments, and greatly enhanced the viability of the US financial sector. This strategy, later taken up by the Reagan administration, was planned in a very concerted fashion, in a way that isn't really recognized in mainstream research. However it is very clear if you look at the period documents. My specific research found evidence that economic policies were *designed* to achieve a strong dollar, because raising the value of the dollar would allow for the alternative financializing path of growth for the US in the world economy.

The Fed policies, and the strong dollar, directly affected the interest rates and trade opportunities for US manufacturers, as well as the flows of capital between the US and the rest of the world. Since 1980 the US has consistently had a trade deficit, meaning manufacturing output has not kept up with growth of consumption. A trade deficit also means capital has also flowed into the US economy, essentially taking taking surpluses from other countries – in particular oil states, Japan, and later China – and bringing the surplus into the US financial markets. This gives the US financial sector a larger and larger share of the world's values to manage and turn over, and of course to speculate with, driving up rents, property values and so forth.

To accomplish this, the US had an extraordinarily strong dollar in the 1980s, with a very high level relative to the other major currencies of the world – the pound, mark, yen and so forth. That was to the detriment of US-based industry, which had been exporting products for the rest of the world and exporting capital in the physical sense – machine capital, physical means of production used in the rest of the world. With the strong dollar, such exports were increasingly uncompetitive with newer lines of production from Europe and especially Asia, so US manufacturers lost market share rapidly.

This transition was extremely severe during the very sharp recessions of 1980-1982, brought on by the high interest rates the Fed and Reagan administration were using to strengthen the dollar and end inflation. The effect was immediately seen in a huge wave of deindustrialization. Manufacturers simply couldn't export over the hurdle of the high value of the dollar, as the US goods were too expensive relative to other countries' goods for them to successfully complete. This created opportunities for a few other countries to do more of the material investment (and capital export) that would have been sourced in the US, had US capitalists been interested.

Instead, US corporations were more interested in doing financial deals and acquisitions, sidelining investments in manufacturing, although of course they maintained investments to an extent in years when prospects were relatively favorable. There was a moderate manufacturing revival during the early 1990s. But for the most part, major US manufacturers that had the reach were more interested in becoming multinationals who would locate production and purchase assets abroad. External investments would have a higher rate of profit than what they foresaw from continued investment the US. Alternatively, they increasingly handed profits over to stockholders and the financial sector, rather than making tangible investments, or went further by getting into financial speculation and attempting to make profits (or at least capital gains) that way.

In a financial market like that of the US with a lot of foreign capital flowing in, where the value of the currency is strong and stable, where many firms are turning their profits over to financial markets, and where many households using their savings to purchase assets, from houses to pension funds, the value of the markets and combined assets will go up and up. In particular, this environment can allow for the financial sector to issue and multiply the volume of debt which households and speculators use to bid for and inflate the value of financial assets. And this leads to a bubble of *asset price inflation*, which can create a higher rate of return in the form of capital gains, based on this inflated demand for the financial assets.

But these 'profits' are, in the Marxist sense, *fictitious capital* that originates in the capital gains bubble itself, and not an actual surplus created in production. It is not actual wealth that has been created in the production of economic values but a huge mass of financial claims, that may or may not be feasibly converted into purchases of real commodities. If the price of Tesla stock or Amazon stock goes up by however many hundreds of dollars, the book value of some asset holder, Musk for example, may rise to $200 billion. But it is not as if a full $200 billion of wealth has actually landed in his pocket. Those assets, essentially stocks, cannot necessarily be sold in the short term, and certainly do not represent available buying power in the non-financial economy. But what this asset price inflation does do is create huge quantities of assets which banks can then use as collateral, again to create loans and financial turnover and further accelerate the inflation of asset prices. Effectively, this is what we have seen in housing and stock markets, with cryptocurrencies, and in all sorts of financial activities.

Since the 1980s the state has gotten heavily involved in making sure this process can continue, especially the US government but also the other major financial powers. Based on my specific research, the US state has continuously kept the dollar high to the greatest extent of its capability through actions by the Treasury Department, backed by the Federal Reserve, but there have also been more familiar pro-financial sector policies such as the bailouts of various giant banks, and later on massive cash injections to boost demand for financial assets – quantitative easing and so forth. So, in essence what the US state has done is committed itself to this particular form of a political economy with investment concentrated in purely financial areas, and marginalized investment in the classical or Marxist sense of the development of the means of production. What passes for nominal investment now is often simply money that has been created through lending and banking, often at the level of the state, being released to the market as loans that bid up asset prices. This can have a snowball effect. It's not just that the financial sector has concentrated on these kinds of profit making, but that whole areas of the non-financial US economy have been geared towards this pattern of accumulation. We have seen deindustrialization reducing the extent of the manufacturing sectors, but we also have a service economy that is actually much larger than it was in past, and certainly much larger as a share of the overall economy. Within major cities like New York or San Francisco (and the suburbs and supply chains that support them), these services are largely geared to the needs of workers, middle classes and even capitalists who, directly or indirectly, function in support of the financial sector, business services, property development, etc. These are the sectors that have been doing well in recent times and expanding based on the political economic changes and policies that have shifted profits in the direction of the financial sector.

Moreover, the incomes of the middle classes in the United States, along with their expectations of retirement and so forth, are increasingly tied to the financialized businesses that determine the health of the markets, and the services that exist to support their employees and maintain their properties and the prices of real estate. These rents, which are enriching the US middle class, are based on the expectation that this financialized system will continue, in terms of rising financial markets and the necessity of profitability for businesses tied to them. This system depends on having the US government doing what it can to continue to accelerate asset prices – maintaining demand for houses at their extraordinarily high prices, maintain values of stocks by supporting corporate profitability, and managing or generating liquidity in financial markets. Internationally, this means preserving flows of capital to the US, and the whole architecture of world finance, tax havens, and imperialism. So it will be very difficult for those middle classes in the US, and of course for those capitalists participating in US financial markets, to accept any kind of conversion of the US economy away from financialization and the specific arrangements of neoliberalism that have supported it in recent decades. As voters, these middle classes are reliable stabilizers for the capitalist parties' political hegemony.

So capitalist investment that develops the economy is lacking both domestically and in terms of 'capital export' that develops the means of production in other parts of the world. Certainly capitalists in the US are not interested in upending the financialized, outsourcing political economy by making large tangible investments that would compete with production from abroad that is already being imported – or really in anything that returns less than the financial markets. Of course, US capitalists do place some of their profits abroad in the form of FDI (foreign direct investment), which does occasionally lead to new factories and new production abroad. But to a great extent FDI simply purchases assets in other countries, based on local investment that has already happened. US corporations then find opportunities to profit through acquisitions of proven business opportunities. Buying up production in a low wage country and then moving the produced goods to parts of the world with higher prevailing wages or profits creates an opportunity for markups, with multinationals firms keeping the higher prices as profits. The higher profit rates go to those with the advantage in terms of reach across global markets. This is well demonstrated in William Milberg and Deborah Winkler's (2013) work on *Outsourcing Economics*.

Similarly, John Smith's book, *Imperialism in the Twenty-First Century* (2016), shows how capitalists can find major sources of profit by exploiting differences in wages and the investment of surplus value by capitalists in other countries, by labor-exploiting subcontractors involved in outsourcing arrangements with major and highly profitable multinational firms. It is not the US multinationals that make these investments in new factories around the world. Production of goods in China, India, Bangladesh, etc. is typically based upon capital or surpluses that have been accumulated (exploited) in those countries and built up by local capitalists to build the factories involved in value chains. Surpluses go onward to the United States, or to other developed countries. Analogous relationships and dynamics can be drawn between Europe and Japan and their respective peripheries.

This is *not* to say that most of the economic activity in the US consists of distributing imported goods, given the lack of manufacturing. Consumer goods prices are low enough that they do not form an overwhelming share of consumer budgets, even where imports may take up much of the volume of manufactured commodities. Even though the international economy and finance are among the most profitable areas for capitalists in a position to participate, the bulk of US capitalism is still con- fined the *service* economy, much of it at relatively low productivity, low profit enterprises, many of them small businesses. Most service labor has to be performed locally, at relatively high wages by world standards. This means that jobs that remain in the US tend to be non-tradable but have relatively high costs, without proportionally high profits – weakening the power of workers. Even so, US manufacturing is not insignificant, simply relatively stagnant or declining.

"We have seen that as demand rapidly changed in the past year (2021) due to the pandemic, the result was not, for the most part, new investment and production, but price gouging..."

But the sources of the greatest profits, and the most lucrative opportunities for capitalists, are to be found in the new and complex businesses that integrate different parts of the world economy and financial markets. These desirable business opportunities, generating high profits, then, do not necessitate development of the US economy or investment in physical capacity, nor do they require increases in levels of material output or the investments required to achieve that. Instead they rely on financial asset price inflation, concentration of business power, creation of attached high-end services, construction of luxury and commercial real estate, and, *crucially*, the management of political decisions and state policies that make such a particular and unstable mode of accumulation viable.

We should now look toward the broader consequences of this political economy, and the implications for the theme of 'state financed capitalism' and the future of humanity.

In contemporary capitalism, the state is an organizer of a huge volume of 'investment,' from the capitalist standpoint – which is to say, money in loans (often issued by central banks) that go into financial markets and participates in the general run-up of asset prices. But in the US, at least, the state's massive financial intervention is not, generally speaking, the *source of actual investments* that happen in the real economy. These state loans instead contribute to reinforcing financial balance sheets and share buybacks (as shown in several papers by William Lazonick). And it's unclear what would happen if the government did try to play a more concretely interventionist role. From an economic standpoint, it is doubtful that massive investments in the real economy, on the scale of state financed loans, could actually produce a substantially higher level of economic activity. It would mean the injection of vastly increased quantities of new money to buy finite material resources, without a private sector ready to plan for and make use of any resulting growth.

We have seen that as demand rapidly changed in the past year (2021) due to the pandemic, the result was not, for the most part, new investment and production, but price gouging to exploit shortages for corporate profits, and supply chain breakdowns wherever demand could not be filled. Vast fiscal stimulus has not managed to maintain the economic activity that formerly existed, let alone set off a new round of investment. The US now lacks most of the industrial capacity it would need, such as production of steel and other basic inputs, to greatly expand into some new industrial powerhouse, domestically self-sustaining.

And that's not entirely a bad thing – because if the US did greatly expand its industrial output and used a lot more energy, this would only further accelerate the climate catastrophe that we are facing. So, beyond the bad economic prospects for an investment-led recovery, we might not want to even reproduce the kinds of manufacturing production we do have. But there are certain kinds of investment that the US economy ought to be doing regardless of this criticism. Specifically, these would include cleaner energy and projects that need to be done to maintain the green infrastructure that we have, so as to reduce our carbon footprint and so forth – in other words, portions of a 'Green New Deal' based on real investment, which are not strictly economically impossible. But I think these hopes will be resisted very sharply by both the Democrats and the Republicans, the great powers of the

US government. They wish to see the current political economy continue, based on the strength of finance and fossil fuels, and moreover represent capitalist (and middle class) interests that will force these parties to continue on the tracks of the current political economy. Immense capital gains and fictitious capital continue to be the centers of US 'growth.' And if US legislators were to abandon this political economy for some more elaborate interventionist or 'populist' program, the currency and trade arrangements that underpin the financial economy would disintegrate, and leading the economic expansion right off the cliff.

US capitalists and politicians do not seem to be concerned about what will happen in twenty years. Many of the people who support these policies will, fortunately or not, not be around in twenty years. And regardless of what they may wish, the capitalists do not have the flexibility to change their form of investment. They are locked in by extremely high leverages of debt, tortuous state financial interventions, unfavorable profit rates on investment, and political sclerosis. They cannot shift to a new political economy that will not destroy the environment, or actually improve the material conditions that we live in, or more broadly improve our society through enabling workers to do labor that is actually useful.

When construction and infrastructure development does happen in the US, it is often not even worthwhile for the purpose of developing the country, let alone preparing for future environmental conditions – projects like building new four-lane roads in states with two senators and one representative. Or, consider, middle class 'homeowners' who remodel perfectly good kitchens, so that their houses can be worth $100,000 more when they sell. All such wasteful productive labor and 'investment' is in fact needless and unsustainable work. While much of the labor of US workers is spent on tasks which are obviously unproductive from the standpoint of human needs, the remainder of labor that is *seemingly* productive in a material way, in the US economy, is frequently in fact *destructive* in its ultimate results. Except for the immediate interests of capitalists, this is not investment but *negative investment* in the sense that it destroys our future conditions. Any oil, gas, concrete or asphalt produced that does not contribute to reducing carbon emissions adds to net destruction of future human welfare. It would be better to eliminate these kinds of investment and their use of resources and energy, and instead see that such work is not done at all.

To conclude: through a great deal of optimism, many people would hope to see the Green New Deal as a solution to some of the problems of employment and waste resulting from deindustrialization and neoliberalism. To restructure the economy toward the fulfillment of human needs, we might look toward better funding of social services and a more humane service economy – which generally I would support – and call for (green) infrastructure investment and so forth.

Yet it is obvious that any substantial version of this project will be blocked by a supermajority of the Congress, as well as the President, the administrative agencies, the Supreme Court, and every other element of the US state and capitalism. Even if the social democrats, i.e. the left wing of the Democratic Party, somehow began to win elections and achieved their own supermajority to try to enact some of the legislation (as well as replacing the Supreme Court, bureaucracy, and much of local government), they would face a *capital strike* against sustaining other needed investment, they would see *capital flight* from the US leading to devaluation of the dollar and financial markets, and they would find that capitalists and middle class specialists would *not cooperate* to allow the successful implementation of the scheme. All this has been observed whenever social democrats in power pursue even their half-measures. In short, they would face a severe economic recession (which we will surely see anyway) – but one that would be brought on and blamed upon the *social democrats themselves,* and they would be thrown out of office, by vote or by force.

The social democrats' proposal of basic and necessary economic restructuring cannot happen without a much more fundamental transformation the economic system. Restructuring *will* happen, but dependent on the logic of capital accumulation, which has always turned out for the worse in the last half century. And at the very minimum we must say that beneficial reforms and policy interventions will only come *after* mass actions that push capitalists to make very costly adaptations, based on fear of losing their power and the possibility of economic stability. Such mass actions must come from a real organizational threat. To compress an extended discussion, which should follow later, we can anticipate that the necessary struggle will have to come from an emergence of mass strikes and a transformation of working class political consciousness, most likely on an international basis.

The Persistence of State-Capitalism and the Need for an Alternative

Peter Hudis

The call for this conference correctly states, "For the first time in history, in all the industrialized countries, from China to Europe, Japan and the United States, the state has become the main source of capitalist investment. Instead of capitalists lending capital at interest to the state, now the state lends to the capitalists at no interest."

What this tells us is that we are living in the era of state-capitalism, in which the state assumes an increasingly important role in the economy and social life.

As I see it, the era of state-capitalism first emerged during the Great Depression of the 1930s, when the state was embraced as a spur to capital accumulation worldwide, from Stalin's USSR to Hitler's Germany to FDR's New Deal.

However, even many who acknowledge that state-capitalism defined the global economy from the 1930s to the 1970s assume it ended with the rise of neoliberalism in the 1980s and 1990s. But neoliberalism, which was never a particularly coherent term to begin with, did not represent the end of the state's central role in the economy: it only repurposed it in a new direction. Instead of using the state to pump-up effective demand through a massive welfare state or to guide industrial policy, today's state-capitalism pumps-up effective demand by putting cash directly in the hands of capital at the expense of labor, while using the state to ensure the stability of the financial sector.

The reason for this is not hard to see: from the mid-1970s onward global capitalism has suffered from an endemic decline in the rate of profit (despite occasional ups and downs), especially in manufacturing. Since capital migrates to areas with higher profit rates, it naturally becomes increasingly financialized. This is a result of capital's crisis of profitability, not its cause. And since the flight to speculative and fictitious capital is built on an extremely unstable edifice, the state serves as to prop it up through deficit financing, quantitative easing, and other gimmicks.

Two important consequences flow from this:

First, those who have fixated on "neoliberalism" for the past thirty years completely fail to grasp this increased financial and economic role of the state, since they proceed from the naïve assumption that after the 1970s the state withdrew from direct intervention in the economy in favor of the untrammeled "free" market. This short-sightedness is a consequence of focusing on the contingent forms of appearance of capital on the level of the market to the exclusion of the logic of capital as disclosed by its essential production relations. Many, including on the Left, cannot account for the depth of the state's role in the economy because they have a superficial critique of existing society that reduces capitalism to unregulated markets and private ownership of property—instead of locating its contradictions, as Marx did, in the alienated form of human relations that makes unregulated markets, private ownership of the means of production possible and (most of value) production geared to augment wealth computed in monetary terms as an end in itself.

> ***"The truth is that there is no consensus today on what socialism really means; indeed, the question rarely even comes up among its most avid proponents."***

Second, a superficial understanding and critique of capitalism inevitably leads to a superficial and inadequate understanding of socialism. Too many, including among the new generation of activists drawn to Marxism, conceives of socialism as little more than an enhanced or radicalized welfare state—even though it should be obvious, given the history of the past 100 years, that the welfare state is completely compatible with the continuance of capitalism. So why do so many continue to discuss "socialism" in a completely unproblematic way—as if everyone knows and agrees on what it means? As if the only issue that divides us are strategic ones about how to get there (electoral politics vs. insurrection, reform vs. revolution, etc.). This, despite the century-long failure of Stalinist and Social Democratic regimes to avoid falling into the clutches of state-capitalism! The reason so many continue to discuss socialism in a completely unproblematic way is that it is easier to critique free markets and private ownership than envisioning a socialist future freed from both by abolishing alienated labor, value production, and human relations that take on the form of relations between things (especially in terms of racism and sexism).

The truth is that there is no consensus today on what socialism really means; indeed, the question rarely even comes up among its most avid proponents. Socialism is not an unproblematic concept: its meaning for today has to be rethought, from the bottom up. We can begin by putting to bed the stubborn refusal to acknowledge that state-capitalism is not a path to socialism!

This is most strikingly evident in the problem many have of seeing further than calling for a "fair" redistribution of surplus value and profit. It goes without saying that we desperately need such redistribution; the level of economic inequality today is literally choking us to death. But the challenge is to promote forms of redistribution that point to an exit from capitalism—not ones that can make it possible for the system to obtain a new lease on life. And any call for a redistribution of surplus value that does not call into question the existence of value production itself does indeed provide a loophole for the system to obtain a new lease on life.

A different, much more radical kind of call for redistribution has gained public attention in recent years that points us in exactly the right direction—the demand to defund and abolish police, prisons, and the entire criminal injustice and redirect those resources to human needs. This demand, while completely compatible with calls to strengthen the welfare-state in the short term, go much further by positing a pathway to transcend capitalism in the long term. After all, it is not possible to maintain capitalist property, class, and racial relations without police and prisons.

Neither a return to the Social Democracy of the Second International nor some new variant of Maoist or other forms of left-voluntarism will take us to where we need to go. We need a new unifying principle, based on Marx's humanism, that can truly alter *our* thought and experience.

What is State-Financed Capitalism?

Eric Lerner

We ave arrived at a critical point in history. Humanity is in crisis because capitalist expanded reproduction has come to an end. We've left the period of growing stagnation of the last half-century and entered an actual period of global economic contraction. This is similar to the period of the two World Wars and the Depression, but with really no capitalist exit as possible.

The easiest way to see this evolution is in a simple graph (Fig.1). The blue line shows the annual rate of mortality **decline** globally. In other words, the higher that line, the faster the rate of mortality is declining per year, a measure of the increase in the standard of living.

This measure peaked in the 1960s, when the standard of living was rising very rapidly, but immediately started declining into a period of near-stagnation. There was an upward blip in the first decade of the 21st century as China was integrated into the world economy. But now, starting with the crash of 2008, and then greatly accelerating with the pandemic, we have moved from stagnation into a period of a **decline** in standards of living, an **increase** in the mortality rate. In the past two years, the global mortality rate has been increasing very significantly at a rate of 10% per year.

If we look at the scale of production, we have a very similar story. The orange line shows the annual rate of global energy increase, corrected for the population. Again, this peaked in the 1950's and 60s, and in the 1970's started to decline sharply into a long period of near stagnation. Again, there was an upward blip in the early 21st century. And again, we have moved from stagnation to actual decline in which the scale of production, globally, of energy and of everything else is actually contracting.

In Marxist terms, simple reproduction means that the human population has to at least reproduce

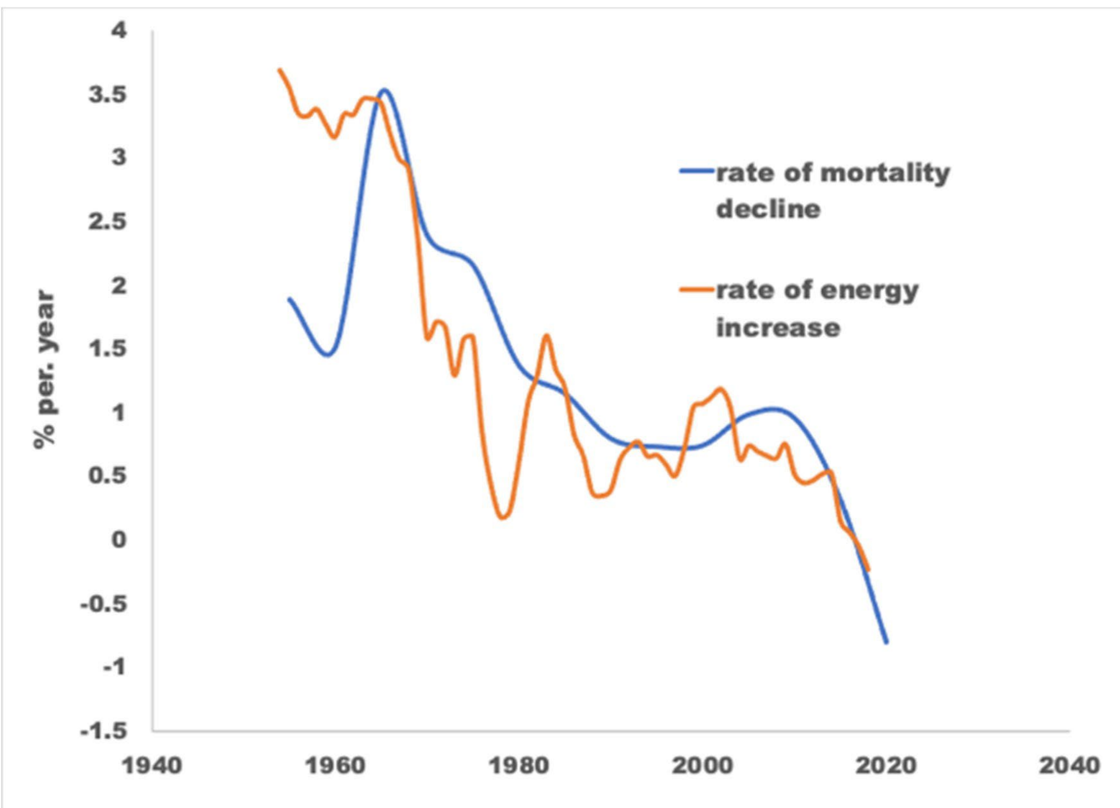

Figure 1. Mortality decline (blue) energy growth (orange) have come to an end after decades of slowing growth. Sources: United Nations; International Energy Agency

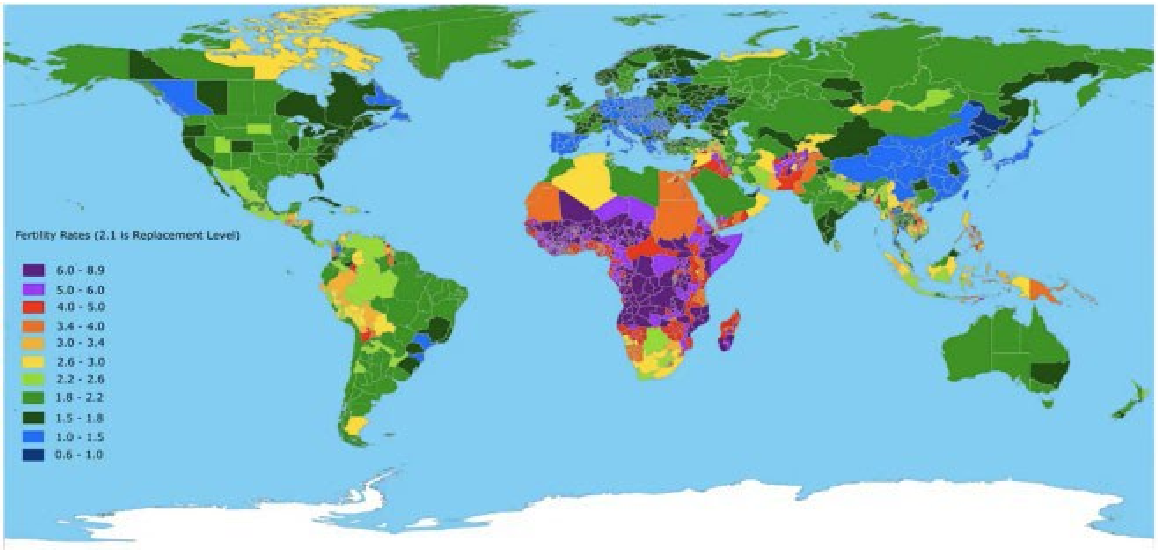

Figure 2. Fertility is below replacement level in most of the world (dark blue, dark green and black regions).

itself on the same scale. But today, the human population is not reproducing itself. A map of human fertility (Fig.2) shows that in all the areas that are dark green or dark blue there are fewer than two children per family. This means, over the long run, that the population is not reproducing itself. If present trends continue, the populations of the two dominant economies in the world, the United States and China, will both begin declining in 2022 or 2023. It is only in the most impoverished areas, such as Africa, and parts of Latin America, and Southeast Asia, where the populations are almost entirely rural, that reproduction is still continuing. This is what is happening- a global period of social and economic decline. What we call "**state-financed capitalism**" is the stage of capitalism in decline. This is the third stage of capitalism since World War II and the establishment of a US-led global capitalist economy.

The first stage was the post-war recovery, in which there was real growth as the United States wiped out competing national capitals and reconstructed the world economy from the huge destruction during the previous generation of 1914-1945. At the same time, US-led capital created a huge war economy, which diverted critical economic resources. Nonetheless, this was a period of real growth.

The second stage began in the early 1970s. I have discussed elsewhere why this happened, but there was a growing financialization of the economy, which was led by the monopolization of oil and an imposition, through an elevated oil price, of something like $5 trillion a year tax on the world working class. This led to a transfer of 20% of working-class income to the capitalists and thus to a period of slowing growth and growing stagnation. Underinvestment paved the way for the present crisis, including for the outbreak of the pandemic. Again, there was only a brief respite during the period of Chinese integration.

What we have now is a third stage of capitalism, state-financed capitalism (SFC), as the state has become the sole source of new investment. Of course, the state has always been involved in capitalism as, for example, an avenue for capitalist investment via government bonds. But now, **the state has become the source of investment.**

In the last decade of the pre-SFC epoch, most private investment went into the private sector, and very little government investment went into the private sector. In the transition that started to occur after the crash of 2008 almost half of private investment went into the government sector, in the form of government bonds, because it was seen as the only safe sector. Government investment in the private sector increased to 15% of the total credit, a critical investment that was needed to prevent the total meltdown of the financial sector in 2008-2009.

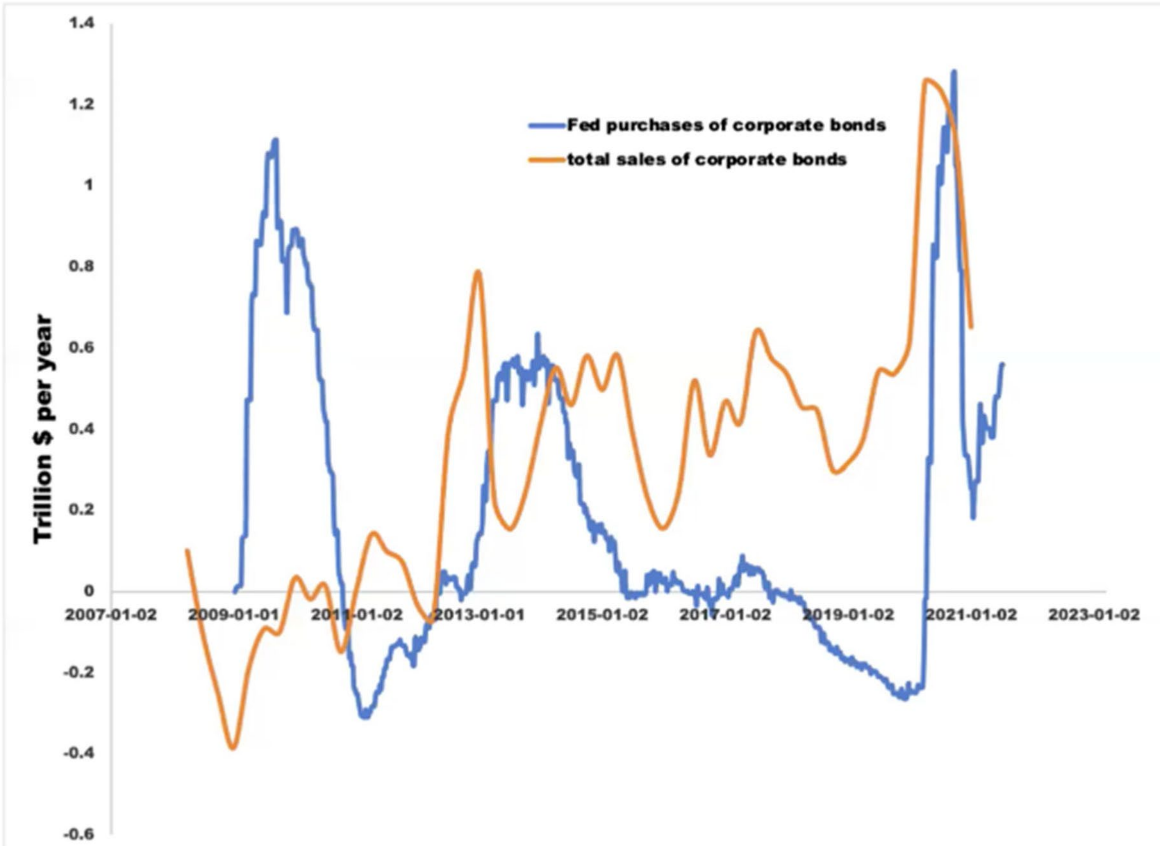

Figure. 3 Federal government purchases of corporate (mostly bank) bonds (blue) and total sales of bonds (orange) shows the almost complete replacement of government for private demand for bonds. Source: FRED (St. Louis Fed)

Today, with the pandemic, and more specifically with the onset of the crisis in March of 2020, we had a total shift, so that now almost 88% of private investment is going into government bonds, seen as the only safe investment, and government investment now comprises 87% of the total investment in the private sector.

The Federal Reserve is now the sole source of financing corporate bonds. In Fig. 3, the orange line is total corporate borrowing in trillions of dollars per year in the United States. The blue line is the lending to the corporate sector by the Federal Reserve. We see that in 2008, the government became the sole source of lending and remained almost the sole source with ups and downs, through approximately 2015.

At that point the government felt that it was safe to stop buying corporate bonds, and even for a couple of years sold back some of their holdings. During that brief period of four years, 2015-2019, private investment again was lending to companies.

But with the onset of the pandemic, and especially with the crash during the end of March of 2020, the Fed again became 100% of the lending to corporations. Although it dropped sharply for a while, that lending again rose to support the corporate bond market. The Fed has announced a taper in February, 2022, but it remains to be seen if it will stop entirely or for how long.

Now where does this money go? This money is going 100% into stock buybacks, not at all into the real economy. In Fig. 4, the blue line here represents total net sales of stocks on the US stock market, which varies a lot. The red line is the average over 10-year periods. So, there are not a lot of shares being sold on net. The yellow line, which starts back in the 1990s, is stock sales due to corporate buybacks mergers and acquisitions. This source is the sole reason for the increase in price of shares, as corporate buybacks and mergers reduce the total number of shares while the amount of money in the market is hardly rising. Without the buybacks, the market would be falling sharply. But as buybacks continue, the number of shares available are shrinking and that, by the magic of the stock market, greatly increases the value of shares, which are overwhelmingly held by the very rich.

There is no conspiracy. This is the open collective coordinated action of the US-led capitalist class, backed by parties from the US Republicans to the Chinese Communist Party. In the US alone, it amounts to a transfer about 16% of median US

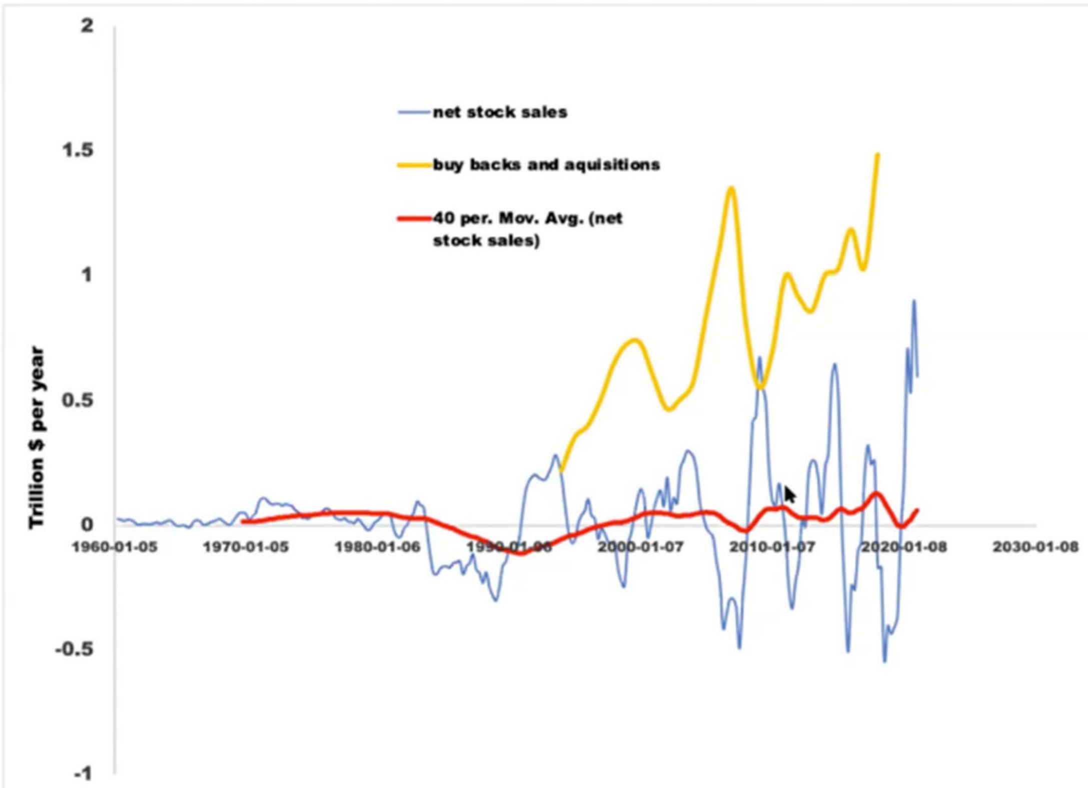

Figure 4. Net stock sales (blue) are small average over a 40-month period(red) and are dwarfed by buy backs and acquisitions paid from corporate funds. Sources: FRED, S&P Dow Jones

household income. The average government subsidy per billionaire is in excess of $4 billion. This is the size of this enormous transfer of state investment.

But today if we compare fig. 3 and figure 4, we see that corporations are financing their $1 trillion a year in buybacks entirely by the $1 trillion a year they are borrowing, which in turn is financed entirely by the $1 trillion a year the Fed is financing.

Senator Manchin said we don't want an entitlement society. But Fig. 5 shows **who** is entitled. This is the rate of increase in the wealth of the very wealthy in the United States. At the right-hand end of this graph, there is a gigantic spike in which $25 trillion a year has been added to household wealth. The majority of this went to the wealth of the wealthiest 1% of the population.

This is wealth generated purely by the investment of one and a half trillion dollars of federal money into the stock market through these corporate loans. It is the biggest daylight heist in history. It is much the same story in the EU, in Japan and in China.

What is the impact on the working class? This is on top of petro-capitalism, on top of the warfare state--it doesn't substitute for it. It massively accelerates the transfer of wealth from workers to capital, as we see already in the calls for austerity. “Gee, sorry, we've spent so much money on the billionaires, there's no money left for schools, hospital, housing or anything else!”

In addition, we are starting to see the effective cut in wages through inflation. Why are we having inflation now and not in 2008? There were real concessions by the ruling class that were considered politically essential during the pandemic. So, there is real consumer demand, which has created real shortages of goods that were not produced during the shutdown. These shortages in turn lead to the spilling over of some of the fake money, the fictitious capital, from financial assets into real assets such as oil and real estate.

On the other hand, there is also a real shortage of labor. So the attack on working class wages is turning into a labor upsurge. Fig. 6 shows real wages in the United States, which peaked, way back in the 1970s. There is a big jump during the pandemic, about 7%. But now, there is a definite retreat because workers, despite strikes, are not yet able to defend the level of real wages achieved during the pandemic.

But why is this happening now? Rosa Luxemburg's theory of accumulation demonstrated that capitalism requires an external market, and an external source of wealth, the continuous transformation of peasants into proletarians, the seizure of peasant land and a growing external market that leads to an accelerating urbanization of the entire world. This is a self-limiting process, which has now reached its limits.

"Either organize a socialist alternative to capitalism, or face an accelerating descent into a new Dark Age."

Any process of urbanization of proletarianization must follow what scientists call logistic curve and s-shaped curve. You can see for example the experience of South Korea, which underwent a complete urbanization during the last 50 years. (Fig.7). Once 50% urbanization is reached, the process has to slow down. On a worldwide level that level, 50% was reached in 2007. Not coincidentally, this was at the start of the transition to state finance capitalism and to an end of expanded reproduction.

Capitalist accumulation, as Luxemburg wrote a century ago, is linked to the process of urbanization, the process of proletarianization. So as urbanization slows, capitalist accumulation must slow as well. Since a slowing rate of accumulation means a falling rate of profit, and thus a falling value of real capital, the capitalist system can only be sustained by massive infusion of fictious capital—speculative capital. Initially, since the mid-'70's the source of that fictious capital was the overpriced supply of petroleum and other fossil fuels. But now, as the rate of urbanization start to actually fall, a massive additional source is needed, resulting in state-financed capitalism.

Is there a capitalist exit from this crisis? No, since investment in real production has become unprofitable. Therefore, any concessions, any increase in working class consumption, leads to inflation, which threatens to erase capitalist profits and threatens capitalist fictitious capital.

This leads to extreme instability in the economy. That means concessions will only be granted, when capitalist power is threatened and permanent concessions require the removal of capitalist power. Clearly the solutions of the 1940's that ended the Great Depression are impossible today. War is not a way out—first because WWII resulted in the wiping out of separate national capitals, while today there is a single, US-led global capitalist system, including China, whose economy and America's are tightly interwoven. Second, all-out wars are suicidal with nuclear weapons. Under capitalism a downward cycle, an ever-decreasing standard of living is inevitable.

Finally, state-financed-capitalism focuses and politicizes the class war. Simply reversing the governmental policy of state-financed-capitalism, simply selling off at once the trillions of bonds that the governments have accumulated, would lead to the instant bankruptcy of all top financial companies. The government would inherit instantly ownership of 70% of the economy, liberating trillions of dollars needed for social investments. The very existence of capitalism now nakedly depends on government investment.

However, the key to changing the of the economy the economy is democratic control over finance, not just state ownership, as we see by the example of China. To rescue humanity from capitalism, the earlier transformations of the capitalist economy must also be undone. The petro- economy must be eliminated. The massive real shortages of goods can only be reversed with the development of fusion energy, the only possible source of clean, cheap and safe energy and by ending the warfare economy, redirecting the vast manufacturing power embodied in the aerospace-defense sector worldwide to the production of goods that meet real needs. This socialist alternative will be elaborated in a future article.

The epoch of state-financed capitalism, the epoch of capitalism in decline, poses the starkest possible choice for the world working class. Either organize a socialist alternative to capitalism, or face an accelerating descent into a new Dark Age.

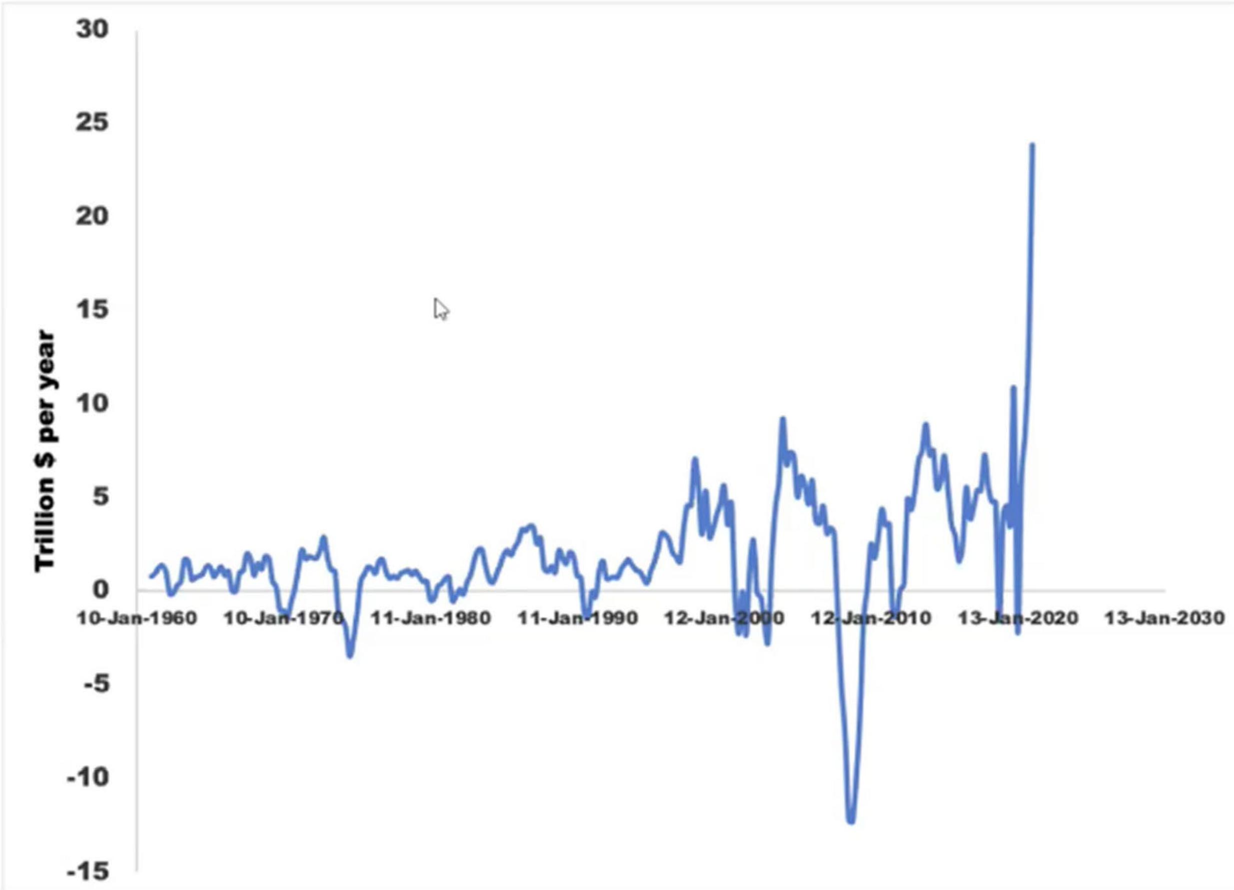

Figure 5. Annual rate of increase in household wealth, which in the last two years has accrued almost entirely to the wealthiest fraction of the population. Source: FRED

Figure 6. Real Weekly Wage index for the US shows the rapid decline from 1973-1995, a gradual recovery (considerably exaggerated here by the government's underestimation of inflation) and the sharp rise and fall of the past two years. Source: FRED

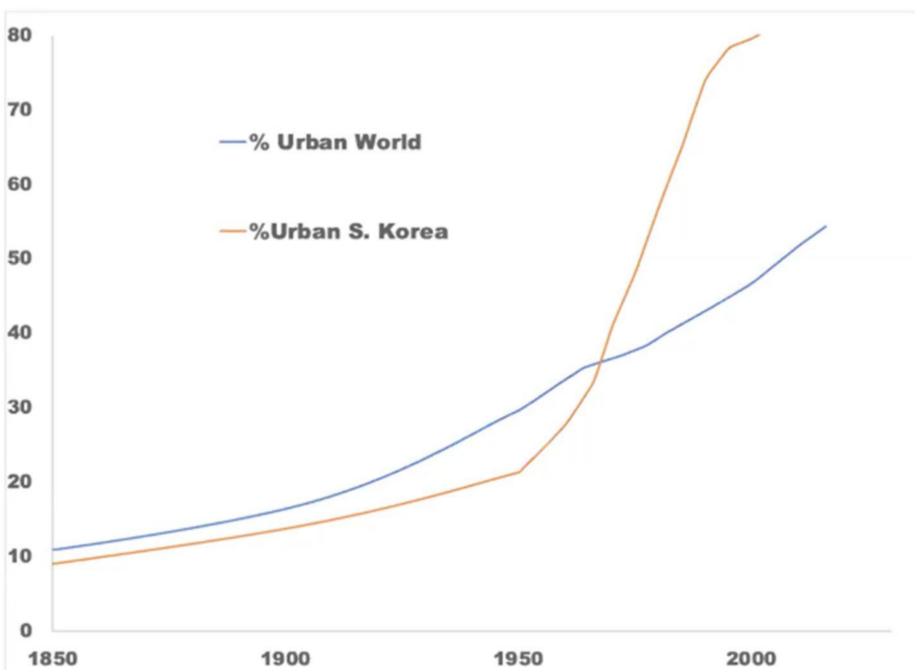

Figure 7. Urbanization follows a logistic curve of rapid acceleration followed by leveling off, as shown by the example of South Korea (percent of population urbanized, orange). The world population is now following the same curve, entering the period of leveling off (blue curve). Source: FRED