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# THE FINANCE-DOMINATED REGIME OF ACCUMULATION AND THE CRISIS IN EUROPE

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There is no consensus among the ruling classes on the correct way of dealing with the crisis or how to continue with Europe. Should the euro be defended? Would it not be better to split up the eurozone or give up the euro completely? Should the European Central Bank (ECB) buy unlimited amounts of government bonds or would this simply encourage irresponsible spending, policies that lead to debt and pave a direct path to inflation? Will austerity policies help us overcome the crisis, or would a more Keynesian policy of investment be more appropriate? How should austerity measures and measures that stimulate growth be balanced? Would it be better to return to the nation state and its competencies, or move towards deeper European integration? How generously should competencies be transferred to the European Commission and the ECB? Should debtor countries such as Greece or Cyprus be rescued or would it be better to have an option for the insolvency of states and not only for banks?

The left cannot remain indifferent to this situation. Until now the left has maintained a (quite unsuccessful) defensive position based around the slogan: "We won't pay for your crisis". Many analyses have provided good and quite technical advice on how the crisis might be brought under control; not that the powerful and the ruling classes are likely to listen. Even if they were to listen, it is not clear whether this would bring the crisis under control. This leads us to the question of the emancipatory aspects of the crisis: crises always open up new possibilities; it is clear that what has been taken for granted cannot continue. Currently this emancipatory potential has been relegated to the background, because solutions to the crisis tend to provide momentum for nationalist divisions.

Left-wing analyses have also portrayed the problem as one between Germany and Greece; or between France and Germany etc. Merkel's government appears as a taskmaster forcing austerity policies on other European states. Furthermore, the left also finds it hard to convey its criticism of European crisis policies in the light of Germany's relatively stable economic and political situation.

In the following we analyse the current constellation through the lens of the finance-dominated regime of accumulation.[2] The contradictions that emerge are specific to this regime and reproduce themselves at ever-higher levels because the regime itself is not called into ques-

**1** This text is a further extensively revised and updated version of a text first published in the magazine *Prokla* (Issue 166, March 2012) and subsequently in an extended version in the *Analysen* series published by the Rosa Luxemburg Stiftung. In part, the text reflects the results of the discussion between the research group *Arbeitskreis kritische Europaforschung* (AkE) which is part of the *Assoziation für kritische Gesellschaftsforschung* (AkG – Association of Critical Social Research). We would like to thank Joachim Becker, Hans-Jürgen Bieling, Pia Eberhardt, Axel Gehring, Fabian Georgi, Mathis Heinrich, Niko Huke, John Kannankulam, Daniel Keil, Anika Kozicki, Roland Kulke, Malte Lühmann, Lukas Oberndorfer and Herbert Panzer, as well as our colleagues at the *Institut für Gesellschaftsanalyse* (Institute of Critical Social Research) at the Rosa Luxemburg Stiftung for their helpful suggestions and critique. **2** The concept of *regime of accumulation* is taken from French regulation theory (see Aglietta 1979, 68 ff.). A regime of accumulation is defined as a "mode of systematic distribution and reallocation of the social product which over a prolonged period is able to coordinate transformations in the conditions of production (volume of capital invested and its distribution among the branches and norms of production) with transformations in the conditions of final consumption (consumption norms of wage-earners and other social classes, collective spending, etc.)" (Lipietz 1988, 23). The concept of a finance-dominated regime of accumulation is further developed below.

tion. This thereby extends the crisis to ever more social relations. It is against this background that we intend to assess the policies that have been developed by the left and the social movements faced with the current situation.

**Our work is based on the following hypotheses and assumptions:**

1. Even though the contradictions between the different factions of capital now appear more clear-cut, the current controversies among the bourgeoisie over policies to address the crisis primarily concern measures to stabilise the finance-dominated accumulation regime and to secure the share of social wealth appropriated so far by the property owners. Still, in the course of the crisis new options might develop behind the backs of the main actors. Although the old regime cannot continue and the new has not fully asserted itself, alternatives are clearly visible. These range from authoritarian-statist measures, geo-engineering, green capitalism and the Green New Deal to democratic, socio-ecological transformations from within a socialist perspective (see IfG 2011).
2. Austerity measures are simply the state-driven continuation and intensification of processes that occur in every crisis: a time during which countertendencies to the falling rate of profit become effective and power relations shift to the benefit of capital. Austerity measures might not solve the crisis, but as long as the pressure of the crisis subsists, measures directed against the subaltern classes can be enforced ever further. Moreover, even if governments are often unsure and undecided about the course to take, they create the impression that there is no alternative.
3. Within the global finance-dominated regime of accumulation, the countries of Europe take on different positions. Combined with competition between capitals this leads to a situation where states mutually block substantial reform of the financial regulatory system, which thus benefits the status quo. But in spite of differences between governments, there is fundamental consensus. The changes to European Economic Governance, the European Stability Mechanism (ESM) and the European Fiscal Compact, as well as the planned Competitiveness Pact, envisage further consolidation and intensification of neoliberal European integration (see Fisahn 2012; Konecny 2012; Heinrich 2012; Oberndorfer 2012, 2012a).
4. Germany's role in particular has been repeatedly criticised because Merkel's government forces a *debt brake* on the European Union (EU), and its member states are placed ultimately under the political control of the European Commission. Actually, Germany's weight within the European Union is increasing and, for now, German capital appears to be a winner of the crisis. However, the German government does not solely represent the interests of German capital. Austerity policies, at the heart of German government policies, are enforced in Europe as they ensure the reproduction of the regime of accumulation as a whole; as such, they reflect the interests of a dominant, transnational faction of capital that is present everywhere in Europe. We therefore view the argument that German imperialism is at work in the crisis as implausible, at least if this means – within the framework of traditional theories of imperialism – that the nation state simply represents the interests of its own bourgeoisie.

5. Organising the subaltern classes to defend themselves against austerity measures is currently the main task for the left. With regard to European policy strategies, the left should not adopt an anti-European stance (as is done by the right), but should instead be guided by the concept of united socialist states in Europe; that is, a political union that would ensure equal conditions of life within Europe. In the endeavour to defend spaces for action against neoliberal integration and to develop alternatives, it may make tactical sense to rely on the nation state and the non-synchronicity it creates. For example, opposition to the EU constitution was justified, as was opposition to the fiscal compact. The treaties of the European Union have to be significantly changed. The freedom of the people of Europe can only be guaranteed if capital's liberty is abolished. This would mean Europe having to be rebuilt completely anew from below, such as through elections to a constitutional assembly and through a social union.

## 1. Simplistic visions of the crisis

For some time now the European crisis has been seen as the result of state debt; the causes are presumed to be found in ill-adapted social systems, high public spending, an inflated public sector and a lack of competitiveness. Nonetheless, these are symptoms of long-term processes associated with the global financial and economic crisis. The current crisis began with the subprime mortgage crisis in the US, which then evolved into a bank crisis and later into national financial crises and the crisis of the euro. In contrast to what neoliberal ideology has preached for decades – and continues to preach during the crisis – European societies have not "lived beyond their means". In fact, the opposite is true: it was the state *rescue packages* for banks, *fiscal stimulus packages,* declining tax revenue, growing unemployment and increasing social expenditure in relation to the domestic product during the crisis that caused budget deficits to grow.

We believe that bourgeois society is currently undergoing a multiple crisis, alongside a *major* crisis in the capitalist mode of production. It is a major crisis because it cannot be resolved by small fixes to the prevailing regime of accumulation, nor can the dominant mode of capitalist regulation resolve the crisis. Instead, society needs to undergo profound changes.[3]

In the words of Antonio Gramsci, this is an organic crisis: the economic crisis is developing in a number of countries into a political and ideological crisis – a crisis of representation that is increasingly leading to a questioning of the future direction of society (Candeias 2010). We are dealing with a crisis of the finance-dominated regime of accumulation, which is the dominant form of the valorisation of capital that evolved after the 1970s as a response to the crisis in Fordism (see Aglietta 1979; Lipietz 1988). Additionally, the European crisis is affected by the contradictions arising from monetary union and the European Stability and Growth Pact.

Two common notions among the left stand in the way of an adequate understanding of the crisis: the first is the notion that the banks' excessive drive for profit caused the crisis, which is linked to the assumption that their *true* function is to serve the *real economy*. Whilst it is

**3** Regarding the difference between "minor" and "major" crises, see Altvater 1983, 93 ff.; Lipietz 1988, 15; Boyer 1986, 66 ff.

true that the current crisis is also a crisis of the banks, the banks' excessive drive for profit was not accidental, nor a departure from some supposed correct mode of functioning. Like all other companies, banks too must invest their capital and make money from money. Competition forces the banks to drive the excessive valorisation of capital or else face the threat of their own demise.

The perceived *greed of bankers* is merely a structural consequence of the capitalist mode of production. Capitalism has never been primarily concerned with fulfilling people's needs; our needs are simply a means to the end of valorising capital. Banks can therefore only *serve* the *real economy* in as far as they yield to the excessive drive for the valorisation of capital. Nor is it the case that banks one-sidedly dominate trade and industry; a notion which is traceable to Rudolf Hilferding. In capitalism, banks, trade and industry are rather mutually dependent. The sections of the left that see the banks as the single cause of the crisis are indulged in the illusion that simply implementing a different form of banking and financial regulation would be enough to overcome the crisis.

Second, and equally problematic, is the notion that all critical analyses of the financial sector are simplistic critiques of capitalism or even anti-Semitic. Here, production is considered central, and circulation as secondary, as the mere surface of capitalist production. These views narrowly and uncritically follow Max Horkheimer's claim that with the rule of market-dominating monopolies, the mediation of the relations of production through circulation has been historically overcome (Horkheimer 1988b, 325). This empirically untenable hypothesis was used to explain how Jews, pushed into banking through the Christian ban on usury, were no longer needed within capitalism and therefore could be selected as victims by fascist propaganda.

Today, this argument is inverted ideologically by claiming that any criticism of finance is anti-Semitic. This view is shared by parts of the left, the president of the Munich Institute for Economic Research (IfO), Hans Werner Sinn, and Christian Wulff, the former German president. They believe bank managers can be defended by placing them in a similar light to persecuted Jews.

In this case, a critique of capitalism is reduced to a critique of ideology and, in contrast to its own aims, is also simplistic as it refrains from analysing relatively independent forms of financial capital and their specific functions, and fails to take into account the historical changes that have been made to the regulation of the capitalist mode of production and their political significance. This leads to an abstract critique of capitalism that is incapable of formulating adequate strategic and tactical answers to the current crisis. Nonetheless, the societies currently dominated by the capitalist mode of production are different from those that existed 50, 100 or even 150 years ago. More precisely, over the last few decades capitalism has undergone a development that we view as the development of a finance-dominated regime of accumulation. With this we argue that the capitalist mode of production and the societies it dominates undergo phases with distinguishable periods; in other words, a characteristic trait of the capitalist mode of production is that it is constantly changing. Different patterns of change can be discerned that remain relatively stable over longer periods of time. Within the capitalist centres, regulation theory differentiates between a liberal market mode of regulation in the 19th and early 20th century, an interventionist and welfare-state Fordist mode of regulation between the 1950s and the 1970s, and a finance-dominated mode of regulation since the 1980s based on uncertainty.[4]

## 2. The connection between industrial, interest-bearing and fictitious capital

As Marx showed in *Capital,* the valorisation of value takes on different forms that become independent from each other but remain connected at the systemic level. During crises in particular, the connections between the different independent forms of money and capital become brutally clear. Capital can be advanced for the production of commodities or services, in which case it functions as industrial capital: workers are hired and means of production acquired, whereby money-capital is turned into productive capital. Guided by capital, workers produce commodities, and in doing so productive capital is turned into commodity-capital. In this process, the value of labour-power and the means of production are reproduced, and surplus value is produced. The commodities this leads to are sold, and commodity-capital is turned back into money-capital, which realises surplus value. A share of this surplus value is invested – in other words, accumulated – and the enlarged capital is fed back into the circuit.

The circuit of industrial capital is connected to the circuit of interest-bearing capital (MEW 25, 350 ff.). Because money functions not simply as a means of circulation but also as capital, any amount of money can be seen as potential capital. In its function as potential capital, money is more than simply a means of exchanging commodities, it is also a commodity: money is lent for interest. In the circuit of interest-bearing capital, money appears to directly make more money, interest-bearing capital is therefore, as Marx remarked, "the fountainhead of all manner of insane forms" (*ibid.* 483). The relationship between the circuit of interest-bearing capital and the circuit of industrial capital is contradictory: the advanced "borrowed capital" enlarges productive capital; therefore it has the potential to create and accumulate a greater surplus. However, the industrial capitalist also needs to subtract the interest paid on these loans from the achieved surplus, and surplus value is divided into interest and profit. Therefore, on the one hand, the interests of the creditor conflict with those of the borrower over the rate of interest. On the other hand, both the creditor and the debtor profit from the increased exploitation of labour-power, if the realised surplus value is greater than the interest that has to be paid.

The extended reproduction of the total capital of society depends on the circuit of interest-bearing capital. The circuit of industrial capital explains both the offer and the demand for credit. This circuit systematically returns money to an idle state. Fixed capital invested in machinery and factories only slowly amortises itself over time: little by little the value of

**4** The concept of *mode of regulation* designates the "totality of institutional forms, networks, and explicit or implicit norms assuring the compatibility of behaviours within the framework of a regime of accumulation in conformity with the state of social relations and hence with their conflictual character" (Lipietz 1988, 24).

fixed capital transferred to commodities returns to the hands of the capitalists in the form of money. Capitalists are often unable to immediately re-invest this money in productive capital, but instead provide it to other capitalists in the form of interest-bearing capital and, as such, take part in the processes of valorisation. Conversely, for continuity in the turnover of capital, industrial capital generally requires a reserve fund or additional capital that can be acquired through credit.

Accumulation can be extended beyond the boundary of the realised surplus value through credit. This is true not only for individual capital, but also for the total capital of society: not only does the credit system turn fallow surplus value into interest-bearing capital, banks are also able to produce credit-money literally "out of nothing"; that is, in amounts far greater than the share of the social product provided to them in the form of deposits would allow for. Interest thereby leads to claims over the future work of society. These claims, which in some cases reach far into the future, are only possible if the overall situation remains predictable and conditions remain sufficiently stable for the money-capital provided in advance to flow back.

The circuits of industrial capital and interest-bearing capital lead to a further form of capital, one which has gained increasing importance over the last few decades: fictitious capital (MEW 25, 482 ff.). Fictitious capital arises from the securitisation of credit, that is, through the re-sale of creditors' receivables or through the creation of stock companies, whereby the money invested into a company appears to double itself through its shares. Marx calls securities fictitious capital because they are not functioning capital and simply embody legal claims to the production of value which is expected to arise from future processes of valorisation. Fictitious capital therefore retains its "value" – or more precisely, its price – only to the extent that the trust in future processes of capital valorisation can be upheld, that is, for as long as there are buyers for the securities. Rising securities prices become an independent form of valorisation that determine the return on the invested money-capital, as does the interest on which the prices of fixed-interest securities rest, as well as the dividends paid to shareholders. Speculation over the price variations of fictitious capital (and other commodities) is the basis for derivatives trading: futures, options and swaps are bets on changes in prices. Derivative trading can function as a safeguard against price fluctuations, yet it remains an independent source of the speculative valorisation of money-capital. The hedging function cannot be separated from speculation, because every hedge requires a counter-party convinced that the prices underlying the deal will develop in the opposite direction.[5]

The formal difference between fictitious and functioning capital plays no part in investors' calculations. Just like the difference between credit-money and "real" money, it only becomes evident during crises, when the worthlessness of fictitious capital and loans becomes evident. Clearly though, this is not simply

**5** In capitalism, any investment is speculative because the reproduction and valorisation of value is always insecure. The speculative character of derivative financial instruments in a more narrow sense is clearly apparent when they are only bought in order to profit from changes in underlying prices. For instance, it is possible to buy a *credit default swap*, i.e. a credit default insurance, for Greek government bonds without owning Greek government bonds.

about nominal wealth, but rather about the destruction of (acquired) ownership titles, for which labour was needed and which was appropriated in some form or another by the owners of capital. In the end, somebody actually loses; and particularly during a crisis, the struggle is over who this will be.[6]

### 3. The global, finance-dominated regime of accumulation and its contradictions

These forms and processes are all general characteristics of valorisation and are related to each another in specific ways within the finance-dominated regime of accumulation. In order to properly understand this regime and its crisis, it is necessary to take a closer look at the development of the circuits of industrial capital, interest-bearing capital, fictitious capital and derivatives. The relationship between these circuits is in flux, whereby three kinds of changes exist, each with different synchronicities: 1. business cycle changes related to cyclical crises; 2. changes to the regime of accumulation and to the mode of regulation associated with "major" crises; and 3. long-term changes (tendencies in the development of the capitalist mode of production). Direct empirical indicators of central Marxian categories, such as constant and variable capital or surplus value, neither exist nor can exist in national accounting; as such, it is difficult to provide empirical justification for capital-theoretical assumptions.[7] The following empirical illustrations should therefore be considered tentative but necessary in order to examine the changes in the relationship between industrial capital, interest-bearing capital and fictitious capital.

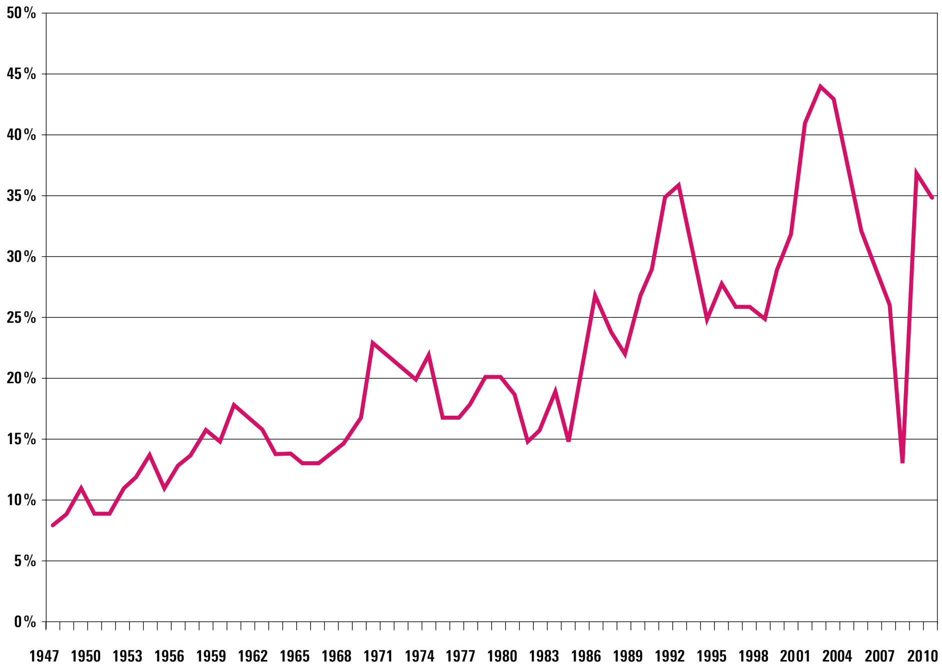
Our initial hypothesis is that interest-bearing capital, and especially fictitious capital and derivatives, have grown much faster over the last few decades than industrial capital.

The share of profits of financial corporations in the total amount of profit made by US corporations rose from 8 % to 28 % between 1947 and 2012 (Figure 1; see Krippner 2005). If we divide this time span roughly into a Fordist period reaching from 1947 to 1973 and a post-Fordist period from 1973 through to 2012, we have a rise from 8 % to 20 % during the first period and a rise from 20 % to 28 % during the second period. Clearly, this is a long-term trend, characteristic of both sub-periods. Figure 1 demonstrates that the share of profits realised in the financial sector varied strongly during business cycles. Comparisons between individual years are therefore liable to be misleading, or, depending on the period studied, provide very different results; despite this, the overall tendency is undeniable.

In the US, private loans from banks and other financial institutions expressed as a percentage of gross domestic product (GDP) rose from 71 % in 1960 to 93 % in 1973, and 202 % in 2007. In Germany too, this figure increased: from 39 % in 1960 to 72 % in 1973, and to 105 % in 2007 (based on data from the World Bank Financial Structure Database, 21.11.2008). In the US, expressed as a percentage of GDP, private loans from banks and other financial institutions therefore rose annually by an average

**6** On the significance of money, loans and the financial markets in capitalism in general see Itoh/Lapavitsas 1999; and Guttmann 1994 on the historic development of money and credit from a regulation theory perspective. **7** For a critique of national accounting and attempts to use this data for Marxist analyses see Projekt Klassenanalyse 1976; Wienold 1982; Shaikh/Tonak 1994.

**Figure 1: The share of the profit of financial corporations in the total profit of corporations in the USA, 1947–2012 (as a percentage)**




Source: US Department of Commerce, Bureau of Economic Analysis: NIPA Table 1.14, own calculations.

of 1.69 % between 1960 and 1973, and 3.21 % annually between 1973 and 2007. In Germany this figure rose by 1.77 % annually between 1960 and 1973, and 0.97 % annually between 1973 and 2007. In both countries, therefore, the volume of credit grew faster than GDP. In Germany this growth was strongest during the Fordist period, while in the US the increase was greatest in the post-Fordist period.

In the US, in relation to GDP, the market capitalisation of stock markets increased from 58 % in 1989 to 144 % in 2007; in Germany from 23 % to 57 % (based on data from the World Bank Financial Structure Database, 21.11.2008).

In 2007 the US market for government bonds had a volume of 4.4 trillion US dollars, the market for securitised mortgages a volume of 7.1 trillion US dollars and the US stock market a market capitalisation of 21.9 trillion US dollars. Still, the growth of these markets during the boom until 2007 was relatively moderate compared with the growth of the market for credit default swaps, which was basically non-existent in the 1990s but had contracts valued at 45.5 trillion US dollars in 2007 (Morgenson 2008).

## Table 1: Global financial assets 1990–2012 (in trillions of US dollars)

| | 1990 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2nd Quarter 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| Non-securitised loans | 23 | 35 | 42 | 46 | 50 | 54 | 54 | 57 | 60 | 62 |
| Securitised loans | 2 | 5 | 9 | 11 | 13 | 14 | 14 | 13 | 13 | 13 |
| Corporate bonds | 3 | 5 | 7 | 7 | 8 | 8 | 9 | 10 | 11 | 11 |
| Financial bonds | 8 | 19 | 30 | 35 | 39 | 42 | 42 | 41 | 42 | 42 |
| Government bonds | 9 | 18 | 29 | 30 | 32 | 35 | 39 | 43 | 46 | 47 |
| Equity | 11 | 37 | 47 | 56 | 64 | 36 | 48 | 54 | 47 | 50 |
| Total global financial assets | 56 | 119 | 165 | 185 | 206 | 189 | 206 | 219 | 218 | 225 |
| Global domestic product | 21 | 38 | 50 | 54 | 58 | 62 | 61 | 65 | 70 | 72 |

Source: McKinsey Global Institute 2013, 2.

## Table 2: Global financial assets as a percentage of global domestic product

| | 1990 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2nd quarter 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| Non-securitised loans | 110 | 92 | 84 | 85 | 86 | 87 | 89 | 88 | 86 | 86 |
| Securitised loans | 10 | 13 | 18 | 20 | 22 | 23 | 23 | 20 | 19 | 18 |
| Corporate bonds | 14 | 13 | 14 | 13 | 14 | 13 | 15 | 15 | 16 | 15 |
| Financial bonds | 38 | 50 | 60 | 65 | 67 | 68 | 69 | 63 | 60 | 58 |
| Government bonds | 43 | 47 | 58 | 56 | 55 | 56 | 64 | 66 | 66 | 65 |
| Equity | 52 | 97 | 94 | 104 | 110 | 58 | 79 | 83 | 67 | 69 |
| Total global financial assets | 263 | 310 | 331 | 345 | 355 | 307 | 339 | 335 | 312 | 312 |

Source: McKinsey Global Institute 2013, 2, own calculations.

In 2007, the global interest-bearing and fictitious capital invested in loans, bonds and equity totalled 206 trillion US dollars. In 1990 these global financial assets were equivalent to 263 % of the global domestic product, but in 2007 this figure had risen to 355 % (see McKinsey Global Institute 2013, 2; Tables 1 and 2). Financial assets therefore grew much faster than the global domestic product.

Nonetheless, the significance of simple, non-securitised loans has decreased while the emission of corporate bonds has remained more or less constant compared with the global domestic product. What has mainly grown is the securitisation of loans, the emission of financial bonds, state debt and equity. The relationship between the different circuits resembles an up-turned pyramid: its base, the circuit of industrial capital, is relatively small compared with its top, the circuits of financial capital, which are interest-bearing capital, fictitious capital and derivatives.

The uneven development of the different forms of capital is by no means accidental. However, in order to properly understand how this situation came about, it is necessary to look back on the crisis of Fordism in the 1970s. Capital at the time implemented a number of strategies aimed at providing an escape from the profitability crisis including the relocation of production to the capitalist periphery or semi-periphery; direct attacks on the working class in the capitalist centres (mass layoffs, the weakening of unions, wage reductions, benefits cuts and casualisation of labour); and the development of new investment opportunities for capital through deregulation, liberalisation and privatisation. As a consequence of these restructuring processes, the form of development taken by capitalism changed in many ways.

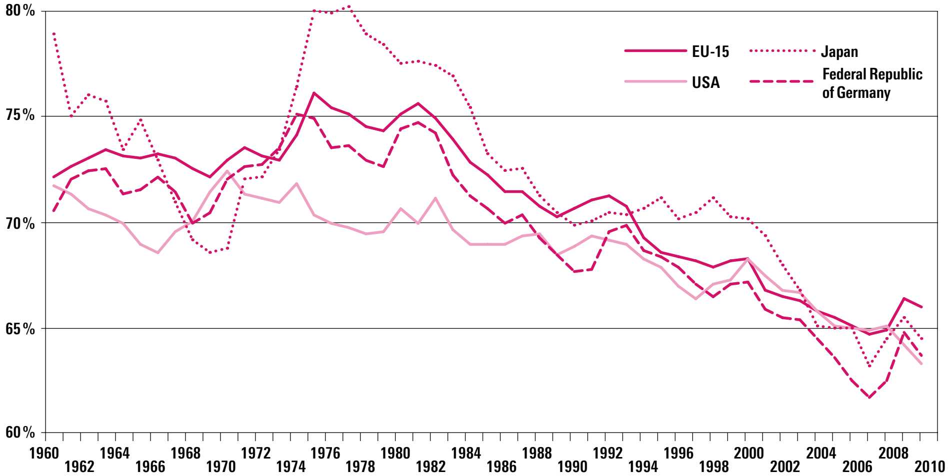
1. Within the capitalist centres the balance of power between the ruling classes and the ruled classes shifted dramatically to the benefit of those in power. One example of this is decreasing wage shares in the capitalist centres, which indicates an increasing rate of surplus value. In West Germany for example the adjusted wage share dropped from 75.2 % in 1974 to 67.8 % in 1991. The adjusted wage share for the whole of Germany fell from 69.6 % in 1992 to 61.7 % in 2007; the average in the EU-15[8] dropped from 74.2 % in 1974 to 64.7 % in 2007 (see Table 2).

Average real wages in the capitalist centres have stagnated since the beginning of the 1990s. In Germany real gross pay per wage-earner actually dropped by 3.3 % between 1994 and 2008 (own calculations based on the 2009 figures from the Federal Ministry of Labour and Social Affairs). Rises in productivity are no longer reflected in an increase in wage-earners' purchasing power. This has been accompanied by increasing income inequality (see OECD 2007, 268 f; ILO 2009, 24). Accordingly, many employees with low salaries have seen reductions in their purchasing power. In the US, the real average income of the lower 90 % of society was lower in 2008 than in 1973, and only 10 % of the population benefited from real wage increases (Piketty/Saez 2010, Table A 4).

The popular slogan from the Occupy movement, "We are the 99 %", is not without truth, even though the virtual

**8** The EU-15 includes all EU member states prior to the eastern enlargement in 2004: Belgium, Denmark, Germany, Finland, France, Greece, the UK, Italy, Ireland, Luxembourg, Netherlands, Austria, Portugal, Sweden and Spain.

**Figure 2: Adjusted wage share as a percentage of GDP**




Sources: 1960–2000: European Commission: European Economy, Spring 2002, Statistical Annex, Table 32, 73 f.; 2001–2010: European Commission: European Economy, Spring 2011, Statistical Annex, Table 32, 92 f.

Notes:
The EU-15 includes West Germany for the period 1960–1991 and the whole of Germany for the period 1992–2010. Wage share is the wage per employee as a percentage of GDP per employee.

block of the 99% is made up of different classes and class factions: in the US the share of the total national income owned by the richest 1% of households rose from 7.7% in 1973 to 18.3% in 2007 (*ibid.* Table A 1).[9]

The stagnation in real wages was in part compensated by wage-earners' increasing debts. As Stockhammer (2007, 645) showed, between 1995 and 2005 the indebtedness of private households as compared with available income increased substantially not only in the US but also in Japan and a number of EU states (see Table 3).

Wage-earners use debts to try to cover the costs of housing, a car, hospital bills or children's university fees. The increasing debts of wage-earners, in part subsidised by the state, have replaced social housing programmes and programmes providing affordable rents. By way of growing indebtedness, the dominant norms of consumption, for example the fixation on property and a private car, have been reproduced, which has led to a further expansion in mass consumption (consumption needs have become more differentiated: different bicycles for different purposes; one car per

**9** This does not include the profit made on increased bond prices. If this is included then the proportion of national income owned by the richest households was 9.2% in 1973, but increased to 23.5% in 2007 (Piketty/Saez 2010). These figures are derived from an analysis of income statistics. But due to higher capital mobility and tax avoidance – in particular by the wealthy – we can assume that real income inequality is far higher than is expressed in these figures.

## Table 3: Indebtedness of private households as a percentage of their available income

| | 1995 | 2000 | 2005 |
|---|---|---|---|
| US | 93 | 107 | 135 |
| EU[1)] | 91 | 113 | 139[2)] |
| Japan | 113 | 136 | 132[2)] |

Source: Stockhammer 2007, 645.

Notes:

**1** The figures for the EU are unweighted averages of the figures for Germany, Denmark, Finland, France, the UK, Italy, the Netherlands, Sweden and Spain.

**2** Debt figures for Denmark, Spain and Japan for 2004.

family member instead of a family car; or several televisions and computers). In the US, the epicentre of the recent crisis, the largest percentage of private household debt was mortgages for private homes. In 1983 the houses of 36.9 % of all households were mortgaged; in 2007 this figure was 48.7 %. In 1998, 71.4 % of all private household loans were secured through property; in 2007 this was 74.7 % (Kennickell/Shack-Marquez 1992, 12; Bucks *et al.* 2009, A 37, A 40). As the subprime crisis showed, the specific regulations of the US mortgage and credit sector meant that even those who could not *really* afford a mortgage eventually got one (see Marcuse 2008; Evans 2008). In 2001 indebted property owners on average used 13.9 % of their income for repayments; in 2007 this figure had risen to 15.6 %. The share of home owners who spent 40 % or more of their income on repayments rose from 14.7 % in 2001, to 18 % in 2007 (Bucks *et al.* 2009, A 50). Dos Santos (2009) and Lapavitsas (2009) showed that the profit strategies of major banks before the crisis were increasingly geared towards providing credit to private households. Under Anshu Jain, Deutsche Bank played a particularly aggressive role on the US mortgage market (see Hesse *et al.* 2012). The indebtedness of wage-earners practically amounts to a secondary mechanism of exploitation: growing debts lead to growing wage deductions. Moreover, private loans also increase political domination as wage-earners are disciplined through debt and coercion to pay their regular instalments (see Albo *et al.* 2010, 55).

Wage-earners though, are not only increasingly tied into the financial system as debtors, but also as savers. The inflow of savings from wage-earners into the financial sector is nurtured by various sources. Wage formation in the Fordist era enabled a large share of wage-earners to save for the first time. Since the 1980s this money has no longer been paid solely into savings accounts, but increasingly flows into other, newly developed savings forms such as money market funds and investment funds that sometimes bear higher interest. According to Deutsche Bundesbank, in Germany the share of bank deposits compared with the total of privately held financial assets dropped from 59.7 % in 1980 to 35 % in 2005.

A second driving force behind the formation of savings lies in the greater income inequality (see above). Whilst the real wages of the poorer wage-earners have dropped, the better-earning parts of the working class and the new petty bourgeoisie have seen their real income increase. When levels of income inequality between wage-earners increase, so do savings by the more affluent wage-earners.

The third driving force behind wage-earners building up savings is the increasing insecurity connected to precarious employment conditions and the fear of unemployment, as well as the privatisation of social security driven by neoliberal policies. State policies are leading more and more wage-earners to make private provisions to safeguard themselves against waged work-related risks. Institutional investors who manage wage-earners' savings are those who profit the most. The sum invested in pension funds rose from an estimated 4.8 trillion US dollars in 1992 to 28.2 trillion US dollars in 2007. During the same time span the amount of money invested in insurance rose from 6.3 trillion to 19.8 trillion US dollars (Huffschmid 2009, 39). New estimates calculate that the value of assets managed by pension funds dropped from 29.39 trillion US dollars in 2007 to 24.64 trillion in 2008 but increased to 31.35 trillion US dollars in 2011.[10]

This form of funded provision is a particularly perfidious mechanism that pits wage-earners from one region against those from other regions in order to provide for the wealthier among them at the cost of the others. Whereas in unfunded schemes social security is defined by factors such as employment and income, as well as the share of the total income that is paid into the arrangement, funded provision sets a totally different mechanism in motion. Professional investors try to earn high returns on insurance contributions for the company. This is done by investing in shares, derivatives and government bonds. Consequently, wage-earners basically profit from the shareholder value strategies of investors and companies, in other words, from rationalisation, privatisation and the extreme exploitation of wage-earners in other regions of the earth. This represents a new form of imperial class compromise. As a side effect, solidarity between the generations is broken down: the elderly and their pensions are left to the whim of financial markets (and this includes the risk of losing a large share of their pension).

Increasingly, therefore, the reproduction of wage-earners is subsumed, both economically and politically, under financial capital, which on the one hand builds on the increasing indebtedness of wage-earners and on the other on the increased re-routing of shares of wages to financial markets and their conversion into interest-bearing and fictitious capital by institutional investors.

2. Not only has the relationship between industrial and financial capital changed qualitatively, it has also changed quantitatively (see Demirović 2009). Not only

**10** See www.thecityuk.com/assets/Uploads/Pension-markets-2013-datafile.xls.

has the deregulation and liberalisation of the banking sector and of financial markets promoted new possibilities for speculative transactions and created numerous new forms of investment for (fictitious) capital; ownership structures themselves have changed. Institutional investors such as investment funds, pension funds and insurances now play a far greater role as intermediaries between savers and money owners on the one side and industrial corporations on the other. Even though individual institutional investors often hold only minority shares in companies, they can still exert significant pressure (for example by threatening divestment) and assert their interest in shareholder value, that is, shareholder return in the form of dividends and stock price gains (see Windolf 2008).

According to the concept of shareholder value, "capital costs" (the average interest on invested capital) must first be earned, before value is created for shareholders. It is therefore not enough for a company simply to be in the black or to be earning an average profit. Shareholder value is only created when an investment provides more-than-average returns. Obviously though, not all companies can earn such profits. But when companies use this as guidance, the bar for expected profitability is placed ever higher (Sablowski 2005, 61 ff.).

Projects such as the New Economy, which reacted to real changes to productive forces and inflated them, temporarily produce expectations of high profit margins; these lead to huge capital investments in new branches and technologies, such as the internet, the mobile market or genetic engineering. Overall though, the stock market is not a financing tool for companies, rather, it is a tool to control companies. Since the 1980s, investment banks and private equity companies have followed a strategy of turning companies or parts of companies into commodities globally through shareholder value. The reproduction of companies consciously becomes a subject for negotiation: depending on the market situation, every work process, business unit, individual department, piece of real-estate or machine becomes part of a precise and evolving costs and profit calculation that provides the basis for decisions on whether it is sold or kept as part of the company. Profit expectations are guided by the possible interest the invested capital might achieve on financial markets.

Corporations are therefore forced to raise their share prices to be able to play an active role in the process of concentration and centralisation of capital and to avoid hostile takeovers. Because many branches only achieve low profit rates and the average profitability is lower today than in the 1950s or 1960s, many companies attempt to drive up their share price through financial engineering. Share buybacks, which have increased substantially since the 1990s, may also be used to raise share prices. Increasing capital disbursements to shareholders in the form of dividends or share buybacks means fewer reserves are created and decreases the share of profits that is reinvested. Due to a lack of attractive investment opportunities in the capitalist centres, the investment quota has decreased since the 1970s in the US, just as it has in the Federal Republic of Germany, Japan, France, the UK and Italy; speculation reinforces this tendency (Table 4).

### Table 4: Investments as a percentage of operating surplus

| | 1970s | 1980s | 1990s | 2000s |
|---|---|---|---|---|
| US | 46 | 44 | 39 | 39 |
| Japan | 58 | 59 | 61 | 56 |
| Federal Republic of Germany | 52 | 48 | 42 | 35 |
| France | 46 | 46 | 42 | 43 |
| UK | 55 | 48 | 44 | 42 |
| Italy | 41 | 36 | 31 | 33 |

Source: Stockhammer 2007, 646.

The financial departments of industrial and trading companies earn an increasing share of their profits through speculation on the financial markets. Like banks and institutional investors they do not want their freedom restricted through stricter financial regulation; many such speculative transactions lead to a re-distribution of profits within the capitalist class. The importance of this re-distribution rises when the overall growth of profits declines. Companies, and with them claims to a share of the total surplus value, are destroyed; but when this happens, others gain a higher share. Since the 1980s, this process has been increasingly organised by investment banks and private equity funds.

The *financialisation* of companies encourages them to concentrate on *core businesses* and *core competencies,* which leads to a vertical disintegration of groups and to the fragmentation of value chains. Fixed capital is increasingly considered a burden that sub-contractors should bear. The production depth is reduced and in some branches such as IT or the telecommunication industry *factoryless* companies dominate the market; they dominate entire value chains through the control of strategic areas such as product design and marketing. Commodities are then produced by contract manufacturers frequently operating from low-wage countries (Sablowski 2003, 2005).

3. The internationalisation of capital has developed considerably. The number of people employed outside of Germany by German businesses, for example, increased from 2.2 million in 1989 to 5.9 million in 2008 (own calculations based on data provided by the Deutsche Bundesbank, Table 5).

The relocation of productive capital to the periphery or semi-periphery (to the Asian tiger states of South Korea, Taiwan, Hong Kong and Singapore and then into other southeast Asian countries, as well as to Latin America, Eastern Europe, China and India) that took place in several waves has induced strong flows of financial capital and created new imbalances and contradictions.

**Table 5: Employees of German companies working outside of Germany (in thousands)**

| | 1989 | 2008 |
|---|---|---|
| Western Europe | 955 | 1,953 |
| Eastern Europe | 10 | 1,085 |
| US | 448 | 768 |
| China | 4 | 397 |
| Industrialised countries | 1,514 | 3,868 |
| Developing countries and emerging economies | 655 | 1,985 |
| Total throughout the world | 2,172 | 5,852 |

Source: Deutsche Bundesbank (www.bundesbank.de); own calculations.

## 4. Characteristics of the crisis of the finance-dominated regime of accumulation

The finance-dominated regime of accumulation has its own specific, deep-rooted tendencies of crisis that are different from those of Fordism.

1. Over-production is an inherent tendency of the capitalist mode of production, but it is now moving increasingly into the foreground. In the capitalist centres the demand for consumer goods such as cars, washing machines and television sets has more or less been saturated. Decreasing wage shares aggravate the tendency towards saturation because the importance of wages as a factor in demand decreases relatively. Neoliberal policies also cause state demand to drop. At the same time the corporate focus on shareholder value means the reinvested share of realised profits drops, which also strangles investment-driven demand.

2. A lesson from the US sub-prime crisis is that increasing the debt held by wage-earners cannot continue indefinitely. Interest and repayments on real estate, consumer goods or university study must ultimately be paid by wage-earners from real wages; but these are either stagnating or have nominally decreased. Debtors' lives become precarious; while banks have to write off a large part of their credits. The real-estate bubble created fragile growth in the construction sector, misdirected demand, implied an enormous use of land and resources (water) and the misallocation of large numbers of workers.

3. In the US during the 1990s, but also in other countries, there was an expectation that wage-earners would be able to profit from buying shares or that they could mortgage their homes because the value of their houses would rise endlessly due to a – in part state-induced – boom in the building sector. This, it was believed, would raise effective demand as consumers would be able to use the profits they made from selling shares or real estate to repay their debts; however, this developed into another case of the illusion of self-sustained growth.

The crisis of the *New Economy,* which led many wage-earners to lose significant parts of their savings and pension schemes, and particularly the US subprime crisis, showed that the wealth-creating effects of these policies are limited. Many wage-earners' savings were wiped out; home ownership decreased; and the number of private household insolvencies rose. This crisis also demonstrated the limits of private, capital-based forms of social security such as funded pension schemes, as services were not provided, and instead insurance premiums rose.

4. Over-accumulated capital is always in need of new opportunities for expansion. Because a large share of money-capital was not able to be profitably invested in industrial capital circuits, it was kept liquid or invested in financial capital circuits. The privatisation of pension schemes and the slashing of taxes on high incomes, capital income and assets increased the amount of money-capital available for investment opportunities. This not only caused the New Economy's speculation bubble and the building boom in Spain and the US; it also explains the investment strategies of banks in Iceland, Ireland, the UK and Germany. They invested in seemingly safe and high-yielding financial products from US or European banks operating on the US market, such as Deutsche Bank or UBS, and became victims in their quest for new forms of high-yielding profit-making opportunities. The constant supply of new money to pay for high interest rates led this to work well for some time, but eventually it became clear that debtors would no longer be able to pay the interest demanded of them. Actually, the 2007 crisis led to the devaluation of some global financial assets: from the end of 2007 to the end of 2008 the value of these assets dropped from 206 trillion to 189 trillion US dollars. But by the end of the second quarter of 2012 this figure had risen to 225 trillion US dollars, a slightly higher value than before the crisis (McKinsey Global Institute 2013, 2).

From the perspective of capital, the central problems posed by this crisis continue to be preventing further destruction of capital, and finding a form of organisation that ensures the capitalist system of production is not called into question. Furthermore, the question of whose capital is to be destroyed (and as such, who should lose the least) in this giant battle is becoming the focus of a grim economic and political struggle. Whilst it is actually a global problem, the question of capital destruction is currently being posed mainly in the euro-region. The nature of these decisions is not purely economic, it is also political, and even linked to military reasoning.

5. Intensified international competition is leading the capitalist state to become a "competition state" (see Altvater 1994; Hirsch 1995). Tax reductions and subsidies for capital, the privatisation of public services and companies, raising indirect and direct taxes for wage-earners as well as cuts to social services are becoming structural features of state policy. In the context of mass unemployment and the more frequent and severe crises, higher taxes for wage-earners and cuts to social services typically no longer compensate for reductions in crisis-related state revenue and tax reductions for capital; this leads to the development of structural budget deficits and a rapid increase in state debt.

On the one hand, government bonds are an important and essential investment opportunity for capital. Pension funds, for example, frequently face the situation of having to invest a part of their capital in long-term bonds with high ratings. On the other hand, excessive state debt is also a crisis factor, as demonstrated by the Latin American debt crisis of the early 1980s, the Argentinian crisis from 1998 until debt restructuring in 2004/2005, and the current European debt crisis.
State insolvency threatens to devalue enormous sums of (fictitious) capital. In our view, this problem makes current policies aimed at overcoming the crisis so ambiguous because government bonds are a relatively secure and comfortable form of capital investment for property owners. In reality, state debts cannot be repaid. Instead, expiring loans are usually replaced by new ones; more so, because the wealthy to a certain extent depend on the state to continuously expand its debt, especially when there is a crisis in private loans such as that which began in 2007. When lending to private actors drops and capital retreats from the stock markets during a crisis, more liquid and safe investment opportunities are urgently required. This increases the demand for state bonds. The different segments of the financial markets therefore relate to each other like a system of communicating pipes. Nonetheless, this all depends on maintaining the trust creditors have in state bonds, that is, the fiction that they will actually be paid back. Investors therefore have an interest in ensuring that state debt is both expanded and limited: their central interest is securing the stability of money value; and this is the aim of austerity policies.
The problem in the current crisis is that not only banks, but also a number of states maintain excessive debt. Although banks with excessive debts were saved through public money, in reality, states do not really have this money and they need to borrow it from the banks. Yet it is now uncertain whether all governments will be able to repay their debts, accordingly, banks are once again facing a crisis. Such shifting between state and private debt hardly conceals the fact that the total amount of debt has reached heights that threaten the capacity of the system as a whole to reproduce itself and that a massive destruction of capital may be unavoidable.
6. The *spatial fix* (Harvey 2003) to capital only creates temporary solutions to the problem of capital over-accumulation. The destruction of fixed capital in the old industrial centres is often slower than the speed at which productive capacities are expanded in the (semi-) periphery, so overcapacities persist – including those subsidised by the state. Furthermore, goods produced in the (semi-)periphery often need to be exported, because the low wages paid there tend to lead to a weak internal market. The problem of overcapacity is aggravated in many areas of production by the internationalisation of capital, whereby new areas are opened up for accumulation and targeted by export-oriented strategies of development.
Today, in China, competition between US, Japanese, European, Korean and Taiwanese corporations has created further massive productive capacities that cannot be fully absorbed by its internal market. Chinese manufacturers, a significant number of which are foreign corporations, were and continue to be dependent on the US and European markets. Yet, the importance of the US and Europe

in the global economy is decreasing. Relatively, the US and Europe are producing less; as such, less income is being generated. China sees itself forced into the role of an international creditor, so that goods produced in China can be exported. Prosperity in the US in the 1990s was debt-financed. Over the last 20 years, "socialist" China has become the linchpin of global capitalism. Whether Chinese loans will ever be paid back, or whether China is instead paying a large tribute to the capitalist centres remains an open question. Although China receives interest on its loans, the sums quoted either in US dollars or euros are already being slowly devalued through the revaluation of the renminbi. The sub-prime crisis shows that even the US cannot accumulate unlimited amounts of debt, in spite of the US dollar's role as the global reserve currency and the fact that US debts are held in US dollars; as such, a devaluation of its currency, unlike in other countries, does not directly lead to a solvency crisis (and this will remain the case as long as investors continue using the US dollar as a reserve currency – something, that cannot be taken for granted). An important aspect of the crisis is the discussion concerning whether the US dollar can continue to be the global reserve currency or whether it is losing ground against the euro. If the US is able to push the crisis of over-accumulation onto other capitalist centres then it may be able to maintain its claim to economic and political leadership.[11] However, US capital is invested throughout Europe and these investments are also threatened with devaluation due to the crisis in the EU. The US bourgeoisie has not only accommodated European integration, it even initiated and largely profited from it: nowhere is capital so extensively and largely tied together as in the transatlantic region. It is not without reason that the idea of a free trade area between the US and the EU was launched during the crisis, which, according to the plans that have been made public so far, is to cover all goods and services with the exception of agricultural products.

The US government has no interest in the euro replacing the US dollar as the global reserve currency, but it also has no interest in a break-up of the eurozone or even of the EU. Therefore, the US government has pushed EU governments to increase state spending and to leverage the European Financial Stability Facility (EFSF). Further private actors have also expressed their concerns over the consequences of austerity policies in Europe. Standard & Poor's, for example, justified its decision to downgrade the ratings of some European states in January 2012 by stating that budget reorganisation policies could weaken demand and negatively affect labour markets. What a paradox: downgrading credit worthiness raises the interest rates states pay and therefore leads to more severe austerity policies. Yet in April 2012, the interest rates on Spanish government bonds were raised for the same reason: investors did not believe that the Spanish economy, faced with severe budget cuts, would recover during 2012 and 2013. It is clear that public spending cuts at the national level and in the regions, high unemployment and high private debts weigh heavily on the economy.

7. Temporarily at least financial markets can absorb over-accumulated capital.

**11** On the role of the US in global capitalism see Panitch/Gindin 2012.

Nonetheless, the circuits of financial capital can only become independent of the circuits of industrial capital to a limited degree. Particularly during crises like the current one their unity violently makes itself felt (Marx). Since the US government revoked its guarantee to exchange US dollars for gold in 1971, the international monetary system has basically been based on fiat money and credit-money. It gives capital accumulation greater flexibility because the surplus value created in previous periods is no longer its only limitation. Still, the expansion of credit also reproduces the contradictions of accumulation in an extended form: credit is only granted if there is trust in future processes of valorisation that seem to guarantee the return flow of the credit granted plus interest. The unlimited creation of credit-money is therefore impossible, because the return flow of credit-money remains bound to the valorisation of industrial capital.

The last boom phases – the New Economy boom of the late 1990s and the real estate boom during the 2000s – were to a large degree based on speculative credit creation. To generate growth at all, faster credit was required; and this was possible because over-accumulation in the industrial sector meant large amounts of savings and privatised social insurance contributions (i.e. money-capital looking for investment opportunities) was always available and could therefore be transformed into interest-bearing capital. Because the excess money-capital had a tendency to grow faster than investment opportunities, securities prices rose. The decrease in inflation rates since the early 1980s and the related decrease in nominal interest rates further increased securities prices. For many investors, therefore, interest rates and dividends were not as important as speculating on rising securities prices.

The deflationary tendency in commodities production stood in opposition to the inflation of fictitious capital. Whereas the opportunities to exploit living labour remained limited, the property rights embodied in fictitious capital related to future processes of valorisation grew ever higher. In 2011, the world gross domestic product stood at 70 trillion dollars compared with 218 trillion in ownership titles that had rights to interest (see Table 1). Under capitalist conditions such claims to yields can only be realised through intense competition and the destruction of capital. The current crisis reveals these contradictions whilst it also shows the limits of the temporal fix, that is, the will to overcome the current limits on accumulation by speculating on greater opportunities for accumulation in the future.

## 5. The crisis cycle and the multiple crisis

The major crises of capitalism are mainly defined as economic crises; their periodisation orients itself to the process of capital accumulation: the crisis between 1857 and 1859, the great depression between 1873 and 1896, and the great depression from 1929 until the end of the 1930s. The reason for this lies in the matter itself: because the reproduction of society, its "normality", begins to stutter when its material survival is endangered during a major crisis. But all of these economic crises were not only *accompanied* by crises in other parts of society; they were penetrated by them. That is why they can be defined as multiple crises. In his analysis of the 1930s, Max Horkheimer upheld the view that in society as a whole economic crises lead to far-reaching changes in society, the family and personality structure. The economy and the family weaken an individual's psychic structure, especially the superego. Crisis therefore is also a crisis of individual orientation, science, the norms of freedom and equality, reason and truth, all of which lose their binding character when they no longer guide the actions of individuals (see Horkheimer 1988a). The individual, unable to find guidance in his or her own self, looks for control and safety and for a strong outside hand. In fascist states these are leaders; in democracies, the culture industry. As leisure time, it also converts free time into a commodity and channels the blocked perspectives for liberation into consumption.

Whether Critical Theory in all its aspects can still be upheld today is not the point here. In any case, much like Gramsci, critical theorists from the Frankfurt School pinpointed important traits of Fordism. Decisive from our point of view is the idea that the crisis which broke out in 1929 was also a multiple crisis that combined various crisis dynamics; this culminated in the fascist dictatorships and in the Second World War. The concept of totalitarianism often mistakenly evokes the view of a closed society strictly controlled from above. In contrast, the societies of the period must be understood in connection with these crises: the displacement of millions of people, and the several tens of millions of people murdered in extermination camps and killed in the war. Economically, authoritarian states were able to stabilise themselves through rearmament programmes, the exploitation of neighbouring states and forced labour.

In the 1950s and 1960s a Fordist normalisation took place, and this led private consumption and armaments policies to be consolidated. Consequently, we believe that the crisis of the 1930s was "solved" by reproducing the relations and contradictions inherent in capitalism at a higher level. For three decades this strategy remained a successful means of solving crises: crises were abated and a class compromise helped stave off large-scale social conflict. But this way of dealing with endemic crisis dynamics had consequences. Mass consumption loaded the "costs" of this strategy onto nature and led to long-term changes in society's relation to nature. Regarding external nature: large numbers of people are killed and wounded by private transport; $CO_2$ emissions cause the greenhouse effect; and then there is air pollution, organic diseases, noise pollution, the destruction of buildings and forests, flooding, soil sealing, the over-exploitation of groundwater, chemicals in the food chain, large amounts of waste and so on. With regard to the internal aspects of nature: there is consumption-oriented privatisation, unhealthy food, supernutrition, inactivity leading to a loss of life purpose and rigid lifestyles; normalisation and discipline through social techniques, monotonous working conditions combined with a reduction in intellectual capacities, and resentment. Overall, Fordist regulation has proved unsustainable.

In the 1970s, faced with slow growth in productivity, rising salaries and costs for social transfers, increasing over-capacities, frequently saturated levels of consumption as well as demands for meaningful work with limited working hours, this phase of capitalism entered a deep crisis. Unemployment began to rise, gender relations began to change, the number of students rose significantly, and peak oil – the point where maximum global oil production is reached – became foreseeable. The Earth Summit in Rio in 1992 raised awareness of the fact that sustainable development is not only an issue for the Global South; the countries of the North also need to change their lifestyles, forego further growth and significantly reduce resource and energy consumption. Nonetheless, the 1990s saw no relevant implementation of ecological policies.

The neoliberal strategies that have been implemented in the OECD countries since the 1980s "solved" the problems of over-accumulation and lacking investment opportunities. They did this through globalisation, the development of a global market for corporate control, and after the end of the East–West conflict, by accessing a global labour force subjected to increasing competition. Since then, exploitation of the global labour force has been intensified. Wars over oil, so-called new wars, new forms of appropriation of resources in the countries of the Global South have enabled "accumulation by dispossession" (Harvey 2003). This has included raiding genetic resources, land grabbing and the privatisation of commons such as water. Neoliberalism builds on the bourgeois notion of a state that is overstrained by too many demands, especially from the lower classes. It argues that the state can only regain its strength by retreating from concessions made to the working class in the area of welfare and by ending or significantly weakening their organised representation, that is, both by privatising state tasks and through deregulation.

In various sections of society, generic crisis dynamics have accumulated and these have led to a public debate surrounding multiple crises: the crises of energy, resources, water, the relationship between urban and rural areas, the labour market, education and vocational training, academia and science, gender relations, politics, representation, as well as a debate about political crisis management. That is why we are dealing with a multiple crisis in the current conjuncture (see Demirović *et al.* 2011). Through their specific cyclical rhythms, these crisis tendencies, which are partially integrated into and accelerated by the economic and financial crisis, highlight the complexity of the entire capitalist social formation. The knowledge society is no longer the focus of debate, as it was just a few years ago, and dramatic cuts are being made in areas such as education, science and research. For example: the money promised by northern industrialised nations (roughly 1 billion US dollars) for the protection of the rainforests on the Indonesian island of Sumatra never materialised. Instead, the money was used to save the banks: the forests were then sold by the governor to the paper and palm oil industries.

The Fukushima disaster led to a change in German energy policy and created hopes that the market could solve at least some aspects of the crisis that society's relation with nature has led to: it was hoped that the *financialisation* of nature would lead large amounts of free money-capital to be invested in wind and solar energy or in electric mobility projects; this was seen as a "win-win" situation. But such ideas are blind to their consequences: market-driven processes are rarely sustainable because they follow the dynamics of the imperative of expansion. As soon as these investments are no longer profitable they are cancelled and replaced. Furthermore, these supposedly green investments actually lead to distortions of society's relation with nature: destruction of landscapes, protests by the affected local population, resource use, waste, and competition over agricultural land. This is intensified by geo-engineering strategies that promise simple but nonetheless expensive technological solutions (see IfG 2011 for possible scenarios).

Characteristic traits of this kind of crisis management are policies that help separate and order in time and space moments which are amalgamating into a unity of organic crisis and rupture. In many ways bourgeois forces have succeeded in doing this. Over the course of the crisis the bourgeoisie has not been fundamentally weakened or become demoralised; instead it has been more preoccupied with finding ways to defuse the crisis and pass its consequences on to others. Yet the crisis has still not been overcome and all the problems remain. Currently a strategy is being followed to postpone the crisis and transfer its consequences onto the lower social classes and onto peripheral societies. Such a strategy can only be successful if the circuits of capital, the relationship with nature and inner societal relations become normalised to a certain degree. New security and governing technologies are being developed for this purpose (see Lentzos/Rose 2008). It cannot be excluded that these measures will be successful and this major crisis could lead to an enforcement of a new level of the expanded reproduction of capital. Each time this occurs, the contradictions from the previous levels deepen. Even though the relevant knowledge is available, society continues as if the accumulation of wealth for the few were possible without the far-reaching destruction of society and its relations to nature.

From a regulation theory perspective the current crisis poses problems both with respect to its extent and to its periodisation. In the debate, the situation has been assessed in very different ways. Fordism began with the introduction of the standardised mass production of cars in the early decades of the 20th century. It became established and flourished with the crisis of the 1930s, the New Deal, rearmament policies and the rebuilding of European economies in the 1950s. In regulation theory, the year 1973 is considered a turning point: the crisis of capital valorisation, the oil crisis, the end of the welfare state and then, at the end of the 1970s, the beginning of the neoliberal counterrevolution, which restructured the economy and class relations, led the state into post-Fordism, and established the triadic structure of the global economy and the competition state. The question that then arises is how to assess the 2000/2001 crisis of the New Economy, and the 2008 crisis.

Currently there are different perspectives: a) that the Great Depression of the 1930s signalled the beginning of a *great wave* of accumulation under the hegemony of the USA, which fell into crisis in the 1970s but actually only ended in 2008 (Schmidt 2009, 525); b) that the 2008 crisis ended the era of neoliberalism and we are now in a period of transition, an interregnum with various possible outcomes (Candeias 2011); c) that the extreme accumulation of fictitious capital and the current crisis show that capitalism is approaching its end because the productivity increases owed to the third industrial revolution are leading to a shortage in value-creating labour (Lohoff/Trenkle 2012); d) climate change and the extent to which resources are currently being exploited imply that humanity is faced with a fundamental alternative: the complete destruction of our own species, or a solar revolution aimed at changing our entire lifestyle (Altvater 2010); and finally, e) the current crisis is a step towards the enforcement of a form of transnational high-tech capitalism – and in this sense similar to the enforcement crisis of Fordism in the 1930s (Haug 2012). These questions have not yet been directly or thoroughly analysed. However, as crisis management technologies have become more complex, there is a possibility that catastrophe might be prevented and that the crisis could become temporalised. However, this also raises the question of the ways in which the problems that have been built up until now will be discharged.

## 6. European crisis policies and their contradictions

The eurozone and the EU are tightly in the grip of the crisis: it was only in countries such as Germany and Austria, as well as in Scandinavia, that the impression developed that the 2008/2009 crisis would be a short recession.

During the crisis the banks were saved with public money. This secured the ownership titles of the wealthy and the savings of small investors, as well as the bonuses of bank managers and – within certain limits – also their business models. Banks were pushed to raise their own capital; but the height and value of these reserves provoked debate. Stress tests showed the low resilience of the capital held by the banks. Right after the crisis broke out, the introduction of a financial transaction tax was discussed, but until now it has been opposed, particularly by the UK and Sweden.[12] In October 2012, after it had become clear that there was no EU-wide consensus, eleven EU countries decided to introduce a financial transaction tax. The Economic and Financial Affairs Council denoted this "enhanced cooperation" as in accordance with EU legislation. A tax rate of 0.1 % is planned on all sales and purchases of stock and bonds, as well as a rate of 0.01 % on all sales and purchases of derivatives. The revenue this tax will generate, the redistribution and steering effects it will have, and the strategies investors will develop to circumvent it all remain to be seen.[13] When the banks where saved with public money they were not expected to make important changes to their business models. Even the level of the planned bonuses was often accepted because bonuses were considered necessary to keep competent managers on the payroll.

Banks are secured by guaranteeing the liquidity of states in financial difficulty through debt guarantees or emergency credit from other EU countries via the EFSF and the ESM. This supposedly enables banks to meet their financial obligations and secure their refinanc-

**12** It is frequently overlooked that Sweden, as a model social democratic country, has a relatively financialised economy in which, for example, pension funds play an important role that also play out politically. **13** If the rate is set too low or if the financial transaction tax is introduced in only a few countries then it could lose its power because it would not be able to prevent speculative financial transactions. But if more countries were to introduce the tax, and at a higher rate, this would also lead to a fall in the number of transactions due to the fall in profitability.Consequently, this would also lead to reduced revenues and less distributive effects.

ing on capital markets. Moreover, since President Mario Draghi's declaration in summer 2012, the ECB has been able to buy unlimited amounts of government bonds from any country submitted to a structural adjustment programme negotiated by the troika: (the European Commission, the ECB and the International Monetary Fund – IMF). This reduces the level of risk for banks and they possibly no longer need to list and write off "toxic" papers on their balance sheets. The ECB and other central banks also grant credit at favourable conditions to support the interbank lending market so that distrust in the liquidity of banks need not lead to an interruption of the money circuit – which would have far-reaching consequences for the liquidity of the market's participants, the refinancing of companies and in terms of a loss of trust among investors, savers and consumers. Nonetheless, the IMF fears that measures such as long-term credit for banks and bond-buying programmes bear the risk that banks will delay cleaning up their balance sheets. Another fear is that when market factors lead to a rise in interest rates, central banks will be faced with enormous losses on the bonds they have bought (see NZZ, 12.4.2013). Furthermore, these guarantees lead to profits for the wealthy. The low-interest money from the ECB and other central banks is, for example, then invested by banks in government bonds with higher interest. Investors who for example bought Greek government bonds according to international legislation in January 2012 profited not only from their high rates of interest but also from rising prices during the second half of the year after the defeat of the left in the June elections became clear. These bonds brought a 98 % return in 2012 (Zschäpitz 2013). A UK study showed that the loose monetary policy of the Bank of England favoured rising prices for shares and bonds, and that this mainly benefited the rich (Elliott 2012). Accordingly, it has been politically possible for the wealthy to assert their claim to returns. Still, there were conflicts because *offshore leaks;* that is, the publication of data about tens of thousands of wealthy people, would not have happened if groups in banking or the US administration had no interest in limiting the power of the wealthy. IMF economists were also worried that rescue measures and attempts at regulation had been limited to banks and had not included the shadow banking system, pension funds and insurance – and, one should add – the finance departments of private and public companies, which are major players in finance-dominated accumulation (see NZZ, 12.4.2013).

If states and banks are considered crisis-prone because they have to expect write-offs, their capital market risks rise as do interest rates. This benefits the creditors; not least because talk of crisis leads to debt restructuring negotiations and refinancing, which drives up long-term interest rates. Creditors do sometimes have an interest in high government debt and high interest rates. Nonetheless, a counter tendency also develops, because beyond a certain limit of debt and interest it becomes increasingly unlikely that the debts and interest will be serviced. At this point creditors are more interested in austerity measures: securing monetary stability, reducing government liabilities, budget consolidation, the reduction of state expenditure, and increasing revenue –

as long as this does not affect capital owners themselves.

On the one hand, for the export-oriented industries in countries such as Germany, austerity policies have negative consequences because they curtail demand in the countries where they are implemented. In 2012 the eurozone once again entered into recession. On the other hand, it is precisely the representatives of export-oriented German industrial capital who are in favour of austerity. The reason could be that important parts of German industry have such a superior position in the international division of labour that they do not depend on currency devaluations to defend their competitiveness. On the contrary: when it used the D-mark, German industry dealt quite well with currency appreciation. Due to its high export surplus, export-oriented German industrial capital has an interest in secure investments for its revenues. Therefore both export-oriented German industrial capital and financial capital have a shared interest in the stability of the value of the euro, which is expressed in a near fanatic fixation by the German public on budget consolidation and the fight against inflation in Europe.

These joint interests of the dominant factions of capital in the German power bloc have been further boosted by the following development: in the last few years, German exports to non-eurozone countries have grown faster than exports to countries within the eurozone. Many companies see their future in emerging markets such as China, India, Brazil or Russia; compared with these markets, Greece is of little importance. The international role of the euro is of far greater importance, in other words, the acceptance of the euro as a means of payment and a reserve currency outside of the eurozone (see Lapavitsas 2013). The globally oriented factions of capital in the eurozone naturally profit more if they can ensure that they can do business in euros because doing so does not expose them to currency risks. But this situation depends on the stability of the euro, and this is what is being defended through austerity policies. Yet because austerity policies perpetuate and reinforce the crisis in the eurozone countries in which they are applied, new contradictions and conflicts arise between those in power. For example, for some time there was no consensus on whether Greece should be excluded from the eurozone, because it was unclear how this would affect the euro and the stability of the EU; it was also unclear which effects this might have on the dominant factions of industrial and financial capital. The same questions arose concerning Cyprus: exclusion, orderly default or capital aid? A eurozone break-up and a return to national currencies has also been discussed in Germany by means of a statement by a number of university professors[14] and the creation of a new party called *Alternative für Deutschland* (Alternative for Germany).

The crisis of the financial markets and the strategies to overcome the crisis exacerbate the contradictions and tendencies inherent to neoliberal regulation and the finance-dominated regime of accumulation. Public budget cuts represent a frontal attack on the remains of the Fordist class compromise: public employment, public services and transfer payments can no longer be maintained at

**14** http://www.faz.net/aktuell/wirtschaft/europas-schuldenkrise/stellungnahme-im-wortlaut-vwl-professoren-ueber-europas-schuldenkrise-1596622.html their current levels. Austerity policies are not only a direct attack on civil service employees and welfare recipients, but are also an attack on wage-earners in general. The reduction in public services, collectively consumed by wage-earners (for example in education, healthcare and public transport), weakens the social conditions required for the reproduction of labour-power, thereby helping to make it cheaper. This is also the aim of the private sector salary reductions envisaged by austerity policies. Moreover, government expenditure and state transfer payments strengthen total demand. In the case of highly import-dependent countries this also has consequences for the countries that export to them and whose demand has dwindled.

This leads to the question of how speculation on the bankruptcy of eurozone states could even be possible. The crisis in the US has not been overcome and the Japanese government, for example, also recognises that speculation by global investors could well turn against the Japanese economy and the yen. With a debt of 240% of GDP, Japan is the most highly indebted OECD state: half of Japan's budget is financed through loans, and new debt formation has superseded tax revenues for many years. Consequently, about one quarter of the budget is used to service debt. However, Japanese state debt is mainly internal. Similarly, the US has the advantage that its unique economic, political and military capacities stand behind its own currency, which means the US is able to ensure the dollar maintains its role as the global reserve currency in spite of high budget and current account deficits. It is precisely for this reason that US government bonds are still the benchmark for all forms of global investment (see Panitch/Gindin 2012).

The situation is more complicated in the EU and the eurozone. The current crisis has brought into the limelight not only the contradictions of the global finance-dominated regime of accumulation, but also the internal contradictions of European integration. These result from the international division of labour and uneven development; put differently, the relations between the imperialist centres, i.e. the US, the UK, Germany and France, and the peripheral European states. The export of capital and commodities from the centres means the periphery is relegated to a position of net debtor.[15] Even today very little seems to have changed with respect to this situation (see Müller/Schmidt 2010).

Because Greece, unlike Germany, does not have a broadly differentiated industrial structure, the country can hardly compete with Germany in many areas. This is a fact that not even wage reductions in Greece can change. In 2011, labour costs in the German manufacturing sector amounted to 46 US dollars per hour; in Greece they were 19 US dollars (Brangsch 2011, 4). The idea that high salaries caused the Greek crisis is then implausible. The situation in countries such as Italy or France is different as many industrial sectors do actually compete with German manufacturers. It

**15** Whether the balance of payments disequilibrium within the EU is due to trade or capital flows is a debated issue in critical social science discussions. The German left focuses mainly on the disequilibrium of the balance of payments on current accounts. In contrast Milios and Sotiropoulos (2010) argue that Greece's current account deficit is not the cause but the consequence of high capital imports. From our point of view the balance of current accounts shows no clear causality and it results from numerous private and public transactions in the different circuits of capital. Depending on the concrete involvement of a country in international circuits of capital the balance of payments can be determined by different factors.

must be remembered that in no other EU country have nominal unit labour costs grown so slowly as in Germany (European Commission 2011, 94 f.).

Countries such as France or Italy have come under increasing pressure and have been faced with growing current account deficits. Uneven development and the pressure on wage-earners to adapt – in particular in countries with current account deficits – are intensified through the unified currency. Monetary policy in the eurozone treats its constituent countries as having a status comparable to that of regions within a nation state. When they still had their own currency, a loss of competitiveness could – at least in part – be compensated for through currency devaluation; this mechanism no longer exists in the eurozone. Uneven productivity gains in individual eurozone countries lead to a situation in which countries with slower productivity increases are no longer able to offer competitive prices. This in turn increases the pressure to reduce salaries, social spending and capital gains taxes. There are no Europe-wide associations of unions, no efficient co-ordination of national collective bargaining policies let alone transnational wage conflicts to counter this. Moreover, there is no unified fiscal policy – a joint European tax policy – that could prevent the race to reduce taxes in Europe. Furthermore, there is no transfer mechanism, such as the German *Länderfinanzausgleich* (a financial adjustment programme aimed at creating equal living standards between regions in Germany), that could create a balance between countries faced with uneven development (see Altvater/Mahnkopf 1993; Heine/Herr 2006).

With European monetary union and the European stability pact, norms were agreed that limited national debt (to 60% of GDP) and regulated the amount of new borrowing allowed (to 3% of GDP). These arbitrary debt limits were implemented mainly due to the pressure from the German government. But during the establishment of the eurozone the rules that had been agreed upon were broken for political reasons. For example, Italy, with a debt of more than 100% of GDP, was nonetheless admitted to the eurozone. Politically it seemed unthinkable to exclude a country that had belonged to the founding members of the European Economic Community.

The main economic strategy from the start was to ensure that the euro area was large enough to have sufficient international weight. After the crisis of 2000-2002 it became clear that even countries such as Germany and France would not be able to fulfil the rules of the stability pact because of the low growth rates they were experiencing. By this time, the stability pact was not worth the paper it was written on: both Germany and France avoided sanctions for exceeding the deficit limits. Nonetheless, the norms of the stability pact, which can only be interpreted as dysfunctional when viewed from a macroeconomic perspective, are maintained and have been made even more severe through the recently agreed upon European Economic Governance measures and the fiscal compact.[16] This was done, on the one hand because these are an adequate means of disciplining wage-earners in the euro area, and on the other hand probably because of the relative

**16** See *European Economic Governance,* Konecny 2012; for a critique of the fiscal compact, Karrass 2012; Oberndorfer 2012.

autonomy of the ideological: in German economic science in particular, there are hardly any positions that differ from the *pensée unique,* or one-dimensional neoliberal thinking.

The stubborn refusal to let go of the norms of a balanced budget by European governments, as well as their attempts to implement these norms by threating sanctions, promotes speculation about the bankruptcy of weaker states; this benefits transnational investors. First, because the interest rates on government bonds have risen. Even in a case such as Greece, where a cancellation of debts was negotiated, private creditors do not necessarily lose out because the market value of state bonds remains far lower than their nominal value and their cancellation is calculated as a percentage of their nominal value. Creditors with old government bonds exchanged them for new bonds with interest rates above the pre-crisis levels, and these are now even secured by EFSF or ESM guarantees. If creditors bought their original bonds at a price lower than the price of the new bonds they even actually made a profit. Clearly, the economic and political power of investors has prevented the countries in crisis from unilaterally refusing to further service their debts.

Against this background it is hardly surprising that currently all the contradictions of the global finance-dominated regime of accumulation and European integration condense at this point and make the crisis appear to be a crisis of state re-financing and the euro. Different parts of the EU are increasingly drifting apart. This leads to the question of whether the eurozone (or even the EU) will break apart, or whether instead European integration will deepen, and this will stabilise the EU; whatever happens, the status quo can no longer be sustained.

## 7. Germany and the crisis in crisis management

Germany has played a special role in the developments of the last two decades and the current crisis: after German unification Germany took on huge debts to pay for structural policies to mitigate East German de-industrialisation and to develop public infrastructure. The rate of unemployment was high, the dual system of unions and wage-earner representation within companies was increasingly hollowed out, and this occurred especially in eastern Germany. The opening up of Eastern Europe, the immigration of highly qualified workers and the relocation of production and services to Eastern Europe put a lot of pressure on employment relations.

Whereas the systematic restructuring of the German model under aspects of the finance-dominated regime of accumulation was slow during the 16-year government of Helmut Kohl, this process significantly sped up from 1998 onwards under Gerhard Schröder with numerous new laws.

The conservative coalition government, made up of the CDU/CSU and the FDP, introduced the first Financial Markets Promotion Act and abandoned the property tax. However, this promotion of the financial markets was continued by the SPD and Green Party coalition government, which promoted private equity companies and hedge funds, provided tax reductions for profits from equity sales, and reduced inheritance tax and the maximum tax rate for high incomes, as well as many other things. New forms of companies and business models were justified in political discourse by arguing that Germany also needed to be competitive in the financial markets and that this would help attract investors.

Using the Maastricht criteria, Germany enforced a neoliberal monetary policy that strongly limited the options for state economic policies, public investment and political steering. This was further intensified through the so-called brake on debt and the fiscal compact. German companies profited from the introduction of the euro. Before the introduction of the euro, the increasing competitiveness of German companies had been followed by a revaluation of the D-mark which, at least in part, had ensured that German companies could not outcompete their European neighbours. This dampening effect of exchange rates on competition is no longer available in the eurozone. From the mid-1990s, nominal unit labour costs grew significantly more slowly in Germany than in all other EU countries, which was mainly due to German wage restraint policies and not because of greater productivity increases (Lapavitsas *et al.* 2011, 15f.). After the introduction of the euro, the weaker economies were unable to react with a devaluation of their currency.

The pressure exerted by competition on the labour market, employees and unions was further increased politically during this time by companies, political parties and government. Attacks on the unions forced them onto the defensive. Compared with many other European countries, Germany has long been a country with very few strikes, and the number of work days lost to strikes and lock-outs has decreased significantly since the 1980s (strikes cost 1.61 million work days in 2006, but only 300,000 in 2011, with just 180,000 people going on strike) (Dribbusch 2010, 147, 159; Böckler-Impuls 6/2012, 2).

In Germany the disciplining of wage-earners through Agenda 2010, the Hartz legislation and the expansion of the low-wage sector can be viewed as a prerequisite for the enforcement of austerity policies on wage-earners in the whole of Europe. Conversely, the attacks on the Greek, Spanish, Portuguese and other wage-earners will soon have its repercussions on German wage-earners and may lead to another round of social and salary cuts.

In the short term, Germany has profited from the crisis. The economic and political weight of Germany in Europe has increased further. The demand for German government bonds has grown to the extent that investors have rejected the government bonds of other European countries. Germany appears to be a safe haven for transnational investors. Interest rates for German bonds have therefore gone down, whereas they have risen on the bonds of most other European countries. In the short term, refinancing has therefore become cheaper for Germany.

At first sight, the German government's harshness in European crisis management is not only incomprehensible, it also seems to contradict the weighty interests of capital. The demand for an unlimited buy-up of state bonds by the ECB to reduce interest rates for EU states with a refinancing crisis and to reinstate trust in these countries' bonds was raised early by Anglo-American investors; it met with stiff resistance from the German government and especially the German central bank. The same is true for the introduction of Eurobonds, which were proposed by Jean-Claude Juncker and other EU politicians at the end of 2008, and have so far been blocked by Germany. At the same time it is obvious that the policy of harsh cuts enforced on Greece and other crisis states by the troika of the EU Commission, the ECB and the IMF under German leadership can only drive these countries further into crisis. Does that mean the dominant crisis policy is irrational, even from the point of view of the reproduction of capital?

The politics of austerity initially seems to contradict demands for the monetary financing of states or the collectivisation of debt. Whilst austerity policies are primarily aimed at reducing state debt, the EFSF, the ESM and the expansion of the role of the ECB as the lender of last resort for eurozone states create the conditions for states to take on even greater debt. Eurobonds would also raise the capacity of eurozone states to take on debt. Nonetheless, the apparent contradictions between these measures only exist at a superficial level. Ultimately, austerity measures will not lead to a reduction of state debt and will at most create conditions that rebuild investors' trust in European state bonds. Should austerity measures drive countries into even deeper recession, tax revenue will decrease and state debt will rise rapidly. In the best-case scenario, in which the recession is overcome but stagnation occurs, austerity measures might lead to the slower growth of state debt. But even the IMF believes that the average rate of debt in the eurozone, which has already risen from 80 % of GDP in 2009 to 92.9 % of GDP in 2012, will rise to 95.13 % in 2014 (IMF 2013, 161).

In the end – and in spite or maybe because of austerity measures – an even greater share of the domestic product and tax revenues will be used to service debts. Austerity, just like the broadly debated collectivisation of debts, is aimed at preventing an even greater devaluation of the fictitious capital embodied in government bonds. The point is not to reduce government debts but to make them sustainable. Government bonds are an indispensable investment opportunity for financial investors, given that financial assets have been growing faster than the global domestic product for many years.

But if austerity and the collectivisation of debt or monetary state financing by the ECB are only different ways of rebuilding trust in European bonds and of guaranteeing debt sustainability, why do European governments not choose a more comfortable path such as loosening austerity measures and concentrating on the collectivisation of debt? Clearly, without austerity measures, state debt in the eurozone would rise even faster. But why should that be a problem? For decades, Italy has maintained a debt rate of over 100 % of GDP without problems, because, like in Japan, it was predominantly internal debt (see Grasse 2012). Why then it is becoming a problem now? The US, too, can afford to have a debt of more than 100 % of GDP, and Japan's debt is even more than 200 % of GDP. Why then are German and European austerity measures so harsh? If eurozone debts were purely internal debts the situation would not be so dramatic.

Austerity measures are not simply aimed at curtailing state spending or increasing tax revenue by levying the lower social classes. The aim is also to reduce private sector wages, increase working hours and therefore to generally increase labour exploitation. Austerity measures cannot solve the crisis but they enable the enforcement of long-standing demands on the side of capital that had previously remained unenforceable. Austerity measures are not aimed solely at saving the banks (this could also be achieved by the ECB if it were to buy up government bonds held by banks), but instead serve industrial capital and in particular export-oriented industrial capital in its search for higher profits.

Correspondingly there is a lot of *social demagoguery* at play, problems are nationalised and culturalised: hard-working Germans are contrasted with lazy, wasteful southerners. Living beyond one's means is supposedly no longer an option. This helps avoid a central point: in countries such as Greece or Italy the rich basically do not pay taxes and just as in Germany it is the upper classes that appropriate the wealth produced by society. On the other side of the Greek debt, wealth is being appropriated by the rich and the super-rich who have plundered the state through corruption, tax evasion, subsidies or overpriced state contracts. Significant sums of money have been moved abroad (to Switzerland, Cyprus and Singapore). Debt securities have been transferred from Swiss accounts into the eurozone merely to apply for aid.

There is a further dimension to austerity measures: they are not simply about defending the euro; rather they are particularly about defending the international role of the euro (see Lapavitsas 2013). The euro is not only a means of circulation and payment within the eurozone, it also functions as world money, as an international reserve currency, even if it is in second place behind the US dollar. It is not without reason that the ECB publishes a yearly report on the international role of the euro. The stability of the euro is important for competition between currencies; a stable euro provides a measure of value, and a means of circulation, payment, and accumulation. International banks and transnational corporations from the eurozone profit in particular when they provide loans in their own currency, and if their business partners pay in euros; this reduces their currency risks. Eurozone banks and corporations rely on how far actors outside of the eurozone are prepared to use the euro. This becomes ever more important as links to actors outside of the eurozone develop. In Germany, for example, exports to countries outside of the eurozone grew faster in the last few years than exports to eurozone countries. The defence of the euro through austerity measures is therefore not only the result of German capital's strategy towards Europe; it is mainly the result of its strategy for globalisation.

But the interests of German capital are not the only reason for the German government taking on the role of taskmaster in Europe; it has also done so in the interests of dominant factions of capital in other eurozone countries. This is the only way to explain the alignment of former French president Sarkozy with the German chancellor, Merkel. Even the Greek government does not want to leave the eurozone, in spite of the fact that austerity measures are destroying the country's internal market and affect those parts of capital that rely primarily on it.

However, it is not only from an economic perspective that the strategies being implemented to solve the crisis are problematic. From a political perspective, the management of the crisis is increasingly pushing politics into an authoritarian liberal direction (see Fisahn 2012; Konecny 2012; Heinrich 2012; Oberndorfer 2012a). In October 2008, policies similar to those that are implemented in states of emergency were put in place in order to establish a special fund to save the banks. Power was granted to a small panel to rescue the banks wherever necessary, but the panel was not placed under parliamentary control. Additionally, democratic decisions surrounding solutions to the crisis have been systematically prevented: in Greece, for example, the announcement at the end of 2011 by the then Greek minister president, Papandreou, to hold a referendum on the cuts demanded by the troika was revoked under international pressure. In November 2011 in Greece and Italy, after Papandreou and Berlusconi stepped down, so-called expert governments were installed to take decisions based on perceived constraints and independently of parties or the will of the people. Neither in these countries, nor in Spain, Portugal, France or Germany have protests been able to force an abandonment of austerity measures.

The fiscal compact was decided without regard to the treaties and procedures of the European Union. It forces strict budget discipline on legislators and foresees high penalties for infringements. This treaty between states has no termination clause. Furthermore, the opposition of German parliamentarians to Chancellor Merkel's policies led her to remark in a press statement dated 1 September 2011 that she would find ways "of organising parliamentary participation in decision-making that would ensure market conformity is maintained".[17] Commentators were shocked by the focus on market conformity; although the fact that parliament's role is reduced to participation in decision-making is already a scandal in itself. One approach that was considered temporarily was denying parliamentarians the right to speak in parliament if they refused to conform to the party line; this was blocked by parliamentary and public resistance. A book title that was actually intended to provide a serious policy option describes the situation quite well: Dare less democracy (Trankovits 2011).

## 8. What should be done?

Giving advice at the end of a text is seen as problematic. Are the conclusions provided really based on the analysis? Is doing so not similar to the thinking of those in power? Or why should we give them advice anyway? Then there is also the democratic-theoretical irritation of providing "the left" with advice: is it right to give advice for action, or is that not also somehow authoritarian? Clearly "the left" is not a homogenous collective subject. But within the left there are people and groups dealing with similar matters and issues to those that we are dealing with here. Our thoughts are viewpoints we would like to see discussed by the left, not least as a means of helping turn the left into a subject capable of action and of developing its own perspectives in the crisis.

The following proposals are not all-encompassing; there are many more. The current situation in Germany is not like the situation in Russia in the autumn of 1917, where the needs of many people could be condensed into a few central

**17** Documented by the *Blätter für deutsche und internationale Politik,* see (in German) http://tinyurl.com/79s6yyz.

demands (such as *bread and peace*). Our proposals still need work. They are not aimed at ending a discussion; rather, they are made in the hope that they might start one. In other words, we are simply making use of our right to express ourselves, but do not want to stop others from doing the same. Instead of lamenting the crisis, we hope to contribute towards an analysis that provides options for action. We also do not believe that the left can simply speculate that there will be protests and that perspectives will spontaneously develop from them.

The following proposals build on the assumption that a socialist transformation of society is necessary, and that this will only be possible if the left develops a dialectic understanding of the concepts of reform and revolution. This means seeing reform and revolution not simply as opposites, but instead recognising that reforms have different effects on the power relations and the development of society and can therefore – to a greater or lesser extent – aid the overcoming of the capitalist mode of production; whereas revolutions may not necessarily lead to the required depth of social change. Importantly therefore, and in the vein of a *revolutionary realpolitik* (Rosa Luxemburg), we need an ambitious and action-defining concept for social transformation (Demirović 2012). Reforms would have to be discussed not only in terms of how they contribute to improving the living conditions of the subaltern classes, but also in terms of how far they create conditions conducive to a break with the existing relations of domination.

1. The first tasks for the left are understanding and explaining the mechanisms by which social processes are organised so that the wealth of society ends up in the hands of a few. De facto, the neoliberal reforms since the 1980s in the OECD states have led to an immense redistribution of wealth. The wealth of a small number of rich people has grown tremendously. On the other hand, the exploitation of wage-earners and the number of people who are poor, unemployed and in precarious conditions has increased. The task will therefore be to end attempts at intimidation based on the argument that the financial crisis is incredibly complex, as well as to counter false interpretations (such as that the situation can be blamed on greed, the pursuit of interest, or German imperialism) because they have the wrong practical implications. Such analyses are necessary for the left to develop greater clarity and rationality, at least if we assume the left to be a social force interested in building a free and enlightened society based on the idea of work and the free development of all, instead of on the idea of profit for the few.

2. The economic and financial crisis points to the two-sidedness of work. Work not only produces use values, it is also the basis for the appropriation of value. The extent of over-accumulation is gigantic. Capitalist societies have become too rich for this wealth to continue expanding. There is no alternative to the destruction of capital. This can take place as the destruction of entire economies, individual companies or debt securities, as a creeping process of inflation – as is de facto happening if one looks at the development of prices and interest rates – as an expropriation of savers' bank deposits (as in the case of Cyprus) or in a democratically organised process in which decisions are collectively made to either annul or confirm property rights.

This can result in the closure of companies or banks, in the introduction of compulsory loans or the transfer of ownership from private to public. For example, the campaign for a European debt audit pursues the goal of a democratically organised annulment of property rights and the destruction of (fictitious) capital. The aim is to differentiate between the different groups of debtors: wage-earners and their savings, pension funds and insurances, or hedge funds involved in speculation. Correspondingly, decisions can then be taken about which debts are to be recognised and serviced and which are not.

3. The euro was not a project of the left; on the contrary, its introduction was accompanied by a lot of criticism (see Altvater/Mahnkopf 1993; Glawe/Schröder 1997). In general, these fears have been confirmed: there has been an increasing re-distribution of wealth from below to above and a dismantlement of the social rights of the subaltern classes; there has also been a diverging development of EU countries and a reinforcement of democracy deficits. Nonetheless, the euro was also not simply a German project (see Bieling/Steinhilber 2000; Bieling 2010). Rather, the euro was introduced because the high density of transactions in Europe meant flexible exchange rates were dysfunctional and because earlier attempts to stabilise exchange rates such as the European Monetary System had failed because of the contradictions inherent in the international division of labour and uneven development. A return to national currencies would only enlarge the possibilities for currency speculation in Europe. It is probably unrealistic to think that countries such as Greece would gain more room for manoeuvre by exiting the eurozone.[18] The boost to exports through a devaluation of the currency would also lead to higher import prices and an elevation in real terms of foreign debt. Most likely there would be no change to the extremely unequal structures of production, and neither Greece nor Portugal would have much to export. Inflation would rise and the savings and pensions of wage-earners would become devalued. This would lead to an increase in poverty, emigration, the transfer of savings, and dependency. Another question is whether a departure from the euro would not also signal the end of European integration and provide further impetus for nationalism, authoritarianism and fascism in Europe.

It is not the task of the left in this crisis to defend or mobilise against the euro. There is no clear correlation between the euro and socio-political orientation – there are pro and contra positions both among bourgeois and left-wing forces. For the owners of German companies, the euro has many benefits because the export surplus resulting from high competitiveness and the in-part low salaries would lead to a revaluation of the currency if the D-mark were still to exist and importing countries would face devaluation. Still, competitiveness depends on the development of productivity, the range of products and the quality of work. Furthermore, it is important not to forget the extent of capital cross-ownership: Europe is no longer constituted

**18** Costas Lapavitsas and his co-workers have repeatedly upheld the counter thesis; see Lapavitsas *et al.* 2011, Flassbeck/Lapavitsas 2013. For a criticism of Lapavitsas see Onaran 2011, and Husson 2012. Andrés Musacchios is also instructive on the comparison of the Greek situation with the Argentinian crisis during the last decade (Musacchio 2012). Furthermore, see Candeias 2013 for more on this discussion and Joachim Becker's critique of the first version of our essay in Prokla 166 (Becker 2012).

by closed national economies. We believe that these factors would mean that even if the German economy were to be taken out of the eurozone it would still have basically the same influence. A newly introduced D-mark would probably be revaluated against the euro or other re-introduced national currencies. But due to differences in productivity and industrial structures, many EU countries would continue to depend on imports from Germany or on products made by German companies. Only protectionism and a long-term policy to build balanced industrial and service capacities could really raise competitiveness. But this would require capital and opportunities that provide the room for action. These countries would therefore become mainly dependent on foreign investors and creditors (from Germany, the US, Arabic states and China) who would expect high yields. Because of this dilemma we think the main task for the left is to improve the defence of the subaltern classes against austerity policies. In Germany for example, the left needs to support the next round of collective bargaining, which needs to be based around salary increases that are greater than the sum of productivity gains and the target inflation rate. Women's wages should be raised to the level of men's wages, and equal rights and equal access to the labour market for migrants living in Germany without a German passport should be enforced. Important goals are a general reduction of working hours, revoking the retirement age now set at 67 and linking life working time to productivity gains, increasing the basic payment to the unemployed *(Arbeitslosengeld II),* introducing a general subsistence minimum wage, increasing the top rate of income tax and encouraging dynamisation in tax progression, re-introducing a property tax and a levy on wealth, developing public infrastructure in the areas of childcare, care, education, university teaching and research, nationalising the railways and promoting public transport, and re-communalising public goods such as water or electricity. A goal for the European Union must be equality in living conditions based on social and ecological sustainability. This must be achieved through a democratic structural and regional policy that is not bound to goals of growth and competitiveness, but instead aims for balanced forms of development within the framework of a new European division of labour.

4. Forms of solidarity economy and economic democracy are important building blocks for a transformation of the capitalist economy (see Dellheim 2008; Demirović 2007). A solidarity economy rests on transactions that are not based on the market and competition: donations, providing one's labour for free, and barter exchanges; as well as forms of shared and common ownership, created and cared for by many people (such as open source software).

Co-operatives should also be included here, and they need to be strengthened through legislation and the development of university courses, research and consultation. They bind capital at the local level, facilitate the participation of their members, and excess income is re-invested to a high degree. In a formal capitalist economy, economic democracy can influence companies and politics: selling or buying could be an object of democratic decisions, just as working conditions, lay-offs and new employment, investment, research and development. Economic democracy would have to be further enhanced by implementing the participation of worker representatives on company boards, for example in all companies with over 500 employees, irrespective of their legal form. Additionally there should be a participation of consumer representatives. This would include a systematic and democratically organised discussion about the needs of society and the products on offer. German trade unions began demanding economic and structural councils for entire industries decades ago; they should now be implemented. This would be important, so that not only in Germany, but in the EU as a whole, a balanced industrial and services structure could replace the authoritarian-liberal fixation on competition. This would be accompanied by an expansion of the public sector led by bodies subject to democratic control. This would also apply to public service media. Instead of the current control through parties and associations, the boards would have to be democratised in a way that would allow for democratic and critical media coverage and public debate.

Today, the financial sector is viewed as a central field in economic democracy. The democratisation of this sector cannot be achieved simply through participation at the operational or corporate level of banks, funds and insurances. There is not only a need for measures such as a financial transaction tax and strict banking regulation enforcement (for instance, to ensure a higher equity ratio). Beyond such measures of regulatory policy, it is necessary to consider the complete concentration of savings and credit provision in public banks, and to control them democratically. Clearly, this would make it possible to grant all citizens a free current account; but public ownership is also the *necessary* prerequisite to counter the speculative use of savings and profit-oriented money creation out of nothing.[19] Loans could be granted based on democratic, socio-ecological considerations.

5. Concerning EU policy, the left struggles on two fronts. On the one hand it must visibly criticise the neoliberal fundaments of the EU and reject all attacks at the EU level by those in power on democracy, working conditions and the social rights of wage-earners. Therefore it was right to object to the EU constitutional treaty that aimed to enshrine a neoliberal economic and social order. It is therefore equally correct to reject the Euro Plus Pact, the so-called "six pack", the fiscal compact and the competitiveness pact because all these measures aim to intensify the neoliberal orientation of the European Stability and Growth Pact and to further curtail the budget sovereignty of national parliaments without strengthening democracy at the European level in return. On the other hand, the left should oppose national and/or nationalist (including left-wing nationalist) arguments and strategies. The specific challenge is to develop convincing strategies to counter right-wing populist campaigns and authoritarian statist processes. It is important to break out of the game of identification and counter-iden-

**19** Public ownership – in the sense of a purely *legal* ownership – is not a sufficient pre-condition to achieve this, as the development of the German *Landesbanken* shows. New forms of democratic control of public companies have to be developed. For banks as well as for other companies it is true that for as long as a public sector co-exists with a private sector, then public companies have to compete with private companies for market shares and function in a similarly profit-oriented manner. Under such conditions public goods are always at risk of becoming a purely legal construction, embellishing the subordination of the public under the capitalist mode of production.

tification; the point is not counter-identification but disidentification (Pêcheux 1984).

This should not be about a defence of the current EU, nor should it be about a return to the nation state: the goal should be the unity of the subaltern classes in Europe through joint struggle. As of yet, the Europeanization of struggles has hardly ever been successful.[20] Exemplary in this sense was for example the European day of action on 14 November 2012, as well as the solidarity strikes across different plants against attacks on the workers by multinational corporations, such as the strikes at different General Motors factories in 2001 when the company wanted to close the factory in Luton in the UK.[21] Furthermore, a Europe-wide co-ordination of union-based collective bargaining policies needs to be urgently established. The European Metalworkers' Federation has already established guidelines to co-ordinate collective bargaining, but in practice they have not been adhered to. Finally, the capacity for collective bargaining at the European level needs to be fought for. The unions must be recognised in negotiations at the European level; they need veto rights and a say when the rights of workers are affected. Supranational, active unions and political parties representing the subaltern classes hardly exist at the European level and urgently need to be strengthened.

The left should orient itself within the perspective of a democratically structured political union that can ensure a social balance in Europe. A democratic constitution is needed that makes socio-ecological reconstruction possible. National central banks should lose their political independence, as should the ECB, because independence only supports an informal division of powers (see Sablowski/Schneider 2013). It would also be important to democratise the tasks assigned to and the decisions made by central banks. Accordingly, the policies of the ECB and aid for debtor countries should be committed to social and ecological goals instead of austerity measures that in the end will worsen living conditions and increase environmental degradation. There is no need to nurture parliamentary illusions. Nonetheless, it makes sense to advocate that the European parliament finally receive all the relevant rights of a legislator and at least formal control of the European Commission and its entire administration. A European public sphere must be strengthened in which European questions are also discussed and in which a European political will can develop. All of this is required to block the erosion of democracy and the frequent use by political institutions of policies that are similar to those implemented in states of emergency (technocratic cabinets, multilateral treaties, repealing parliamentary competencies). A unified tax policy is required to stop the tax race to the bottom in Europe. Minimal social standards for working and living conditions must be enforced and gradually increased. Ranges for the share of welfare expenditure relative to the per capita income of European states could be agreed upon to counter social dumping. Such measures could lead to a European social union.

6. Even if the defence against austerity measures were to be successful and

**20** See for example the detailed description of protest actions in autumn 2010 in Dellheim 2011. **21** On the policy of the General Motors/Opel European Works Council, see Sablowski 2013.

the measures described above could be implemented on a national and European level, the contradictions rooted in the capitalist mode of production would not disappear. Crisis tendencies would simply take on another form. Similarly to the 1970s, inflationary processes could then move into the foreground. Clearly, any attempt at left-wing political reform would immediately be met with the threat of capital flight, as was the case for example under the left-wing French government at the beginning of the 1980s. Yet the size of the European Economic Area and its economic power do not make capital flight a particularly attractive option. Moreover, the steps taken by the US against Switzerland demonstrate that massive measures to counter capital flight do exist. Overall this is a further reason to think beyond the measures that are immediately required and to articulate reforms from a socialist perspective. Most European countries are too small and far too connected with other countries to be able to break with the capitalist mode of production by themselves. This also implies that a "European Spring" would not be limited to a single country. A socialist Europe constituted from below could become the basis for the transition to a different mode of production and form of life in Europe and beyond.

7. An important task for the left will be developing a broad perspective for emancipation that does not ignore one or other forms of domination. This should include social and ecological reorganisation as well as forms of a solidarity-based economy and economic democracy,[22] as much as overcoming sexism and racism. The United Socialist States of Europe would of course only represent one step towards the unity of humanity in a classless society free of domination in which the state is left to wither.

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**22** Our thoughts on economic democracy and on the mode of production of an association of free people are for example contained in Demirović 2007 and Sablowski 2010.

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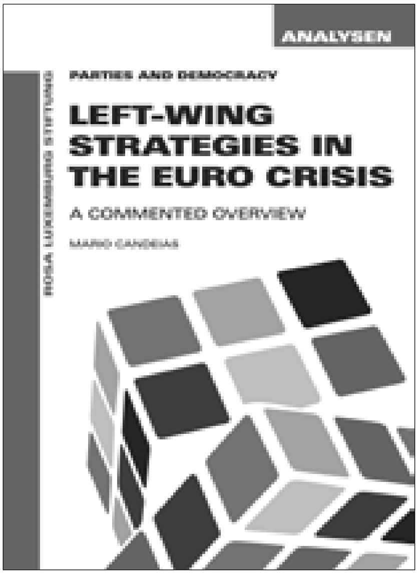



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ALEX DEMIROVIĆ UND THOMAS SABLOWSKI

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