Bonfire of Illusions:The Twin Crises of the Liberal World.
Alex Callinicos.Polity Press, Cambridge UK. 2010.

One of the objectives of the William Temple Foundation religious futures network website is to present and examine a range of perspectives on and responses to the global financial crisis. As part of this I want to review a book from the UK Marxist stable to see what it might add to the general mix. Callinicos is Professor of European Studies at Kings College, London, and a well established figure in the academic world, known for his Marxist position, but also for his willingness to engage more openly with a range of philosophical and political views (see "The Resources of Critique", Polity Press, 2006). As one might expect from this source, the argument is basically one of "this latest crisis has to be seen in the light of the Marxist critique of the capitalist system and is yet another nail in the coffin of capitalism". For Callinicos however, this is merely the jumping off point for a nuanced and detailed examination of what has happened, and the beginning of a journey of discovery towards what alternatives, if any, might be emerging.

According to Callinicos, the late summer and early autumn of 2008 saw two turning points in the global story. The first was the collapse of Lehman Brothers on 15th September, but the second, and less well noted event, was the brief war between Russia and Georgia the month before. These rather than 9/11 herald the end of the post-Cold War era. The importance of the second is not that of a resurgence of Soviet power along the lines of previous decades, but the fact that Russia felt able to resist and call the bluff of the USA in its own local confrontation, and that this marks a new limit for American hegemony in global politics. What we see now, as others have also suggested, is a growing multi-polar approach to global power politics, where a number of other nations are strong enough to stand up against the USA, not in a military sense necessarily, but in terms of economic power and also access to key resources such as oil and gas. It is against this background that one must assess the global financial crisis as one begins to see a shift of power to the East which will play itself out over a long period. The problems that the USA has created for itself by the invasion of Iraq is another part of this picture and reveal the limits of what can be done and the inherent instability of the Western neo-liberal capitalist approach of which the financial crisis is another symptom. Immediately then, Callinicos is placing the financial crisis in a wider context and interpreting it as a part of the general demise of capitalism in its Cold War incarnation.

His opening chapter re-tells the story of the financial crisis as it developed, along the lines of the argument that the financialization of the Western economies, the USA and the UK in particular, is a stage in the decline of capitalism. He is careful though to distinguish three different versions of this and goes to some lengths to describe how they relate to recent events (Pp23-34). He concludes:

> So financialization means the greater autonomy of the financial sector, the proliferation of financial institutions and instruments, and the integration of a broad range of economic actors in financial markets. These developments are all the more significant if financial markets are themselves unstable. The greater the weight of finance, the more then would it destabilize the economy as a whole (P34-5).

From this general conclusion that many others have also drawn, he then goes on to examine the contributions of three thinkers to the analysis of what has happened, Minsky, Hayek and Harvey. Once again, others have utilised the work of Minsky and Hayek in trying to understand what has been happening, but David Harvey of course is a fellow Marxist, so it is not surprising that Callinicos finds in his work a more convincing and illuminating analysis.

Referring back to Harvey's classic text of 1982 "Limits to Capital", which is itself a reinterpretation of Marx rather than a straightforward commentary, Callinicos suggests that current events must not be interpreted simply as evidence of the dysfunctions of the financial markets, but as a crisis that exposes the depths of the contradictions that have been at work in the entire process of capital accumulation. So Minsky and Hayek may be correct "as far as they go", but of course go nowhere near far enough from a Marxist perspective. The key question that needs to be addressed to Callinicos's interpretation is how convincing these additional elements of explanation are going to be in addressing the global financial crisis. What, if anything, do they add to our understanding of what is happening, even if one should not share a strict Marxist view of economic and political life? Does the analysis stand in its own right irrespective of a particular political stance? Is such a thing possible, or are we all doomed to interpret events in the light of the specific political standpoint that we happen to take? I think for instance of Phillip Blond's recent book "Red Tory" (Faber and Faber Ltd, 2010), published to coincide with the 2010 General Election campaign, and clearly "telling the story" in such a way as to lead to the conclusions that the author wishes to establish for external political reasons. Is any level of objectivity here simply an illusion?

The argument of Callinicos – and Harvey – is that what is happening is a symptom of a long-term crisis of overaccumulation and profitability. So one perspective clearly is that one needs to see current events as part of a much longer term process, including earlier recessions as well as boom periods in the global economy:

> Any serious political economy has (also) to explain why capitalism has been unable to keep up the high, sustained and stable growth of the 1950s and 1960s. In this respect, the Long Boom is unavoidably 'a benchmark', and the subsequent period is evidently different from it, not simply because of the slowdown in growth rates but because, before the present crisis, it was punctuated by three major global recessions, in the mid-1970s, the early 1980s and the early 1990s (P53).

Callinicos points out that the Keynsian economist Christopher Dow identifies five major British recessions: 1920-1, 1929-32, 1973-5, 1979-82 and 1989-93. So the pattern of boom and slump is clearly visible to non-Marxist economists and historians, but it is the explanations of these that will differ. For the Marxist this is all about the crisis of overaccumulation and profitability.

How does capitalism respond to these crises according to the Marxist view? It has to force up the rate of exploitation of workers, getting them to accept longer hours, lower wages and worse working conditions, and also may destroy the monetary value of the physical assets that have built up during the boom years. It is Callinicos's view that this process was undertaken by the Right wing regimes of Margaret Thatcher and Ronald Reagan, and that their neo-liberal policies were subsequently forced upon other countries by the IMF and what became known as the Washington consensus. In other words, the cost of the crises of capitalism as they enter the phase of over-expansion and have to be counter-balanced, is paid by the ordinary working classes – and maybe middle classes also as unemployment and cuts in public services begin to affect them – and the economic system has to be "cut down to size" again by an effective devaluation of its physical assets. It seems to me that one can recognise this in what is happening and is going to happen over the coming years, and compared to which the internal debates surrounding the UK General Election of May 2010 seem merely a distraction. Everybody knows that real economic pain in the UK is going to increase whichever political party gains power and that nobody can really trust what candidates want us to believe in advance of that in order to win our votes. What is happening in Greece and Ireland are salutary warnings of what may well be to come for the UK, albeit in slightly less extreme forms – but even that cannot be guaranteed. In that sense, we are living in an illusory twilight world, trying to convince ourselves that the re-ordering of the system will not be too painful after all.

How has this re-ordering played itself out in past recessions? According to Harvey and Callinicos, the crises have been displaced by a "spatial fix" (P57), where the centres of production and accumulation have shifted to other locations across the globe, enabling the consumer booms of nations such as the USA and UK to continue, at least for a while. So the great hope at the moment, is that China will prop up the system as its middle classes continue to grow and form a viable export market for other's goods and services. We know that high levels of savings in China are the symbiotic factor allowing high levels of debt in the USA to be sustained, but for how long will this continue and at what eventual political cost? Any spatial fix can only be temporary as the problems will re-emerge somewhere else in the system and the bubbles will burst yet again. Nobody appears to be prepared to face up to this politically as politicians focus on their domestic agendas and present the mantra that there may be a sluggish move out of recession but that "all shall be well and all manner of things shall be well".

Another factor that Callinicos draws to our attention is the failure of Western firms during the "good times" to reinvest their profits in the businesses and their development. This is explained in Marxist terms as a clash between different economic and political classes – presumably the wealthy exploiting high growth for their own personal benefit, but refusing to feed their good fortune back into a better system that would benefit others! This too sounds all too familiar, and talk about the better-off always being first into recession as the value of their assets diminishes but then always being first out as the stock market recovers, sounds somewhat hollow as the masses remain exactly where they are and the better off continue as if nothing had really happened. What this means, in effect, is that access to the goods of global capitalism have been rationed, and that fewer people will be able to share in the profits that now remain. As Callinicos says:

> The evidence available suggests that capitalists may have succeeded in increasing the rate of surplus-value, the mass of profits relative to wages, but they have failed to push up the rate of profit, the mass of profits relative to total investment (in means of production as well as labour-power), to a level where they feel confident enough to invest on a large scale. If this explanation is correct, then we can definitely see the credit bubble as an effort to allow the US economy to continue to grow, despite its failure to overcome a chronic crisis of profitability and overaccumulation that dates ultimately back to the 1960s. In the light of these underlying weaknesses, the global economic and financial crisis was an accident waiting to happen (P80).

Is this right and, if it is, how do we get out of this situation and rebuild the confidence required for growth and investment – assuming one holds on to these aims? I believe that there are serious issues here to be addressed and that one does not have to be a card-carrying Marxist to see the force of the analysis of Harvey and Callinicos. The system does appear to contain certain contradictory elements that have to be viewed in more than economic terms, where the power of those who "have" is exercised in such a way that those who "do not have" remain subservient to a process that limits or damages their prospects of joining the more privileged. But even if this is too pessimistic an interpretation of what is happening, is it likely that action will be taken to restore economies to some sustainable level of growth? The problem is that where there is a balance-sheet recession, and the fall in asset prices leaves some businesses technically insolvent, then investment is cut to a minimum in order to pay down debts instead. Individuals also tend to behave in the same way and reduce consumption thus adding to the downward spiral. What it is "rational" for individual consumers and companies to do, is unfortunately the worst possible thing as far as the economy as a whole is concerned. Money and credit need to start circulating again in order to get the system operating, but this is exactly what does not happen, hence the need for governments to step in to artificially stimulate and bolster the system. This is what has happened, but with limited effect, and now the arguments centre on how governments are to pay down their debt. So the problem has not been resolved, merely shifted temporarily to somewhere else in the system. Unfortunately, there is now nowhere else for it to go and the debts may be called in!

As Callinicos describes it:

> Capitalism is thus stuck in a structural dilemma: if the leading states let the market do its worst and sweep away inefficient capitals, the result may be a prolonged slump; but if they prevent the wholesale devaluation of capital, the long-term crisis of overaccumulation and profitability will continue. The existence of this dilemma doesn't mean that there will be no recovery: the effects of fiscal stimuli and firms' need to rebuild their inventories will lead to a renewal of economic growth. But any recovery will develop against the background of deep and unresolved structural problems (P94).

So things may get better, at least for some and at least for a time, but nothing really will have been sorted and the world economy will find itself back in a similar place once again, but with different political consequences given the changes in the global balance of power. Callinicos's answer to this, as one might expect, is to seek an alternative to capitalism itself rather than seeking to reform capitalism, but on this he has less to offer and one is left feeling the usual frustration one experiences from all of the books, written from whatever stance, on the current global financial crisis. There are occasional glimpses of small scale alternatives, but no overall convincing new narrative. The value of this book though is that it does encourage us to face up to some of the deeper underlying problems and complexities of a system or systems that appear inherently unstable and which have the capacity both to produce real goods and advances, but also to periodically implode and self-destruct at considerable human cost.

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