



TITLE: The Crisis of Capitalism

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NB

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David Harvey: Okay so we've been through this crisis and there are all sorts of explanatory formats out there. And it's interesting to look at the different genres. One genre is that it's all about human frailty. Alan Greenspan took refuge in the fact "It's human nature" he said, "and you can't do anything about that." But there's a whole world of explanations that kind of say it's the predatory instincts, it's the instincts, the mastery, it's the delusions of investors, and the greed and all the rest of it. So there's a whole range of discussion of that. And, of course, the more we learn about the daily practices on Wall Street we forget there's a great deal of truth in all of that.

The second genre is that there's institutional failures; regulators were asleep at the switch; the shadow banking system innovated outside of their purview etc, etc, etc and, therefore, institutions have to be reconfigured and it has to be a global effort by the G20s something of that kind. So we look at the institutional level and say that has failed and that has to be reconfigured.

The third genre is to say everybody was obsessed with a false theory, they read too much ((0:01:20.4?)) and believed in the efficiency of markets and it's time we actually got back to something like Keynes or we took seriously Hyman Minsky's theory inherent instability of financial activities.

The next genre is it has cultural origins. Now we don't hear that much in the United States but if you were in Germany and France there are many people there who would say this is an Anglo Saxon disease and it's nothing to do with us. And I happened to be in Brazil when it was going on and Lula was kind of saying, well first off he was saying, "Oh thank God the United States is being disciplined by the equivalent of the IMF. We've been through it eight times in the last twenty five years and now it's their turn. Fantastic" said Lula and all the Latin Americans I knew until it hit them, which it does, and then they kind of changed their tune a little bit. So there was a way of which it became cultural and you can see that by the way in which this whole Greek thing is

being handled. The way the German press is saying, "Well it's the Greek character, it's defects in the Greek character." And there's a lot of rather nasty stuff going on around that but actually there are some cultural features which have led into it.

For instance, the US fascination with home ownership which is supposedly a deep cultural value; so 67%/68% of US households are home owners. It's only 22% in Switzerland. Of course it's a cultural value in the United States of being supported by the mortgage interest tax deduction which is a huge subsidy. It's been promoted since the 1930s, very explicitly in the 1930 it was built up because the theory was that debt encumbered homeowners don't go on strike.

And then there's the kind of notion that it's a failure of policy and that policy has actually intervened. And there's a funny kind of alliance emerging between the Glenn Beck wing of Fox News and the World Bank both of whom say the problem is too much regulation of the wrong sort.

So there are all of these ways and all of them have a certain truth. And skilled writers will take one of other of those perspectives and build a story and actually write a very plausible kind of story about this. And I thought to myself well what kind of plausible story can I write which is none of the above, which is one of the things I always think to myself. And it's not hard to do particularly if you're coming from a Marxist perspective because there aren't many people who try to do this analysis from a Marxist perspective.

And I was really clued into this by this thing that happened at the London School of Economics about a year and a half ago when Her Majesty the Queen asked the economists "How come you guys didn't see this thing coming". She didn't say it exactly that way but, you know, a similar sentiment. And they got very upset. And then she actually called the Governor of the Bank of England and said, "How come you didn't see it coming". And then the British Academy put forward this, got all together all these economists and

they came up with this fabulous letter to Her Majesty. And it was absolutely astonishing, it said, "Well many dedicated people, intelligent, smart, spend their lives working on aspects of this thing very, very seriously, but the one thing we missed was systemic risk" and you say, "What!" And then it went on to talk about the politics of denial and all the rest of it so I thought well systemic risk I can translate it into the Marxian thing, you're talking about the internal contradictions of capital accumulation. And maybe I should write a thing about the internal contradictions of capital accumulation and try to figure out the role of crisis in the whole history of capitalism and what's specific and special about the crisis this time around.

And there were two ways in which I thought I would do that. One was to look at what's happened since the 1970s to now. And the thesis there is that in many ways the form of this current crisis is dictated very much by the way we came out of the last one.

The problem back in the 1970s was excessive power of labour in relationship to capital. That, therefore, the way out of a crisis last time was to discipline labour, and we know how that was done. It was done by off shoring, it was done by Thatcher and Regan and it was done by neo-liberal doctrine, it was done all kinds of different ways. But by 1985 or '86 the labour question had essentially been solved ((0:05:35.6?)) capital; it had access to all the world's labour supplies, nobody in this particular instance has cited greedy unions as the root of the crisis. Nobody in this instance is saying it's ever anything to do with excessive power of labour. If anything it's the excessive power of capital and in particular the excessive power of finance capital, which is the root of the problem.

Now how did that happen? Well we've been since the 1970s in a phase of what we call wage repression, that wages have remained stagnant, the share of wage as a national income right throughout the OECD countries has steadily fallen. It's even steadily fallen in China of all places. So that there are less and less being paid out in wages. Well wages turn out to be also the money which buys goods, so

if you diminish wages then you've got a problem with where's your demand going to come from. And the answer was well get out your credit cards, we'll give everybody credit cards. So we'll overcome, if you like, the problem of effective demand by actually pumping up the credit economy. And American households and British households have all roughly tripled their debt over the last 20/30 years. And a vast amount of that debt, of course, has been within the housing market.

And out of this comes a theory which is very, very important that capitalism never solves its crisis problems, it moves them around geographically. And what we're seeing right now is a geographical movement of that. Everybody says, "Well, okay everything's beginning to recover in the United States" and then Greece goes bang and everybody says, "What about the Piigs".

And it's interesting you had a finance crisis in the financial system, you've sort of half solved that but at the expense of a sovereign debt crisis. Actually if you look at the accumulation process of capital you see a number of limits and a number of barriers and there's a wonderful language that Marx uses in the Grundrisse where he talks about the way in which capital can't abide a limit, it has to turn it into a barrier which it then circumvents or transcends.

And then when you look at the accumulation process you look at where the barriers and limits might lie. And the simple way to look at it is to say look a typical circulation process of accumulation goes like this. You start with some money, you go into the market and you buy labour, power and means of production, and you put that then to work with a given technology and organisational form, you create a commodity which you then sell for the original money plus a profit. Now you then take part of the profit and you recapitalise it into an expansion for very interesting reasons.

Now there are two things about this: one is there are a number of barrier points in here. How is the money got together in the

right place at the right time, in the right volume - and that takes financial ingenuity. So the whole history of capitalism has been about financial innovation. And financial innovation has the effect of also empowering the financiers, and the excessive power of the financiers can sometimes... they do get greedy, no question about it. And if you look at financial profits in the United States they were soaring after 1990, they were going up like this. Profits in manufacturing were coming down like this. And you could see the imbalance.

In this country I think the way in which this country has sided with the City of London against British manufacturing since the 1950s onwards has had very serious implications for the economy of this country. You've actually screwed industry in order to keep financiers happy. Any sensible person right now would join an anti-capitalist organisation. And you have to because otherwise we're going to have the continuation, and notice it's the continuation of all sorts of negative aspects. For instance, the racking up of wealth you would have thought the crisis would have stopped that. Actually more billionaires emerged in India last year than ever – they doubled last year. The wealth of the rich – and I just read something this morning – in this country has accelerated just last year.

What happened was the leading hedge fund owners got personal remunerations of three billion dollars each in one year! Now I thought it was obscene and insane a few years ago when they got two hundred and fifty million, but they're now hauling in three billion. Now that's not a world I want to live in and if you want to live in it be my guest. I don't see us debating and discussing this. I don't have the solutions. I think I know what the nature of the problem is, and unless we're prepared to have a very broad based discussion that gets away from the normal ((0:10:11.6?)) you get in the political campaign and everything's going to be okay here next year if you vote for me – it's crap. You should know it's crap and say it is. And we have a duty, it seems to me those of us who are academics and seriously involved in the world, to actually change our mode of thinking.