

# The Crisis of Capitalism and the New Great Depression

Sneak Peak of "The Global Economic Crisis"

By [Prof. James Petras](#)

Global Research, December 09, 2010

9 December 2010

Region: [USA](#)

Theme: [Global Economy](#)

*The following text is a preview from Global Research Publishers' recent book on the Global Economic Crisis.*

Scroll down to read an excerpt from James Petras' chapter.

[The Global Economic Crisis](#)



Michel Chossudovsky

Andrew G. Marshall (editors)

James Petras' chapter:

Depression: The Crisis of Capitalism

*All the idols of capitalism over the past three decades crashed. The assumptions and presumptions, paradigm and prognosis of indefinite progress under liberal free market capitalism have been tested and have failed. We are living the end of an entire epoch: experts everywhere witness the collapse of the U.S. and world financial system, the absence of credit for trade and the lack of financing for investment. A world depression, in which upward of a quarter of the world's labor force will be unemployed, is looming.*

Crash of the U.S. Financial System

The biggest decline in trade in recent world history defines the future. The imminent bankruptcies of the biggest manufacturing companies in the capitalist world haunt Western political leaders.

The "market" as a mechanism for allocating resources and the government of the U.S. as the "leader" of the global economy have been discredited.[1]

All the assumptions about "self-stabilizing markets" are demonstrably false and outmoded. The rejection of public intervention in the market and the advocacy of supply-side

economics have been discredited even in the eyes of their practitioners. Even official circles recognize that “inequality of income” contributed to the onset of the economic crash and should be corrected. Planning, public ownership and nationalization are on the agenda while socialist alternatives have become almost respectable.

With the onset of the depression, all the shibboleths of the past decade are discarded: as export-oriented growth strategies fail, import substitution policies emerge. As the world economy “de-globalizes” and capital is “repatriated” to save near bankrupt head offices – national ownership is proposed. As trillions of dollars/Euros/yen in assets are destroyed and devalued, massive layoffs extend unemployment everywhere. Fear, anxiety and uncertainty stalk the offices of state, financial directorships, the office suites, the factories and the streets...

We enter a time of upheaval, when the foundations of the world political and economic order are deeply fractured, to the point that no one can imagine any restoration of the political-economic order of the recent past. The future promises economic chaos, political upheavals and mass impoverishment. Once again, the specter of socialism hovers over the ruins of the former giants of finance. As free market capital collapses, its ideological advocates jump ship, abandon their line and verse of the virtues of the market and sing a new chorus: the State as Savior of the System – a dubious proposition, whose only outcome will be to prolong the pillage of the public treasury and postpone the death agony of capitalism as we have known it.

The crash of the U.S. financial system is symptomatic of a deeper and more profound collapse of the economic and financial system which has its roots in the dynamic development of capitalism in the previous three decades.

Contrary to the theorists who argue that finance and post-industrial capitalism have destroyed or de-industrialized the world economy and put in its place a kind of “casino” or speculative capital, in fact, we have witnessed the most spectacular long-term growth of industrial capital employing more industrial and salaried workers than ever in history. Driven by rising rates of profit, large scale and long-term investments have been the motor force for the penetration by industrial and related capital of the most remote underdeveloped regions of the world. New and old capitalist countries spawned enormous economic empires, breaking down political and cultural barriers to incorporating and exploiting billions of new and old workers in a relentless process. As competition from the newly industrialized countries intensified, and as the rising mass of profits exceeded the capacity to reinvest them most profitably in the older capitalist centers, masses of capital migrated to Asia, Latin America, Eastern Europe, and to a lesser degree, into the Middle East and Southern Africa.

Huge surplus profits spilled over into services, including finance, real estate, insurance, large-scale real estate and urban lands.

The dynamic growth of capitalism’s technological innovations found expression in greater social and political power – dwarfing the organization of labor, limiting its bargaining power and multiplying its profits. With the growth of world markets, workers were seen merely as “costs of production”, not as final consumers. Wages stagnated; social benefits were limited, curtailed or shifted onto workers. Under conditions of dynamic capitalist growth, the state and state policy became their absolute instrument: restrictions, controls, regulation were weakened. What was dubbed “neo-liberalism” opened new areas for investment of surplus profits; public enterprises, land, resources and banks were privatized.

As competition intensified, as new industrial powers emerged in Asia, U.S. capital increasingly invested in financial activity. Within the financial circuits it elaborated a whole series of financial instruments, which drew on the growing wealth and profits from the productive sectors.

#### The Global Economic Crisis



Michel Chossudovsky

Andrew G. Marshall (editors)

[This book can be ordered directly from Global Research](#)

*Cont.*

U.S. capital did not “de-industrialize” – it relocated to China, Korea and other centers of growth, not because of “falling profits” but because of surplus profits and greater profits overseas.

Capital’s opening in China provided hundreds of millions of workers with jobs subject to the most brutal exploitation at subsistence wages, no social benefits, little or no organized social power. A new class of Asian capitalist collaborators, nurtured and facilitated by Asian state capitalism, increased the enormous volume of profits. Rates of investment reached dizzying proportions, given the vast inequalities between income/property owning class and wagedworkers. Huge surpluses accrued but internal demand was sharply constrained. Exports, export growth and overseas consumers became the driving force of the Asian economies. U.S. and European manufacturers invested in Asia to export back to their home markets – shifting the structure of internal capital toward commerce and finance. Diminished wages paid to the workers led to a vast expansion in credit. Financial activity grew in proportion to the entrance of commodities from the dynamic, newly industrialized countries. Industrial profits were re-invested in financial services. Profits and liquidity grew in proportion to the relative decline in real value generated by the shift from industrial to financial/commercial capital.

Super profits from world production, trade and the recycling of overseas earnings back to the U.S. (through both state and private financial circuits) created enormous liquidity. It was far beyond the historical capacity of the U.S. and European economies to absorb such profits in productive sectors.

The dynamic and voracious exploitation of the huge surplus labor forces in China, India, and elsewhere and the absolute pillage and transfer of hundreds of billions from ex-communist Russia and “neo-liberalized” Latin America filled the coffers of new and old financial institutions.

Over-exploitation of labor in Asia, and the over-accumulation of financial liquidity in the U.S.

led to the magnification of the paper economy and what liberal economists later called “global disequilibrium” between savers/industrial investors/ exporters (in Asia) and consumers/financiers/importers (in the U.S.). Huge trade surpluses in the East were papered over by the purchase of U.S. T-notes. The U.S. economy was precariously backed by an increasingly inflated paper economy.

The expansion of the financial sector resulted from the high rates of return, taking advantage of the “liberalized” economy imposed by the power of diversified investment capital in previous decades. The internationalization of capital, its dynamic growth and the enormous growth of trade outran the stagnant wages, declining social payments, the huge surplus labor force. Temporarily, capital sought to bolster its profits via inflated real estate based on expanded credit, highly leveraged debt and outright massive fraudulent “financial instruments” (invisible assets without value). The collapse of the paper economy exposed the overdeveloped financial system and forced its demise. The loss of finance, credit and markets, reverberated to all the export-oriented industrial manufacturing powers. The lack of social consumption, the weakness of the internal market and the huge inequalities denied the industrial countries any compensatory markets to stabilize or limit their fall into recession and depression. The dynamic growth of the productive forces based on the over-exploitation of labor, led to the overdevelopment of the financial circuits, which set in motion the process of “feeding off” industry and subordinating and undermining the accumulation process to highly speculative capital.

Cheap labor, the source of profits, investment, trade and export growth on a world scale, could no longer sustain both the pillage by finance capital and provide a market for the dynamic industrial sector. What was erroneously dubbed a financial crisis or even more narrowly a mortgage or housing crisis, was merely the trigger for the collapse of the overdeveloped financial sector. The financial sector, which grew out of the dynamic expansion of “productive” capitalism, later “rebounded” against it. The historic links and global ties between industry and financial capital led inevitably to a systemic capitalist crisis, embedded in the contradiction between impoverished labor and concentrated capital. The current world depression is a product of the over-accumulation process of the capitalist system in which the crash of the financial system was the “detonator” but not the structural determinant. This is demonstrated by the fact that industrial Japan and Germany experienced a bigger fall in exports, investments and growth than “financial” U.S. and England.

The capitalist system in crisis destroys capital in order to purge itself of the least efficient, least competitive and most indebted enterprises and sectors, in order to re-concentrate capital and reconstruct the powers of accumulation – political conditions permitting. The re-composition of capital grows out of the pillage of state resources – so-called bailouts and other massive transfers from the public treasury (read “taxpayers”), which results from the savage reduction of social transfers (read “public services”) and the cheapening of labor through firings, massive unemployment, wage, pension and health reductions and the general reduction of living standards in order to increase the rate of profit.

## Notes

1. Financial Times, [www.ft.com](http://www.ft.com), 9 March 2009.

The Great Depression of the XXI Century

Michel Chossudovsky and Andrew Gavin Marshall (Editors)

Montreal, Global Research Publishers. Centre for Research on Globalization (CRG), 2010.

ISBN 978-0-9737147-3-9 (416 pages)

The Global Economic Crisis



Michel Chossudovsky

Andrew G. Marshall (editors)

*This book takes the reader through the corridors of the Federal Reserve, into the plush corporate boardrooms on Wall Street where far-reaching financial transactions are routinely undertaken. Each of the authors in this timely collection digs beneath the gilded surface to reveal a complex web of deceit and media distortion which serves to conceal the workings of the global economic system and its devastating impacts on people's lives.*

*Despite the diversity of viewpoints and perspectives presented within this volume, all of the contributors ultimately come to the same conclusion: humanity is at the crossroads of the most serious economic and social crisis in modern history.*

*"This important collection offers the reader a most comprehensive analysis of the various facets - especially the financial, social and military ramifications - from an outstanding list of world-class social thinkers." -Mario Seccareccia, Professor of Economics, University of Ottawa*

*"From the first page of the preface of The Global Economic Crisis, the reasons for all unravel with compelling clarity. For those asking "why?" this book has the answers." -Felicity Arbuthnot, award-winning author and journalist based in London.*

*"Today, the economic meltdown is reconfiguring everything - global society, economy and culture. This book is engineering a revolution by introducing an innovative global theory of economics." -Michael Carmichael, prominent author, historian and president of the Planetary Movement*

*"This work is much more than a path-breaking and profound historical analysis of the actors and institutions, it is an affirmation of the authors' belief that a better world is feasible and that it can be achieved by collective organized actions and faith in the sustainability of a democratic order." -Frederick Clairmonte, distinguished analyst of the global political economy and author.*

The original source of this article is Global Research

Copyright © [Prof. James Petras](#), Global Research, 2010

---

[\*\*Comment on Global Research Articles on our Facebook page\*\*](#)

[\*\*Become a Member of Global Research\*\*](#)

Articles by: [Prof. James Petras](#)

**Disclaimer:** The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: [publications@globalresearch.ca](mailto:publications@globalresearch.ca)

[www.globalresearch.ca](http://www.globalresearch.ca) contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: [publications@globalresearch.ca](mailto:publications@globalresearch.ca)