THE CURRENT CRISIS AND THE ROLE OF FICTITIOUS CAPITAL AND UNPRODUCTIVE LABOR

Dr. Paul Cooney
Programa de Pós-Graduação de Economia (PPGE)
Universidade Federal do Pará (UFPA)
pcooney@ufpa.br ou : pcooney@ig.com.br

Resumo

Esse trabalho começa com uma avaliação da categoria da crise em Marx, e considerando as diferentes teorias de crise marxistas, principalmente a teoria de baixa tendencial da taxa de lucro e o estrangulamento de lucro. A terceira seção apresenta o desdobramento da crise, analisando o setor hipotecário no USA e como a crise virou a uma crise mundial. A quarta seção considera a relevância do conceito de capital fictício e trabalho improdutivo para entender a crise atual e a quinta seção avalia a crise atual ao respeito das diferentes teorias de crise. A conclusão principal é que a crise atual está relacionada com o maior papel do capital fictício e do trabalho improdutivo, além do aceitável, pela própria reprodução do sistema capitalista. A predominância do setor financeiro nesse período neoliberal causou uma insuficiente geração de mais-valia para reprodução do sistema.

Keywords: Crise, capital fictício, trabalho improdutivo

Abstract

This paper begins with an evaluation of the category of crisis in Marx, and other Marxist theories of crisis, in particular the tendency of the falling rate of profit and the profit squeeze theories. The third section of this paper then presents the unfolding of the concrete events which led to the outbreak of the mortgage and credit crisis in the United States in 2008, which then led to a worldwide economic crisis. The fourth section evaluates the relevance of the concepts of fictitious capital and unproductive labor for understanding the current crisis. The fifth section evaluates different crisis theories in explaining the current crisis. The main conclusion is that the current crisis is a result of an excessive role played by fictitious capital and thus, unproductive labor and how this was excessive for the reproduction of the capitalist system. The predominance of the finance sector in this neoliberal period led to an insufficient generation of surplus value for the system as a whole.
Keywords: Crisis, fictitious capital, unproductive labor

Sessões Ordinárias:
Área 3. Economia Política, Capitalismo e Socialismo

Sub-área: 3.2. Capitalismo Contemporâneo

(Esboço: Por favor não citar sem permissão do autor)

I. Introduction

Once again as a major economic crisis hits, there is a sudden wake up call as the world remembers that capitalism has these breakdowns every now and again. Subsequently people will recall that maybe there really is something valid regarding Marx's analysis of capitalism's crises and 'long waves'. As the interest surges once again in theories and discussion of crisis, it is not only necessary to look back at what Marx wrote about crisis but to also look back at the Marxist debates regarding earlier crises.

During the 1970s and 1980s, there was a vibrant debate among Marxists, attempting to explain the accumulation crisis of the late 1960s and 1970s. The three main approaches are (1) the classic discussion of the falling rate of profit in Marx's Volume III of *Capital*, (2) the wage-squeeze or profit-squeeze approach and lastly, (3) the Marxist theory of underconsumption. The first corresponds to those that support Marx's analysis in Part three of Volume III of *Capital* with a tendency of the rate of profit to fall, based upon a increasing social productivity and its concomitant rising organic composition, second are those that advocated that through class struggle a profit squeeze was achieved and constituted the cause of the crisis in the 1970s, and thirdly, theories of underconsumption, emphasizing the inherent tendency toward stagnation within capitalism. Of course, there are also non-Marxist theories of crisis, that are deserving of attention; one of the most well recognized being that of Hyman Minsky **(**1982**)**, with an emphasis on financial crisis and instability.

The current crisis first came to be seen as merely a financial crisis, rooted in the meltdown of the housing market which spilled over into the US credit market and beyond. However, as in the instances of other general crises, a financial crisis will also be manifest in spite of the root cause being due to underlying factors in the real economy. In the second section of this paper the main debates among Marxists are considered, emphasizing the argument in Marx's Volume III of Marx's *Capital* on the tendency for the rate of profit to fall, and contrasted with the profit squeeze theory and the theory of underconsumption. In the third section, the specifics of the unfolding of the mortgage crisis and subsequent spillover is considered. In the fourth section, the theoretical concepts of fictitious capital and unproductive labor are developed and their relevance in understanding the present crisis presented. This is followed by an evaluation of different theories of crisis in terms of being able to explain the current crisis. Finally, the last section presents conclusions regarding the trajectory of the current crisis and whether this implies the end of the neoliberal phase of capitalism.

II. Overview of Theories of Crisis

In this section, the range of competing theories among Marxists though first a broader view of crisis among economists is considered. In a classic piece presenting the history of crisis theories, Shaikh (1978) argued that there are three basic positions which one can identify in the general economic literature with respect to crisis. The first corresponds to the dominant neoclassical approach (or the conservative Keynesian tradition), which either does not conceive of crisis, or argues that they are simply external shocks derived from outside the system or may require some fine tuning. The second position is one that argues that capitalism's natural tendency is toward stagnation and that it is only able to grow because of the presence of a particular confluence of external factors, be it waves of technological innovations, wars, or the special role of monopolies, etc. The third general position corresponds to Marxist economists of various hues, arguing that capitalism is capable of accumulation without external factors, however with recurrent crises. A key issue here, as pointed out by Shaikh, is the difference between the possibility and necessity of crisis, arguing that in the case of the former, crisis is simply a fortuitous conjuncture of events, while in the latter, it is an outcome of the inherent tendencies of capitalism, which are rooted in the basic contradictions of capital itself, whereby the very same historical tendency to increase social productivity, has the paradoxical result of a declining rate of profit

The theory of the falling rate of profit in Marx is first considered below, followed by the theory of the profit squeeze, defended by authors such as Kotz, Weiskopf, Boddy and Crotty, Glynn and Sutcliffe; and finally the theory of underconsumption is considered, defended by various authors, such as Luxemburg, Baran and Sweezy, and most recently, Bellamy Foster.

The Tendency for the Rate of Profit to Fall

The ever present drive to increase profits for capitalist firms is necessarily related to the different means by which to increase surplus value. In Volume I of *Capital*, Marx identified three main mechanisms to achieve this: extension of the working day, increasing the productivity of labor and increasing the intensity of labor.

Depending on a given historical period, legal restraints with respect to the working day implied that capitalists needed to rely more and more on technological innovation in order to increase the rate of surplus value. In addition to the struggle over control of the workshop floor and production processes with unions or workers in general, capitalists are engaged in a struggle over market share with other capitalists. In order to obtain a relative advantage with your competitors, it makes most sense to reduce your operating costs, or cost-price so as to increase your profit margin and gain an edge on your rivals. Therefore, technological change brings about increases in productivity and thus accommodates the need to increase a firm's market share, in addition to increasing the control of the production process and increasing surplus value. Thus, through the substitution of machines for laborers the result is a relative increase of constant capital compared to variable capital, and in particular the increase of fixed capital. This implies an increase in the organic composition of capital (C/V), which is brought about as a result of the historical tendency of capitalism to increase social productivity.

Marx observed that the growth of the organic composition of capital takes place at a rate faster than the increase of the rate of surplus value (S/V), which translates into the tendency for the rate of profit to fall, although Marx clearly recognized counter tendencies, but considered them subordinate to the dominant tendency of the falling rate of profit. The formula for the rate of profit in general is as follows:

$$r = S/ C + V \quad \text{or} \quad r = \frac{S / V}{C/V + 1} \qquad (1)$$

This implies that the growth of productivity leads to an increase in the numerator, namely, the rate of surplus value, though less rapidly than the increase in the denominator, and therefore bringing about a decline in the rate of profit.

Marx shows that variable capital declines relatively to constant capital and thus leads to a decline in the total surplus value in relation to the total capital. In other words, the decline in the rate of profit in a dynamic capitalist context comes about as a result of the increasing organic composition of capital and a decline in the proportion between living labor and dead labor, through the substitution of the latter for the former. Overall, the capitalist system internally generates a contradictory process whereby the more capital accumulates, the more there is a decline in profitability, which becomes a fetter to this very same process of accumulation. In sum, Marx concludes that the greatest barrier to capital is capital itself!

Profit Squeeze Theory

Authors associated with the theory of the profit squeeze, such as Kotz(2009), Glynn and Sutcliffe (1972), Boddy and Crotty (1975), argue that the cause of the falling rate of profit is due to the increase of wages or due to a deceleration of productivity, as a result of working class struggle, be it through unions or other working class organizations. Referring to the formula for the rate of profit above (1), they argue that in general, the numerator is declining while the organic composition is constant, thus causing a decline in the rate of profit. In the debate over declining profitability in the 1970s, some authors employed the profit-wage ratio (π/w) as a proxy for the rate of surplus value (S/V).[1]

A criticism of using this proxy, was that there is a need to take into account different levels of abstraction, since in Volume I of *Capital*, there is no difference in magnitude between surplus value and profit, however, at the more concrete level of Volume III, surplus value is distributed between profit (industrial, commercial and financial), interest, taxes, rent, etc., implying that profits will be much less than surplus value.[2] In addition, by including wages of all workers, there is an overestimation of the denominator of the rate of surplus value, since the appropriate variable capital only corresponds to production workers, where surplus value is generated. Thus, the ratio between profits and wages is very different than the rate of surplus value; the analysis done by Shaikh and Tonak revealed the former to be declining or stagnant while the latter was clearly increasing for the period 1948-1988.[3]

Underconsumption Theories[4]

Another Marxist perspective regarding capitalist crisis is that of the theory of underconsumption. The main thrust of the argument is that the capitalist system is not able to expand or accumulate by itself, but rather it has an inherent tendency to stagnate.

[1] It should be noted, that today, certain profit squeeze authors, recognize the limitation of this proxy as a defense of the theory. See Kotz (2009).
[2] See Shaikh, and Tonak, 1994.
[3] Ibid., Figure 5.13. p.123.
[4] In spite of the relevance of this perspective, due to a lack of space, it is not possible to elaborate sufficiently upon them here.

It is only able to grow because of the presence of external factors, such as wars, waves of innovation, etc.

One of the main points of analysis in Luxemburg's *Accumulation of Capital* (1913) was that capitalism required expansion into non-capitalist areas in order to overcome the problem of a demand gap and this was reflected by the marked imperialist expansion across the globe by the dominant powers of the time. Another major contribution to this theory is that of Baran and Sweezy, in their classic text *Monopoly Capitalism* (1966), which incorporated the role of monopolies into the argument for the tendency of capitalism to stagnate. Most recently from the *Monthly Review* school, is the work done by Bellamy Foster and McChesney (2009).[5] According to the theory of underconsumption, when considering the two departments of production: means of production and means of consumption, the former is determined by the latter. In other words, it is final demand of consumption goods which determines the demand for means of production. A portion of this product is used for the replacement of inputs used in their own production and the remaining portion is divided between capitalists and workers, in the form of profits and wages, respectively.

The argument is that although workers tend to consume all their wages, capitalists do not do the same with their profits, as a portion thereof is used for accumulation. It is then argued that this produces a demand gap, which grows as workers receive lower wages. Thus, the capitalist system is not capable of generating sufficient effective demand to buy all the output which is produced, leading to a crisis of underconsumption and thus stagnation.

According to the defenders of the theory of underconsumption, the solution is through external (to the system) sources of effective demand, such as the case of markets outside of the capitalist system, such as pre-capitalist societies or colonies. However, a major problem with this argument in the present day, is that there really aren't any countries where capitalist relations don't dominate.

Baran and Sweezy extended the analysis to the modern phase of capitalism, which they identified as monopoly capitalism, arguing that monopolies tended to expand productive capacity but depressed internally generated demand, causing the system to be dependent on external factors, such as imperialism, wars, technological

[5] Due to space considerations, a proper discussion and engagment with recent articles by Foster and others in the journal *Monthly Review*, will not be possible in this current article.

innovations and government actions, in order to overcome capitalism's inherent tendency toward stagnation.

III. The Trajectory of the Current Crisis

The current crisis became evident for the entire world as of September 2008, with the government takeover of Fannie Mae and Freddie Mac, the collapse of Lehman Brothers, the forced sale of Merrill Lynch to the Bank of America and the rescue of AIG. As credit markets worldwide were drying up, the US mortgage crisis was the catalyst that triggered the most serious world economic crisis in decades. Subsequently, the real economy was strongly impacted causing major declines in investment and employment, and then leading to recessions in many countries across the globe. As this crisis is still playing itself out, some are arguing that it is over while recent problems in Dubai and Greece in early December 2009 reveal that the world economy is still on fragile, and some argue, such as Shaikh, that this may simply be the beginning of the first depression of the 21st century.[6]

The Mortgage Crisis followed by a General Crisis of Credit[7]

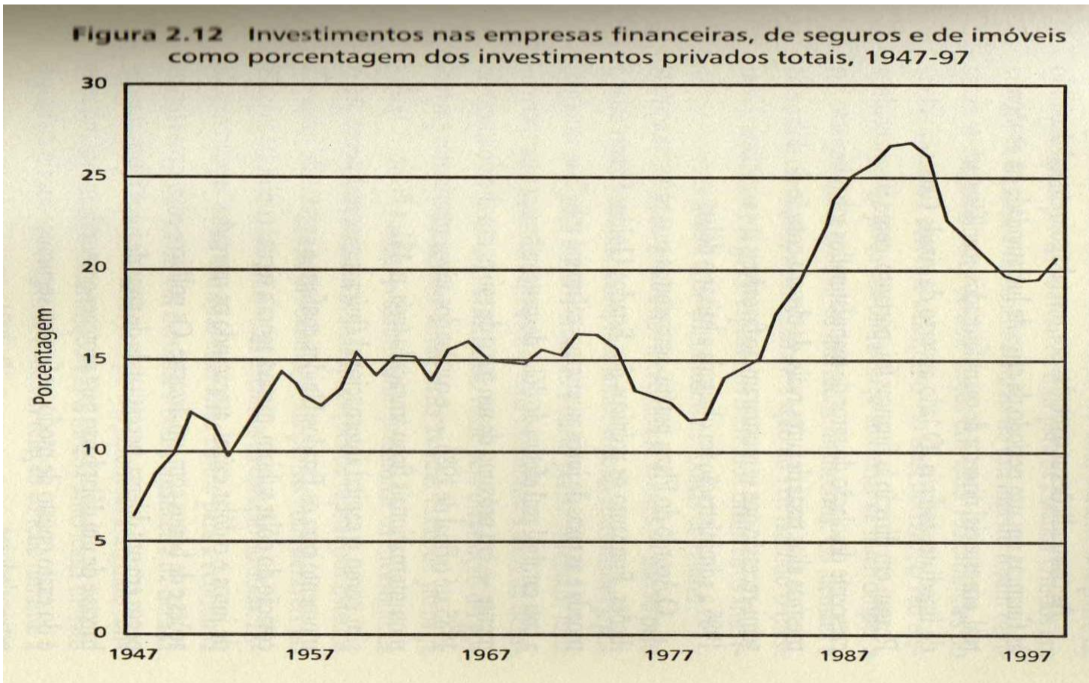
As of the 1980s, the shift to neoliberal policies and the laissez-faire ideology came to dominate economic policies across the globe. During the last three decades, one of the main components of this neoliberal phase of capitalism has been financial liberalization. There have been a number of key changes and policies facilitating this in the US, such as the elimination of the Glass Steagall act under Clinton in 1999, control of the interest rate, especially during Greenspan's tenure, among other changes in the structure and laws that govern the financial sector. US banks and financial institutions took advantage of financial deregulation, which began with Reagan back in the 1980s.

As a result of the problems of profitability during the crisis of accumulation during the 1970s, a clear shift from industry to finance took place which lead to an excessive dominance of the financial sector. Of note is the increase of the proportion of US investments in the financial sector, growing from an average of 15% between 1960-1975, followed by a marked rise to 27% in 1989 and attaining the amazing level of 41% in 2006. In Figure 1 below, reproduced from Brenner (2003), one can see this shift through the 1980s. As a result of deregulation over recent decades, the US financial

[6] See interview on November 12, 2009 with Anwar Shaikh in Página 12.
[7] Much of the current section is derived from the excellent piece on the US mortgage crisis presented by Fred Moseley (2008) at the SEPLA conference in Buenos Aires in Ocotber 2008.

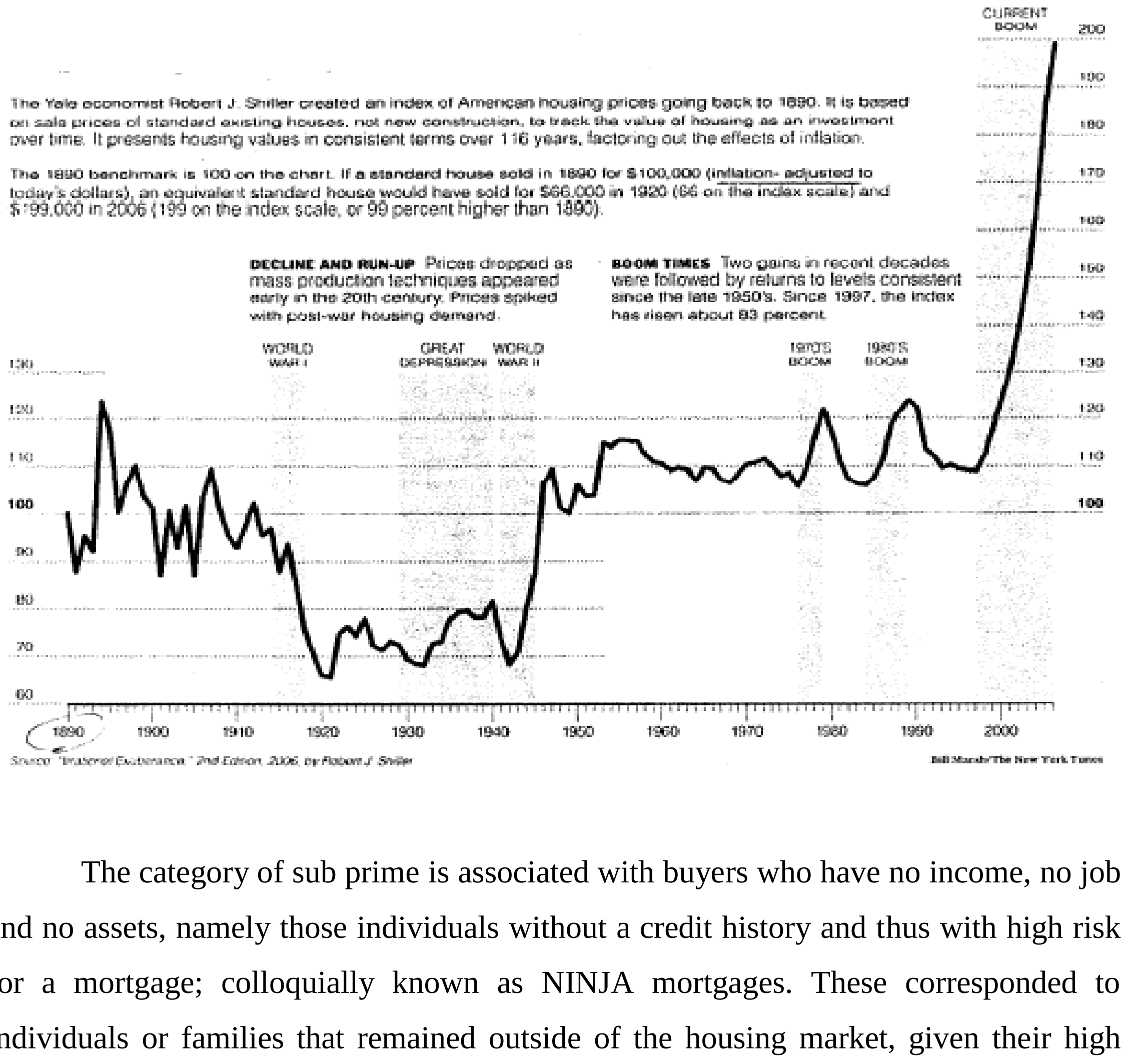
market underwent an unprecedented expansion and as a result of new forms of financial arquitecture, there was an increasing tendency to pursue risky investments. A major result of deregulation was the new *modus operandi* of controlled asset bubbles and busts, which the U.S. government facilitated in a major way. The bubble and bust that they lost control of was that of the housing and mortgage market, to which we now turn.

Figure 1: Investment by Financial, Insurance and Real Estate Firms as a % of Total Private Investment in the U.S. 1947-1997(from Brenner, 2003)



The US housing market underwent significant changes during the last quarter century, starting in the early 1980s. What had been a relatively straightforward relation between commercial banks and home buyers, turned into a labyrinth of investment banks, hedge funds, pension funds, and in particular, the securitization of mortgages. Banks began to sell packages of mortgages to a range of banks and investment firms. The expansion of Mortgage Backed Securities (MBS) involved high levels of risk as a result of a perverse logic between major financial firms and the agencies 'monitoring' their risk. Established firms, such as Merrill Lynch, Lehman Brothers, Morgan Stanley and others were receiving good grades for their MBS in spite of what should have been the contrary, in order for agencies such as Moody's to remain as clients of such major financial entities. This aspect was crucial in the construction of the house of cards which eventually came tumbling down and provided the catalyst for the current crisis. This became possible due to the low rates of interest and the unprecedented growth of US housing prices, escalating by over 100% between 2000 and 2006, as can be seen in Figure 2 below. Eventually, given the insatiable greed of financiers, this lead to the development of the sub prime market, offering teaser rates to attract clients and then charging much higher rates of interest to clients that had little possibilities of paying. One does not need a PhD. in economics to realize that this was not a good idea, but alas, several aspects of the mortgage market seem to defy economic logic.

Figure 2: A History Of Housing Prices in the U.S. (from Moseley, 2008)



The category of sub prime is associated with buyers who have no income, no job and no assets, namely those individuals without a credit history and thus with high risk for a mortgage; colloquially known as NINJA mortgages. These corresponded to individuals or families that remained outside of the housing market, given their high risk of being able to pay back a mortgage. Nevertheless, financial firms that engaged in risky ventures more and more, chose to pursue such clients because of the higher rates of interest that would kick in after a few years. Since mortgages were being packaged and sold in groups of up to a thousand, the actual risk of them not paying off a mortgage was less relevant for any individual financier, given the importance of receiving fees, and being less concerned about the viability of mortgages really being paid off.

Therefore the securitization of mortgages facilitated the expansion of the high risk sub prime mortgages, and thus increasing the vulnerability of such investments. In general, this expansion was made possible because of the exponential growth of housing prices and thus, not surprisingly, entered into crisis as prices started to reverse and begin their precipitous decline. As a result, the securities market lacked buyers and thus the beginning of the credit crisis, especially once major firms such as Merrill Lynch and Lehman Brothers could not even obtain short term loans to improve their liquidity.

The first phase of the crisis occurred when there was a general sense that securities in general had seriously underestimated the risks involved in so many dubious investments. This became a clear signal for the credit markets, not just in the US, but across the globe, given the great extent to which finance had been globalized after three decades of neoliberalism. The second phase began when the holders of securities realized that they were not only not going to receive the expected interest payments but were having trouble finding buyers for their securities. As a result of a rush toward selling securities, the value of these titles plunged. In fact, the lack of confidence spread way beyond the sub prime market and extended to the securities market in general, followed by capital markets, including major international banks. The third phase of the crisis was when such a vertiginous collapse in the securities and credit markets came to impact the real economy and firms across the globe were finding it difficult to obtain credit.

The situation continued to worsen as the surviving financial institutions strongly restricted credit and not only firms were unable to obtain the finance they needed, consumers were also faced with a worsening situation, and needed to cutback, especially with respect to durable goods purchases. Thus, the impact for both firms and consumers meant that the worldwide credit crisis impacted the real economy to such an extent that a world recession had begun, and was shortly thereafter described as the 'Great Recession'. At this point, it is necessary to go beyond the manifestations and unfolding of the crisis and to consider its root causes. In order to achieve this, it is necessary to examine the concepts of fictitious capital and unproductive labor, which came to have increasing relevance given the strong expansion of the financial sector in recent decades.

IV. Finance Capital, Fictitious Capital and Unproductive Labor

It is necessary to distinguish two types of finance capital: one which provides credit directly to enterprises engaged in production, and secondly, finance capital that is primarily speculative and corresponds to the concept of fictitious capital, to be elaborated below. It is worth noting that the use of term finance capital is distinct from the term used by Hilferding in his classic work by the same name- *Finance Capital* (1910), which he defined as the fusion or combination of banking and industrial capital, a dominant phenomenon at the turn of the twentieth century. Throughout the current neoliberal phase of capitalism there has been an increasing autonomy of the financial sector with respect to the productive sector, in clear contrast to the phenomenon analyzed by Hilferding.

The dominant aim of the capitalist system is the accumulation of capital through the drive for profits. In order to achieve this, capital must generate surplus value and then realize it in order to valorize existing capital, this being the basis of capital accumulation. Capital which generates surplus value is not any type of investment, but specifically corresponds to production of new use values and exchange values. Therefore, activities such as trade and finance, though often essential for the overall functioning of the capitalist system, do not produce any new use-values or generate surplus value. Rather, they involve the transfer of ownership of previously existing commodities, not the generation of new ones.

The labor employed by capital which generates surplus value is referred to by Marx as productive labor. The concept of productive labor was not first invented by Marx, but has a history going back to the Physiocrats and Adam Smith. It is Marx that further develops the concept by identifying what is productive for **capital**, which is clearly specific to the capitalist mode of production. In this regard, in order for labor to be productive for capital, it needs to be (1) exchanged for capital, (2) produce new use values (production in the broad sense) and (3) generate surplus value. In the context of empirical research, there will always be many gray areas, or situations which are difficult to define as productive labor or unproductive labor *a priori*. But the difficulties in empirical analysis should not deter Marxists from using and analyzing this fundamental category, as has been done by many researchers, most notably by Shaikh and Tonak(1994).

Banks or firms, which provide loans to capitalist firms engaged in production, obtain interest as a portion of the surplus value generated by these firms, and though they are not generating any new value or surplus value, they are essential for the functioning of the modern capitalist economy. Therefore, the activity of lending money to productive firms, is necessary in order for these productive firms to produce commodities and for creating new surplus value, which is the basis for the sundry forms of surplus value in a capitalist society, be it profits, interest, agricultural rent, taxes and so on. However, finance that does not have a direct connection with production activities is not only unproductive, but is in fact parasitic, from the viewpoint of the capitalist system as a whole.

Such financial activity simply purchases existing assets, and thereby obtains the right to a regular payment, such as dividends, mortgage payments or other titles which have no direct connection to productive activities. It is this type of financial activity which Marx identifies as *fictitious capital*, since it is not capital in the true sense of capital, which by definition, generates surplus value, the fuel which runs the motor of capitalist accumulation. Therefore, though such activities may generate voluminous profits for individual capitalists, they are not contributing, but rather are detracting, from the overall process of capitalist accumulation. One must distinguish between such activities in themselves and subsequent use made with their returns, which *could* be used for investments in the real economy. In such an instance they would no longer be functioning as fictitious capital. The dominant form of fictitious capital is where the lender obtains a title based on an original loan and then this is often sold to another, achieving a short term gain, as is the case for many of the new financial derivatives in vogue today.

In summing up, fictitious capital is not productive capital which produces new value and surplus-value, instead it is merely a title which gives its owner the right to appropriate a part of surplus-value already produced in society. The current phase of capitalism, which is characterized by the predominance of finance capital in relation to productive capital, has led to the excessive expansion of fictitious capital, resulting in a declining percentage of investment in the real economy, on the one hand and the creation of speculative bubbles and busts on the other.[8] During much of the 1990s and 2000s, these bubbles and busts seemed to be controllable, given the support and 'management' by the US government and the Fed, however, the bust of the housing bubble, one which evidently got out of control, has revealed the Achilles heel of this neoliberal phase, as the world economy is experiencing its worst crisis since the 1970s, if not the 1930s.

V. Evaluating the Current Crisis

Initially, when considering the current crisis it seemed like other neoliberal financial crises - México 1994-95, Asia 1996-97, Russia 1998, Brazil 1999, Ecuador 2000, Argentina 2001-2003. However, this time it was not a third world country, nor some small first world country, but in fact the global hegemon- the USA. As the crisis advanced from September through December of 2008, the news just seemed to be getting worse in terms of the impacts extending beyond the financial sector and affecting more and more the real economy, not just in the U.S., but also in Europe, Japan, South Korea, Latin America and China. As many countries entered recessions and China's amazing 10% growth rate was cut in half within a six-month period, people and economists as well, started to fear the possibility of a worldwide depression. This was supported by several statistics on unemployment, debt, and GNP; several were the worst that had been seen for decades and this seemed to be the worst economic crisis on a world scale since the post-WWII golden age began.

Levels of Analysis and Abstraction

In assessing a crisis, there are different levels of analysis, ranging from specific policy responses, such as what Obama's economic advisors should be recommending or implementing, or an analysis which evaluates this as a crisis of neoliberalism, or an analysis which considers the crisis from the perspective of the capitalism system as a whole.

In order to identify the root causes of this crisis, one needs to distinguish between different levels of abstraction. It is necessary to both identify and incorporate different levels of analysis as we analyze any concrete phenomena. As in the case of

[8] See Dayani and Cipolla (2008), for an excellent analysis regarding the role of fictitious capital in the current crisis.

comparing magnitudes of surplus value and profits quantitatively, it is crucial what level of abstraction, one is considering, and this depends on a given question. When addressing specific issues related to Volume I, analyzing such magnitudes is acceptable, however, it is not when addressing an issue such as the falling rate of profit and evaluating empirical data. The analysis of the tendential fall in the rate of profit in Volume III of *Capital*, is abstracting from nation-states, from world trade institutions, from the G8 and from the U.S. empire and from geopolitics in general.

Therefore, when evaluating the current crisis, with an analysis emphasizing these more concrete factors or determinants, one's conclusions may be valid, however, this is distinct from an analysis which seeks to identify the more abstract, underlying causes of the crisis. Both sets of analysis have important contributions, depending on the aims of specific research being pursued. Nevertheless, there will be clearer advantages to understand concrete phenomena, the better one also understands underlying tendencies or laws of motion of capitalism.

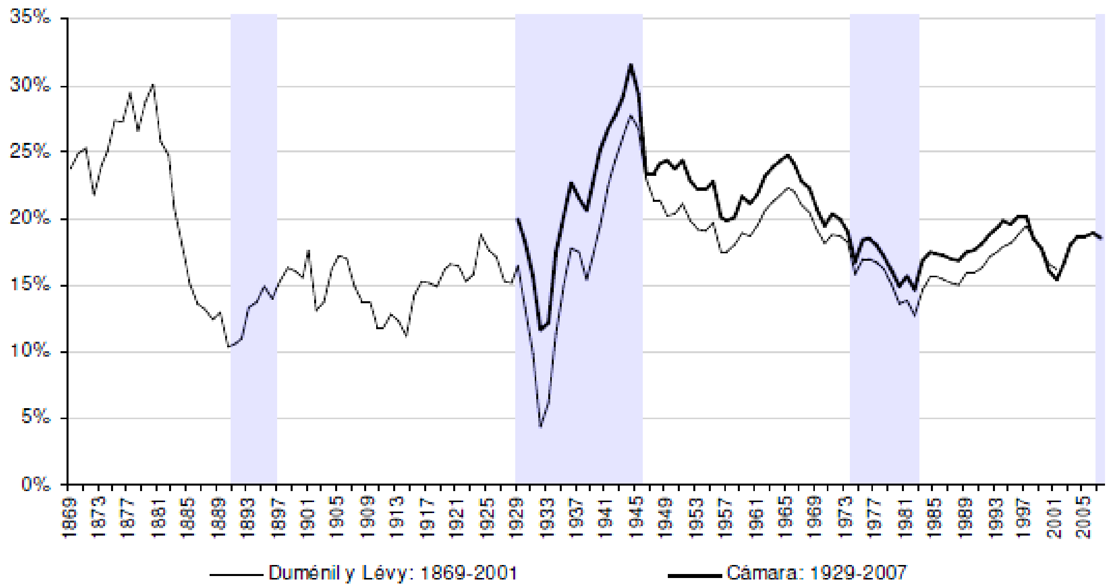
In this sense, much of what an author such as Kotz (2009) argues-that the crisis of neoliberalism and, in particular, the problems of overzealous deregulation, combined with errant fiscal and monetary policies, are the cause of this crisis- I find myself in general agreement with. However, if one seeks to understand the underlying causes of this crisis, which is a more abstract level of analysis, one needs to look at the accumulation of capital in general- that is not for a specific transnational, nor for a specific country, nor for the G8 countries, but for CAPITAL in GENERAL.

A Falling Rate of Profit or Weak Profitability

As mentioned above, the crisis appeared to be merely a financial crisis caused by a boom and bust cycle of the mortgage market in the US. There are some, such as Sampaio (2008), that argue that the present crisis is just another example of the falling rate of profit argument, especially as it has taken on the appearance of a general crisis. The main argument as described above in section 2 is that the underlying mechanism is an increasing organic composition of capital combined with an increased rate of surplus value, resulting in a declining rate of profit. As can be seen in Figure 3 below, at the outset of the accumulation crisis of the 1970s, the US profit rate began to decline around 1966-67 and continued downward till roughly 1982, providing solid evidence that the crisis of the 1970s was an accumulation crisis rooted in declining profitability, clearly beginning before the increase in oil prices in 1973.[9] The data for the years 1982-2006 show a clear upward trend of the rate of profit, not a declining rate of profit. In the case of the 1970s, it is clear that the drop in profitability anticipated the outbreak of the crisis, in contrast to the present crisis, in which the drop in profitability only began after the outbreak of the crisis. Based on the data for the rate of profit, neither the classical FROP argument in Marx, nor the profit squeeze theory, which also involves a declining rate of profit, would seem to be appropriate for explaining the current crisis.

Figure 3: Rate of Profit- USA, 1869-2007[10]

Gráfico 1. Tasa de ganancia y estructura económica en Estados Unidos, 1869-2007



Fuente: Cámara (2009c) y Duménil y Lévy (1994). La tasa de ganancia corresponde al conjunto de los negocios privados en Estados Unidos y está calculada como la ganancia total entre el capital fijo neto invertido en la producción. La serie ha sido ajustada por la tasa de utilización de la capacidad instalada.

Another interpretation is that as a result of the accumulation crisis of the 1970s there was a weak or insufficient recovery of the rate of profit, and thus the state of accumulation globally remained weak and fragile and more vulnerable than in the past. If this is the case, it is a new phenomena in contrast to crises of the past which were followed by a substantial accumulative period (consider the work elaborated by Mandel

[9] Many mainstream economists consider the crisis of the 1970s to be an oil crisis, when in fact the increase in the price of oil simply exacerbated an already ongoing accumulation crisis, which began in the late 1960s.

[10] This graph was obtained from Sérgio Cámara, who combined his data on the US rate of profit from 1929 onwards with that of Duménil and Lévy's series dating back to 1869.

and others regarding the phenomenon of long waves). If this is so, it needs to be postulated clearly and discussed and then an analysis of previous crises needs to be carried out, and identifying why was there an insufficient recovery after the 1970s, and for example, why did the serious drop in the US rate of profit in the 1950s not cause a general crisis.

Although the lack of a proper recovery may be appropriate it also requires some additional analysis with respect to transnational corporations (TNCs) that represent productive capital and has done quite well during the neoliberal period. For example, it would be revealing to carry out comparisons of TNCs with the rest of national industries globally, for both the third and first worlds. Another issue is the extent to which the capitalism of the last 40 years has experienced such an increase in unproductive labor that it has undermined capital, in the general sense, and therefore limited the accumulation it could have achieved, especially considering the weak state of working class organization globally over three or more decades dominated by neoliberalism. Another aspect that also deserves attention when considering the potential of greater accumulation is the point made by Duménil and Lévy regarding the increased capitalist consumption in the U.S., thus limiting accumulation. It is key to realize that there is no overseer for capitalism as a whole, that will reign in excessive capitalist consumption or discourage fictitious capital because it is not generating surplus value. Instead, the capitalist system does have mechanisms for addressing such problems- they are known as CRISES.

In summary, the importance of the categories of productive labor and fictitious capital are paramount for understanding the current crisis. As a whole, it seems clear that this particular form of finance-dominated neoliberalism has led to much lower levels of accumulation and growth than what the capitalist system could have generated if more investment was actually productive investment. The degree to which fictitious capital has become a parasitic burden on the surplus-value generating part of the system went too far and the mortgage crisis was the particular catalyst that broke the camel’s back. In order to further develop this argument, more empirical analysis is necessary, however, the underlying causes of this crisis are arguably a lack of profitable accumulation for the system as a whole, which resulted from an excessive dependence on fictitious capital combined with the inherent tendencies of declining profitability for capitalism in general.

V. Conclusions

This paper began with a general though brief discussion regarding different theories of crisis, with emphasis on the classic Marxist theory of the falling rate of profit and profit squeeze theory. The trajectory of the current crisis was then considered and afterwards the concepts of finance capital, fictitious capital and unproductive labor were discussed. Finally an attempt was made to analyze the current crisis and considering the possibility that it corresponded to a classical FROP argument or a profit squeeze theory. It was argued that it seems more as a lack of sufficient recovery of profitability since 1982 combined with the predominance of finance and in particular fictitious capital which has left the conditions for accumulation too weak to weather such a shock as the US mortgage crisis produced. So, at one level it is a crisis of profitability and accumulation and yet at a more concrete level it can be argued that it is the particular dependency on finance and fictitious capital which undermined the capacity of the system to generate new surplus value, which is the motor of the system, and the key for capitalist growth or accumulation. After so many speculative excesses and crises across the third world, this crisis is when the chickens came home to roost, and this time back in the empire's henhouse.

It is worth also seeing the crisis as Kotz does as a crisis of neoliberalism, though I would argue it is necessary to recognize the relevance of the category of unproductive labor. We have to recall that crisis are temporary solutions for the contradictions of the capitalist mode of production. In this sense the growing contradiction of investment in the financial sector which does not contribute to generating surplus value, which is the basis for accumulation and growth for a capitalist economy meant that sooner or later a change had to take place. Although the financial capital leant to productive capital is necessary, the growing proportion of finance capital that was merely speculative, became threatening and eventually led to a collapse of the credit system to an extent not seen for decades.

In any case, this paper has no illusions of being able to predict what the near future will look like. It seems clear that a full-fledged world depression is not happening in the short term, but given the fact that the root causes of the crisis have not been dealt with, a more serious downturn is expected within a year or two, especially for the US economy. It can only be speculated how this crisis will continue to unfold, but there is a strong possibility that the support for neoliberal polices will come to wane and the end of this period of neoliberalism will be brought to an end within the coming years. We must also hope and struggle to avoid the possibility that what follows is not worse, such as a turn toward fascism, without any illusions that the best case scenario does not yet include superseding capitalism.

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