Socialist Studies: the Journal of the Society for Socialist Studies 6(1) Spring 2010: 199-202

BOOK REVIEW

Foster, John Bellamy and Fred Magdoff. 2009. *The Great Financial Crisis: Causes and Consequences.* New York: Monthly Review Press. ISBN 9781583671849. Paperback: 14.95 CAD. Pages: 160.

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Readers familiar with the Monthly Review School will acknowledge that the tradition of Paul Baran, Paul Sweezy and Harry Magdoff has passed into very capable hands. Foster and Magdoff have published a collection of articles written as the housing market crisis unfolded (during the years 2006-2008) on the financialization of capitalism in the US. Drawing on the theory of monopoly capital developed by Baran and Sweezy, and modified by the subsequent self-criticisms of Sweezy and Harry Magdoff to acknowledge the growing importance of debt, they argue that since the 1980s we have witnessed the emergence of a 'hybrid' stage of capitalism—monopoly-finance capital (see ch. 3). The 'stagnation-financialization' perspective developed in these articles combines a Marxian analysis of capitalist production and accumulation (stagnation) with a heterodox approach to theorizing financialization in assessing the limits of the US state intervention within the world economy (for example, in its 'dollar hegemony' and lender of last resort function) and the future of capitalism.

According to Foster and Magdoff, the financialization of capitalism, which has been gradually unfolding since the 1970s, is a process that has modified 'the laws of motion of monopoly capitalism' (63-73). The tendency towards 'financialization' (crudely speaking, the expansion of debt and financial speculation) became increasingly apparent, and 'took on a life of its own,' in the 1980s. However, recent financial bubbles, such as the 'new economy' bubble of the early 2000s and the housing bubble that spectacularly burst in 2007, should not, they argue, be viewed as confined to the sphere of finance, but as necessarily connected to the tendency of 'mature capitalism' towards stagnation. Due to stagnation and over-capacity in the productive economy, capitalist accumulation has become doubly dependent on the growth of finance—to absorb the excess capital and to find 'profitable investment outlets' for this otherwise idle capital in new kinds of financial instruments. Given the various limits on profitability

ISSN 1918-2821

and growth within the underlying productive economy, capitalism has become 'addicted to debt' and speculative finance.

The causes of the 'great financial crisis' are thus ultimately traced to what they theorize as the stagnationist tendencies of (mature) capitalist economies. In their theoretical orientation, they clearly identify themselves as Marxists, though there are relatively few statements on some of the core issues around recent attempts to utilize Marx's political economy (e.g. on value theory or the 'laws of motion of capital') in analyzing the current world economic crisis. Foster and Magdoff appear to implicitly accept the view that Marx did not make much of a contribution to theories of money and finance. They see themselves as contributing to the development of a tradition of stagnation theory associated with Keynes, Kalecki, Hansen, Robinson and Minsky (among others). They in fact draw regularly on Keynes' theory of money and finance and rely quite heavily on Minsky's 'financial instability hypothesis' in explaining financial crises, particularly the home mortgage market bubble at the heart of the great financial crisis (93-99).

Since 'stagnation' is defined not as the absence of economic growth, but as the difference between 'actual' and 'potential' output, the overaccumulation of capital is understood to result from the lack of profitable investment outlets. Given the current over-capacity in the productive economy, new investments here would only return lower profits. Since state economic policies aimed at stimulating such investments fail to recognize that lower interest rates won't spur fixed capital investment in an environment where existing fixed capital isn't being fully utilized, stagnation results. In these circumstances, the overaccumulation of capital takes flight, instead, into the 'giant casino' of currency speculation, derivatives trading and hedge funds where '[i]t seeks to leverage debt and embrace bubble-like expansions aimed at high, speculative profits through financial instruments' (61).

At the heart of the theory of monopoly capital is the view that capitalist accumulation makes possible a growing economic surplus (the 'tendency of the surplus to rise') which, in the absence of 'counteracting tendencies', the capitalist economic structure is increasingly unable to absorb. They argue that 'stagnation' (as indicated by an average capacity utilization ratio of 81% in the 30 years since 1970) has been the normal condition, and this tendency has gotten worse (a decline to an annual average of 77% from 2000-2005). As with any tendency, there are countertendencies: stagnation can be muted by a number of countervailing forces (for example, the export of capital and military spending, but especially, the expansion of debt). They argue that *the effect* of each of these countertendencies (despite the size of these expenditures) has weakened since the 1960s and especially throughout the 1980s and 90s, the limits of these countertendencies were reached and capitalist accumulation has become increasingly dependent on the expansion of debt and the creation of financial bubbles to capture the excess capital.

Yet over the past 30 years or so, the relationship between debt and accumulation has weakened; the correlation between debt and GDP growth has declined considerably. As an index of stagnation, they point to the fact that every dollar of debt in the 1970s saw a sixty cent increase in GDP, but this declined to about twenty cents in the 2000s (49). Household consumer debt has reached unsustainable limits; the 'paradox' of simultaneously declining real wages and expanding consumption is explained by the accelerated growth in household debt (currently standing at 133% of household disposable income). In the absence of new profitable investment outlets—whether epoch making innovations or new kinds of speculative bubbles—what they predict is an extended period of intensified stagnation and the growth of bigger and bigger bubbles, an image, ultimately, of a very sick capitalism weakened by 'credit crunches' and haunted by the 'spectres' of debt-deflation and a global financial meltdown.

The book itself is somewhat misleadingly divided into two parts, with the first four chapters devoted to an analysis of the causes of the great financial crisis, and the last two ostensibly to what they call the consequences of the crisis. They offer a critique of some left-analyses of the crisis, rejecting the view that re-regulating finance will help protect workers by stabilizing capitalism. They also argue that further stagnation combined with a continued expansion of debt to fuel financialization will likely challenge the capacity of the US Federal Reserve to act as lender of last resort and threatens its ability to stave off a debt-deflation crisis like the one experience in Japan in the 1990s. The book contains a wealth of charts, graphs and statistical data that help to reveal the trend towards 'financialization'.

Written in the accessible style the Monthly Review School is known for, the authors have something to offer readers both old and new. For the old, what might appear novel is how the authors situate the Monthly Review perspective within the heterodox economics tradition, specifically with respect to their theorization of the current stage of capitalist development, financialization and its inherent crisis tendencies. But this text can also be seen as an attempt to introduce a new generation of readers and activists, hungry for an explanation of current economic crises and the decline of US hegemony, to the Monthly Review approach. Needless to say, both kinds of readers will be rewarded.