Growthless Capitalism

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Capitalism has varieties such as American, British, Chinese, French, German, Indian, Japanese, and Russian. As the financial turmoil broke out in September last year, Nicolas Sarkozy, the French president cum the-then EU president, declared Anglo-Saxon (British and American) capitalism defunct, and promised to fill the consequent vacancy with the genuine continental European (presumably French and German) capitalism. Meanwhile, Gordon Brown unveiled his scheme of crisis management. At the behest of Sarkozy, Bush, the Second, called a summit in Washington to contemplate on how to rescue capitalism from the troubles.

For analysis here, capitalism may be graded in the scale of rich and poor. Rich capitalism, American and European, has gotten rid of smokestack manufacturing industries, flown away on the wings of globalisation, to be reinstalled in the poor capitalism. Even a giant corporation such as the General Motors may have to pack up sooner or later for departure from the US to overseas, the new-found lands of cheap labour and easy capital. Poor capitalism saves some 30 to 40 percent of its income; its rich counterpart spends all the income and more by borrowing from overseas.

Rich capitalism now lives on money-making, literally. The 1980s has been an era of fabulous fortune for the dealmakers in management of existing firms' ownership. Deregulation of markets was the official mantra initiated by Margaret Thatcher in 1978 and accelerated 20 months later by Ronald Reagan. Emergence of sudden wealth in the financial markets is one of the great spectacles of the age. There has been a structural shift in control, away from either the original owners or the original management. There has been a massive shift in financing, away from equity, and toward debt.

What the financial operators did was to facilitate the purchase of part or all of an existing company either by another company (a takeover) or by a group of investors that often includes the original management (a leveraged buyout, or LBO). Both takeovers and LBOs involve borrowing of money; so the corporate debt rises. On the other hand, as the acquiring firm or group of investors buy up the company's shares, the total quantity of corporate stock outstanding in the market falls, causing share price rise. In the process a number of people in finance make a lot of money. Never in modern history has so much money been made by so few people in so little time.

A large fund of "hot money" of the order of two trillion dollars is engaged in seeking quick profits in currency markets. Four-fifths of the total sum make roundtrips from one currency to another and back within as little as seven days or less, of which more than two-fifths of the roundtrips are of mere two days or less. This is simply gambling with currencies for profits. The sheer volume of this market increasingly dwarfs the stabilising capacities of central banks. Overwhelmed by currency speculations, exchange rates reflect a lesser degree of long-run fundamentals of the economy relative to short-range expectations and risks.

Rich capitalism nowadays eschews hardworking industries and instead indulges in the soft luxury of money games. A respected columnist rationalises it as follows. The West is predominant in the fields of science, technology and innovation; so better it is to specialise in designing and distribution leaving the manufacturing to outsource in the East. Fundamental breakthroughs in nano technology and biotechnology, for example, are in the offing within fifty years. Rich capitalism expects to thrive on those achievements.

Meanwhile a serious financial and economic crisis has broken out all over the world; and a spectre of prolonged depression looms on the horizon. But this is nothing new. In the late nineteenth century, the condition in Britain, especially in agriculture (1873-1896), is described by historians as a "Great depression", or also as the Long Depression. Argentina, Brazil, Chile, and Mexico faced great depressions in the 1980s; and Argentina went through another in 1998-2002. Economic decline of Finland (1989-1994) is considered a great depression. The current downturn, however, is far more extensive, a global disaster, so much so that it might attract a second Great

Depression, comparable to the first one as of 1929-1939 when at times as much as one quarter of the workforce in the US was rendered jobless and the breadlines long.

How did capitalism in the twenty-first century come to such a pass? The centre of gravity of world economy has shifted across regions through centuries. Britain was the world capital in the nineteenth century, and America in the next. The interim period of transition might disrupt the economy. And one may feel that at present another movement of the global arrangement is on the way; hence this economic crisis. But that leaves open the question as to how did capitalism come to grief today.

Marx mentions two steps of capital accumulation, namely, concentration and centralisation (*Capital*, vol.1, pp. 625-27). 'With the increasing mass of wealth which functions as capital, accumulation increases the concentration of that wealth in the hand of individual capitalists and thereby widens the basis of production on a large scale. Such concentration is followed by centralisation. Centralisation involves the 'concentration of capital already formed, destruction of their individual independence, expropriation of capitalist by capitalist, transformation of many small into few large capitals. Capital grows in one place in a huge mass in a single hand, because it has in another place been lost by many.'

In terms of recent history, economic growth since World War II was an event of concentration of capital at the hand of many capitalists. In the 1980s, the Thatcher-Reagan deregulation programme had set in motion centralisation of capital by a few capitalists. In this phase, 'there develop the two most powerful levers of centralisation, namely, competition, and credit.' Competition between companies to gobble one another and the concomitant rise of debt in corporate portfolio of American companies has been alluded above.

Centralisation of capital, as distinct from concentration, 'only presupposes a change in the distribution of capital already on hand, and functioning; its field of action is therefore not limited by the absolute growth of social wealth, [but] by the absolute limits of accumulation.' That is to say, essentially capitalism is concerned not about economic growth, but about fights between a few capitalists to appropriate the capital already formed. 'Centralisation completes the work of accumulation by enabling industrial capitalists to extend the scale of their operations.' It sounds familiar in real life of rich capitalism especially since 1980. Capitalism thus ends with stagnation —a surprising result, as opposed to the traditional perception by Marxists to the effect that capitalism continues to grow *ad infinitum*.

Finally, 'every capitalist upstart has personally to go through this historic stage–avarice, and desire to get rich, are the ruling passions. Luxury enters into capital's expenses. His expenditure grows with his accumulation, without the one necessarily restricting the other' (ibid, pp. 593-94). In the 14th century, Ibn Khaldun witnessed the rise and fall of dynasties in Arabia. He noticed that at the beginning of a dynasty sultans are fairly compassionate to the people, efficient in administration and inclined towards overall progress of the regime. In course of time, however, laziness sneaks in. They become increasingly oblivious of the people, corrupt, inefficient, and indulge in conspicuous luxury at the cost of high taxation and loan. People's support to the sultanate erodes: intrigue and conspiracy proliferate to bring down the dynasty. Khaldun in his book, *Muqaddimah*, ascribes the downfall of dynasty to its huge wealth and royal addiction to luxury in the first place. This finding of Khaldun tallies with our above-mentioned formulation of a Marxian theory of eventual stagnation of capitalism due to the capitalists' propensity for luxury.

This theory of capitalist stagnation, drawn from *Capital*, vol.1, is apparently contrary to the common Marxian literature. However, it tends to fit in also with the currently observed trajectory of capitalism. In the face of big challenges to the global economy, markets of luxury goods, retailers report, are going pretty strong.

So long literal readings of Marx have taken capitalism to be a system that contains within itself certain economic seeds of its own destruction by way of the falling tendency of the rate of profit, or the realisation crisis, or an abrupt breakdown as 'the monopoly of capital becomes a fetter upon the mode of production.' They have looked upon the capitalists as robot-like agents obsessed with "Accumulation! Accumulation!" —Accumulation is their alpha and omega. Such interpretations of Marx overlook another aspect of the capitalist, a person, a prey to the temptation of luxury like everybody else, equally emphasized in Marx. Luxury can obliterate savings. The growth rate of an economy being proportionate to the rate of savings (students of economics read it as the Harrod-Domar model), no saving means no growth, even in capitalism.

Overbearing greed and fabulous luxury are not unknown in capitalism, rich or poor. Six centuries ago Ibn Khaldun suffered it as dynasty after dynasty fell in Arabia at the hand of luxury. There is no harm if the proposition that—capitalists may succumb to the lure of luxury so pervasive that capitalism gets trapped in stagnation,—is identified as the Marx-Khaldun Paradox, at least for the sake of clarity. Empirical evidence of this paradox in action is visible today in rich capitalism in particular. □□□