

On the State of Contemporary Capitalism

By PRABHAT PATNAIK*

In this comment piece, Professor Emeritus Prabhat Patnaik discusses one of the fundamental political implications of the present conjuncture – the question of the relationship between neoliberalism and neo-fascism.

Neo-liberal capitalism has reached a dead-end, in the sense that it has now entered a state of stagnation from which there is no escape within the confines of neo-liberalism. This situation has nothing to do with the pandemic: it predates the pandemic and still continues; indeed, it has existed since the collapse of the U.S. housing bubble.

This situation arises for the following reason. Under neo-liberalism, the global mobility of capital links the real wages in the global north to those in the global south, subjecting them to the baneful influence of the massive labour reserves of the global south (which are a legacy of colonialism). At the same time, this mobility of capital, and the relocation of activities from the north to the south, is accompanied by significant structural changes in the south, because of the decline in petty production, the introduction of new goods for the consumption of the upper middle class in imitation of the life-styles prevailing in the north, and technological changes introduced on account of intensified competition arising from trade liberalization; the result is a substantial rise in labour productivity, so that even when the output growth-rate accelerates under the neo-liberal regime, the employment growth-rate shows a decline compared to the earlier *dirigiste* period, and even falls short of the rate of growth of the labour force, leading to an increase in the relative size of the labour reserves. The *vector of real wages* across countries in the world economy therefore scarcely increases,¹ even as the vector of labour productivities rises substantially, resulting in a rise in the share of economic surplus in world output and also within individual countries.

This is what underlies the rise in income inequality within countries in the neo-liberal period that has been so much talked about of late (though the explanations usually offered for it are often untenable). In addition, however, since the propensity to consume out of the surplus is lower than the propensity to consume out of the incomes of the working people at whose expense the share of surplus rises, this rise creates an *ex ante* tendency towards overproduction.

Such an *ex ante* tendency towards over-production need not get realized. It can be offset through larger state expenditure; but under neo-liberalism the scope for such offsetting state expenditure does not exist. For state expenditure to increase aggregate demand it must be financed either by a fiscal deficit or by taxing the capitalists (and the rich in general) who save a part of their incomes; taxing the working people who consume the bulk of their incomes anyway and using the proceeds for state expenditure, does not add to aggregate demand, it only changes the composition of aggregate demand. But increases in both fiscal deficits and taxes on the rich are disliked by finance capital; and since under the neo-liberal order finance is globally mobile while the state remains a nation-state, the state willy-nilly has to bow before the demands of globalized finance, and cannot therefore undertake enlarged expenditure to offset the *ex ante* tendency towards over-production.

In fact, most countries have enacted “fiscal responsibility” legislation that limits the size of the fiscal deficit relative to GDP, tying the hands of the state anyway. The U.S., to be sure, is an exception to this as it does not have such legislation (although it does have absolute limits on the fiscal deficit that are periodically revised). But the U.S. can scarcely be expected to increase its fiscal deficit to boost economic activity, since the effects of such boosting would largely leak out abroad through increased imports, so that it would be enlarging its external debt to create employment abroad, which it would hardly find acceptable. Its growing protectionism no doubt might change things in the days to come but

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¹ Joseph Stiglitz, for instance, estimates that the average real wage of a male American worker in 2011 was marginally lower than in 1968. See his “Inequality is Holding Back the Recovery”, New York Times, January 13, Stiglitz (2013)

such protectionism, being directed primarily against China, is as yet not sufficient inducement for it to attempt Keynesian demand stimulation.

Since private investment depends on the *growth of demand* (and increases only when there is a *faster* growth of the market), it cannot provide a counter to the *ex ante* tendency towards over-production. The only possible counter, since state expenditure cannot play this role, consists therefore of “asset price bubbles”, which, notwithstanding their speculative character, produce a transient wealth effect on consumption. Bubbles in the U.S., first the dot-com bubble and then the housing bubble, did provide such a counter but after the collapse of the housing bubble no comparable bubble has occurred; in fact every such collapse of a bubble reduces the prospects of recurrence of a further bubble. It follows therefore that the *ex ante* tendency towards over-production does not have a counter to it and necessarily becomes *ex post*, as it has done after the collapse of the housing bubble, resulting in stagnation and high unemployment (often camouflaged, as in the U.S., under reduced labour participation rates). With real wages not rising and unemployment increasing, the material conditions of life for the working people deteriorates under neo-liberalism. This of course is not necessarily true of each country, but is a representative picture of the world economy and of the global south. But when this happens, the hegemony of monopoly capital becomes threatened.

This is when monopoly capital enters into an alliance with fascist elements that are always present in a capitalist society, but usually as fringe elements. They are pushed centre-stage only with the financial and media backing provided by monopoly capital. Such backing is often kept clandestine in the beginning in situations where admitting the existence of a corporate-fascist alliance is thought to damage the electoral prospects of the fascists; but this alliance invariably comes into the open when the fascist elements get ensconced in power, which is what had happened in Germany in the 1930s and is happening now with the emergence of neo-fascism.

From the U.S. to Italy to Hungary to Turkey to India to Argentina, neo-fascist political formations are in the ascendancy which share certain common features with the fascism of the 1930s. These are: the “othering” of a hapless minority group against which hatred is fomented; a close nexus between the fascist elements and monopoly capital, especially a new segment of monopoly capital; the use of state repression against not only this targeted minority but also dissidents, trade unionists, political opponents, artists and intellectuals; the combination of state repression with street terror by fascist youths forming themselves into vigilante groups; the creation of a personality cult around the “leader”; and an effort to homogenize the population other than the targeted minority. The neo-fascist elements, even when not in office, are powerful and waiting in the wings in many other countries, such as France and Germany.

The usefulness of fascism earlier, and of neo-fascism now, to monopoly capital in a period of crisis, arises from the fact that it thwarts any potential challenge to the latter’s hegemony not just by repression but above all by creating a diversionary discourse that either omits any mention of the crisis or obfuscates the real reason for it, while fomenting disunity among the working people. In India the neo-fascists ignore the crisis altogether while in Europe and the U.S. the crisis is blamed on the “immigrants”, the hapless group that is “othered”. In either case, there is a glossing over of the systemic flaws that produce the crisis.

Of course the corporate-neofascist alliance does not arise out of the blue; conditions for it are prepared, not consciously but spontaneously, during the whole of the neo-liberal period itself. Walter Benjamin, writing in the context of German fascism, had said that it came on the backs of failed revolutions. Indeed the failed German revolutions of 1918 and of the 1920s had exhausted the working class which made the ascendancy of fascism possible. Under neo-liberalism there have been no failed revolutions, but the working class has been enfeebled not just by the global mobility of capital (while trade unions are organized nationally) and the rise in the relative size of the labour reserves, mentioned earlier, but also by the privatization of public sector units (there is greater unionization and union militancy in the public sector than in the private sector). It is this enfeebling that prepares the ground for neofascism to emerge when neoliberalism runs into a crisis. Neofascism, in short, is the ultimate *denouement* towards which neo-liberal capitalism propels society.

There is, however, one basic difference between the old fascism and neo-fascism: old fascism had overcome the crisis through a step-up in military expenditure, financed by large fiscal deficits, in preparation for war. The opposition of finance capital to such deficits had been overcome because finance

capital then had itself been “national”; and the fascists, who had ensured that there would be “no next government” after them, had close connections with it. Japan had been the first country to come out of the Great Depression and Germany had followed suit after Hitler’s coming to power. Contemporary neo-fascism, however, cannot overcome the objections of finance to such fiscal deficits, because even neo-fascism presides over a nation-state that is powerless against *globalized* finance; a neo-fascist government in other words suffers from the same handicap as a liberal bourgeois government in promoting Keynesian expansionary policies in the present context.

Monetary policy, which is the other instrument that could be used, has proved utterly incapable of overcoming the crisis; the driving down of interest rates to zero or even negative levels has scarcely boosted demand through conventional channels; it has not even created a new “bubble” like Alan Greenspan’s driving down of interest rates after the collapse of the dot-com bubble had done. If anything it may have induced corporations to jack up their profit mark-ups to produce the recent bout of inflation.

Capitalism in its latest incarnation has thus trapped humanity in a situation of “no exit” where economic distress and an assault on freedom and fundamental rights have become the order of the day. This situation is particularly acute in the global south where the crisis has caught countries in a web of external debt, which in turn sees the imposition of fiscal “austerity” that further worsens the people’s living standards. Efforts of countries to break out of the vice of neo-liberalism on the other hand are met by metropolitan powers through ruthless measures ranging from economic sanctions to coup d’etats to military intervention. Contemporary capitalism exposes the hollowness of the claim that this system is capable of being humane and accommodative of freedom. This claim appeared plausible in the immediate post-war period, but that was before the system recovered enough to reassert its spontaneous tendencies. The working people everywhere however are becoming aware of this fact. From demands for a change in the system they would surely move on to demanding a transcendence of the system itself. This transition will not be easy, but it will inevitably come.

REFERENCES

Stiglitz, Joseph. 2013. “Inequality is Holding Back the Recovery.” *New York Times*.