Four Fallacies regarding the Current Crisis
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Noone knows where the current economic crisis is leading, though historical precedent suggests it has the potential to unleash enormously destructive and violent social forces. History, however, never repeats itself exactly. Nor is the future already determined. If we are to have any hope of minimizing the effects of the current crisis, or even turning them to our advantage, however, we must first understand the nature of these problems. In particular, four popular fallacies, especially in evidence in official political discourse, must be definitively rejected.

First, the current mess was not caused by the sub-prime mortgage lending practices, nor the derivatives associated with them, which are entirely superficial phenomena. Much more important is the entire political economic process of the last three decades, in which global finance has assumed dominance, both quantitatively and politically, over the global economy. Naturally, this led to its deregulation and the enormous financial bubbles that are not backed in any meaningful way by "real" economic growth – absolute power corrupts absolutely. And so any solution must fundamentally challenge this political dominance, not just its symptoms, or we can expect even worse crises soon after the current one is stabilised.

Even this analysis, however, remains too superficial for a comprehensive solution. For the dominance of finance, arising from around 1980, must itself be understood in the context of the general crisis of profitability of the productive sector that emerged in the 1970s and has never been resolved. A capitalist economy must always be growing, which entails the ever-deepening penetration of capital relations into society in search of opportunities for profitable enterprise. Given the socially acceptable limits of this expansion, though, such growth must eventually reach its limits. At this point, further growth is no longer possible in zero-sum terms, competition increases to cut-throat levels and profitability drops.

Responding to such a crisis in the 1970s, businesses increasingly shifted their investment to finance rather than the "real" economy and this supported the launch of a political counter-revolution in which the neoliberal demands of global (and particular American) finance were catapulted to dominance. This political dominance of finance in turn allowed a violent restructuring of the economy, freeing up new opportunities for productive investment by challenging existing social barriers to the expansion of capital.

This leads to the second fallacy, which can be expressed in various ways: that the problem is one of banking liquidity, rather than solvency; or that the crisis can be resolved by restoring confidence in the financial system or by pumping money into the system. It has been noted by other commentators that the problem with the financial sector is fundamentally one of financial assets appreciating to levels that are simply massively overpriced. But this does not tell the whole story.

As we have seen, the fundamental problem with the global economy is an ongoing exhaustion of the opportunities for productive sector growth. The current crisis, however, can only exacerbate the underlying crisis of profitability, further exacerbating the mismatch between financial and "real" values.

To be sure, global finance has opened up some huge new areas for the expansion of capital in the past decades through a process of accumulation by dispossession; think of the privatisation and out-sourcing of public services, the spread of new technologies like the internet and their enclosure through intellectual property law or the opening up of China. But the opening of social spaces for the ever-deeper penetration of the capital relation is necessarily disruptive and met with resistance, and so needs an aggressive and predatory financial sector to force it through.

It follows that when global finance is in crisis, the process of accumulation by dispossession upon which current productive growth depends is crucially weakened as the political nature of its demands, reshaping the distribution of wealth in a society, becomes flagrantly apparent. Political resistance to the further expansion of capitalist accumulation is thus enflamed and the underlying problem of a continuing dearth of opportunities for relatively uncontroversial economic growth rises back to the surface.

As such, the current crisis will need either a massive destruction of value or the successful political colonization by capital of a new social space before anything like "normal" economic growth can be resumed. Neither process is possible without significant political disturbance as both will create significant losers. It follows that even if financial confidence is temporarily restored, this is simply to prolong the current dysfunctional global political economy and do nothing to address the fundamental economic problems.

The third fallacy also arises from this analysis of the global political economy. For the continuing dominance of neoliberalism, including New Labour, shows just how absurd it is to suggest that the massive bail-out of Wall Street, or the nationalisation of financial institutions that is now gathering pace across Europe, is "socialism".

Nothing could be further from the truth. It is, in fact, simply the most egregious example of the entire history of the neoliberal project, in which finance capital sets the rules, reaps the profits and off-loads the costs onto the state, i.e. the taxpayer. In short, we must ask "*who* is the 'state' that is taking over the banks?" The current political dominance of finance capital, notwithstanding the present crisis, entails that the *first* constituency to get the ear of governments will continue to be finance itself. The more likely default scenario is thus not "socialism" but a profound deepening of the reverse takeover of the state by finance.

It is thus equally misguided and overblown to talk about the current crisis as the demise of neoliberalism or as effecting a transformation of the political global order. A social democratic reordering of the global political economy will not happen automatically by itself, but will require actual, sustained and overwhelming demands for it from the electorate. But where are these demands? Where are the political parties that give voice to them?

This leads to the fourth fallacy, namely the forlorn hope that a social democratic "New Deal", simply transplanting the Roosevelt plan to the present context, can resolve the problems. Undoubtedly, a social democratic politics is required to respond to this current crisis as equitably as possible, minimizing the effects on the majority, privileging the needs of the worst off and maximizing the burden assumed by global finance for the problems it created.

Given the analysis of our political economic predicament, however, a New Deal of Keynesian demand management and massive public spending cannot resolve the underlying problem – just as it failed to resolve the economic depression of the 1930s. As Clive Webb of Sussex University rightly pointed out recently in the Guardian, on the eve of the War in 1939, there were still 9 million Americans unemployed.

The problem is that a New Deal cannot produce either of the processes needed for the resolution of a depression; neither the dramatic destruction of value nor the establishment of a new political economic settlement for a new round of expansion of capital. Thus what saved the US economy was not the New Deal but the Second World War itself: effecting a massive (and literal) destruction of value across Europe, stimulating American industry and uniting all economic classes against the threat of fascism (and later communism) in a way that afforded the complete restructuring of the economy. The success of Keynesian economics is thus observable not in the Depression of the 1930s, but in the entirely altered global context of the post-War (and Cold War) '40s, 50s and '60s.

Where does this leave us? We are facing a global economic slowdown that may unleash unthinkable political turmoil and may scupper any chances of meaningful efforts to deal with climate change, and we have no historical precedent of a coherent political economic policy to guide us through these dark times. What is clear, however, is that the current crisis is the result of the overwhelming dominance of global finance and its cognate political project of neoliberalism.

A single, coherent alternative political economic ideology around which to rally may be preferable and intellectually reassuring but we manifestly do not have it. But this can be no excuse for inaction, allowing the bankers to set the agenda of their bail-out. Rather what is needed is a renewed politics of solidarity built on a commitment to forge a path as best we can. A popular political movement calling for drastic and wholesale systemic reform, and debunking these four fallacies, would be a good starting point.