

STRUCTURAL CRISES

THE TERM 'CRISIS' played a central role in many national political debates during the 1970s, although definitions of it varied widely. Towards the end of the century it had largely been replaced by another, more optimistic term, 'globalization'.¹ Since 2008, however, the tone has turned sombre again, and the notion of 'crisis' has abruptly resurfaced; but its usage is just as loose as ever. The questions of how to define a crisis, and how to explain its origins, have once again come to the fore.

In the late 1960s and early 1970s both the hegemonic cycle and the overall economic cycle of the modern world-system entered a phase of decline. The period from 1945 to circa 1970—aptly referred to in French as *les trente glorieuses*—had marked the height of US hegemony and also coincided with the most expansive Kondratieff A-upturn that the capitalist world-economy had ever known. The downturns were absolutely normal, not only in the sense that all systems have cyclical rhythms—it is how they live, the way they deal with the inevitable fluctuations of their operations—but also because of how capitalism as a world-system functions. There are two key issues here: how producers make profit; and how states guarantee the world order within which producers may make profit. Let us take each in turn.

Capitalism is a system in which the endless accumulation of capital is the *raison d'être*. To accumulate capital, producers must obtain profits from their operations, which is possible on a significant scale only if the product can be sold for considerably more than it cost to produce. In a situation of perfect competition, it is impossible to make profits on such a scale: a monopoly, or at least a quasi-monopoly, of world-economic power is required. The seller can then demand any price, as long as he does not go beyond what the elasticity of demand permits. Whenever

the world-economy is expanding significantly some 'leading' products are relatively monopolized, and it is from the profits on these that large amounts of capital can be accumulated. The forward and backward linkages of such products form the basis for an overall expansion of the world-economy. We call this the A-phase of a Kondratieff cycle. The problem for capitalists is that all monopolies are self-liquidating, due to the fact that new producers can enter the world market, however politically well defended a given monopoly may be. Of course, entry takes time; but sooner or later the degree of competition rises, prices go down and therefore profits go down too. When profits for the leading products decline sufficiently, the world-economy ceases to expand, and enters into a period of stagnation—the B-phase of a Kondratieff cycle.

The second condition for capitalist profit is that there be some kind of relative global order. While world wars offer some entrepreneurs opportunities to do very well, they also occasion enormous destruction of fixed capital and considerable interference with world trade. The overall balance-sheet of world wars is not positive, a point Schumpeter repeatedly made. Ensuring the relatively stable situation required for profit-making is the task of a hegemonic power strong enough to impose it on the world-system as a whole. Hegemonic cycles have been much longer than Kondratieff cycles: in a world of multiple so-called sovereign states, it is not easy for one to establish itself as the hegemonic power. It was done first by the United Provinces in the mid-17th century, then by the United Kingdom in the mid-19th century, and finally by the United States in the mid-20th century. The rise of each hegemonic power has been the result of a long struggle with other potential hegemonies. Up to now the winner has been the state that has been able to assemble the most efficient productive machinery, and then to win a 'thirty years' war' with its principal rival. The hegemon is then able to set the rules by which the interstate system operates, to assure its smooth functioning and to maximize the flow of accumulated capital to its citizens and productive enterprises. One could call this a quasi-monopoly of geopolitical power.

The problem for the hegemonic power is the same as that facing a leading industry: its monopoly is self-liquidating. Firstly, the hegemon has on occasion to exercise its military power to maintain order. But wars cost money and lives, and have a negative impact on its citizens, whose

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initial pride in victory may evaporate as they pay the increasing costs of military action. Large-scale military operations are often less effective than expected, and this strengthens those who wish to resist in the future. Secondly, even if the hegemon's economic efficiency does not immediately falter, that of other countries begins to rise, making them less ready to accept its dictates. The hegemon enters into a process of gradual decline relative to the rising powers. The decline may be slow, but it is nonetheless essentially irreversible.

What made the moment of 1965–70 so remarkable was the conjoining of these two kinds of downturn—the end of the historically most expansive Kondratieff A-phase, and the beginning of the decline of the historically most powerful hegemon. It is no accident that the world revolution of 1968 (actually 1966–70) took place at that turning point, as an expression of it.

Displacing the old left

The world revolution of 1968 marked a third downturn—one that has occurred only once, however, in the history of the modern world-system: the decline of the traditional anti-systemic movements, the so-called Old Left. Composed essentially of the Communists, Social-Democrats and national-liberation movements, the Old Left arose slowly and laboriously across the world-system, primarily throughout the last third of the nineteenth century and the first half of the twentieth; ascending from a position of political marginality and weakness as of, say, 1870, to one of political centrality and considerable strength around 1950. These movements reached the summit of their mobilizing power in the period from 1945 to 1968—exactly the moment of both the extraordinary Kondratieff A-phase expansion and the height of US hegemony. I do not think this was fortuitous, although it might seem counter-intuitive. The world economic boom led entrepreneurs to believe that concessions to the material demands of their workers cost them less than interruptions to the productive process. Over time, this meant rising costs of production, one of the factors behind the end of the quasi-monopolies in leading industries. But most entrepreneurs make decisions that maximize short-term profits—over the succeeding three years, say—and leave the future to the gods.

Parallel considerations influenced the policies of the hegemonic power. Maintaining relative stability in the world-system was an essential

objective, but the United States had to weigh the cost of repressive activity against the cost of concessions to demands from national-liberation movements. Reluctantly at first, but later more deliberately, Washington began to favour a controlled 'decolonization', which had the effect of bringing such movements to power. Hence, by the middle of the 1960s, one could say that the Old Left movements had achieved their historic goal of state power almost everywhere—at least on paper. Communist parties ruled one-third of the world, social-democratic parties were in power, or alternating power, in most of another third: the pan-European world; in addition, the principal policy of the social-democratic parties—the welfare state—was accepted and practised by their conservative opponents. National-liberation movements had come to power in most of the former colonial world, as had populist movements in Latin America. Many analysts and militants today would criticize the performance of these movements, but this is to forget the fear that pervaded the world's wealthier and more conservative strata in face of what looked to them like a juggernaut of destructive egalitarianism, equipped with state power.

The world revolution of 1968 changed all that. Three themes predominated in its multiple uprisings: the first was that US hegemonic power was overstretched and vulnerable—in Vietnam the Tet offensive was taken to be the death knell for US military operations. Revolutionaries also attacked the role of the Soviet Union, which they saw as a collusive participant in US hegemony—a feeling that had been growing everywhere since at least 1956. The second theme was that the Old Left movements had failed to deliver on their historic promises. All three varieties had been premised on the so-called two-stage strategy—first take state power, then change the world. The militants in effect said: 'You have taken state power but have not changed the world. If we wish to change the world, we need new movements and new strategies.' The Chinese Cultural Revolution was taken by many as the model for this possibility. The third theme was that the Old Left had ignored the forgotten peoples—those downtrodden because of their race, gender, ethnicity or sexuality. The militants insisted that demands for equal treatment could no longer be deferred—they constituted part of the urgent present. In many ways, the Black Power movement in the United States was the paradigmatic example.

The world revolution of 1968 was both an enormous political success and an enormous political failure. It rose like a phoenix, burned bright across the globe, but by the mid-1970s seemed to be extinguished almost

everywhere. What had been accomplished by this wild brushfire? Centrist liberalism had been dethroned as the governing ideology of the world-system, and was reduced to being simply one alternative among others; the Old Left movements were destroyed as mobilizers of any kind of fundamental change. But the triumphalism of 1968 proved shallow and unsustainable. The world right was equally liberated from any attachment to centrist liberalism. It took advantage of the world-economic stagnation and the collapse of the Old Left to launch a counter-offensive, that of neo-liberal globalization. The prime objectives were to reverse all the gains of the lower strata during the Kondratieff A-phase: to reduce the costs of production, to destroy the welfare state and to slow the decline of US power. Its onward march seemed to culminate in 1989, as the ending of Soviet control over its East-Central European satellites and the dismantling of the USSR itself led to a new triumphalism on the right.

The offensive of the world right was both a great success and a great failure. What has sustained the accumulation of capital since the 1970s has been a turn from seeking profits through productive efficiency to seeking them through financial manipulations, more correctly called speculation. The key mechanism has been the fostering of consumption via indebtedness. This has happened in every Kondratieff B-phase; the difference this time has been the scale. After the biggest A-phase expansion in history, there has followed the biggest speculative mania. Bubbles moved through the whole world-system—from the national debts of the Third World and socialist bloc in the 1970s to the junk bonds of large corporations in the 1980s, the consumer indebtedness of the 1990s and the US government indebtedness of the Bush era. The system has gone from bubble to bubble, and is currently trying to inflate yet another, with bank bailouts and the printing of dollars.

The downturn into which the world has fallen will continue now for some time, and will be quite deep. It will destroy the last remaining pillar of relative economic stability, the role of the US dollar as reserve currency for safeguarding wealth. As this happens, the main concern of every government in the world will be to avert uprisings of unemployed workers and the middle strata whose savings and pensions are disappearing. Governments are currently turning to protectionism and printing money as their first line of defence. Such measures may assuage momentarily the pain of ordinary people, but it is probable that they will make the situation even worse. We are entering systemic gridlock, from which

exit will be extremely difficult. This will express itself in ever wilder fluctuations, which will make short-term predictions—both economic and political—virtually guesswork. This in turn will aggravate popular fears and the sense of alienation.

Some claim that the greatly improved relative economic position of Asia—Japan, South Korea, Taiwan, China and to a lesser extent India—will allow a resurgence of capitalist enterprise, through a simple geographical shift of location. One more illusion! The relative rise of Asia is a reality, but one that undermines further the capitalist system by over-extending the distribution of surplus-value, thus reducing overall accumulation for individual capitals rather than increasing it. China's expansion accelerates the structural profit squeeze of the capitalist world-economy.

Systemic overheads

It is at this point that we must consider the secular trends of the world-system, as opposed to its cyclical rhythms. These rhythms are common to many kinds of systems, and are part of how they operate, how they breathe, if you will. But the B-phases never end at the point where the preceding A-phases began. We may think of each upturn as a contribution to slow-moving upward curves, each approaching its own asymptote. In the capitalist world-economy, it is not difficult to discern which curves matter most. Since capitalism is a system in which endless accumulation is paramount, and since one accumulates capital by making profits in the market, the key issue is how to make products for less than the prices for which they can be sold. We therefore have to determine both what goes into the costs of production and what determines prices. Logically, production costs are those of personnel, inputs and taxation. All three have been rising as a percentage of the actual prices for which products are sold. This is so despite the repeated efforts of capitalists to push them down, and despite the waves of technological and organizational improvements that have increased the so-called efficiency of production.

Personnel costs may in turn be divided into three categories: the relatively unskilled workforce, intermediate cadres and top managers. The wages of the unskilled tend to increase in A-phases as a result of some kind of syndical action. When these rise too high for given entrepreneurs, particularly for the leading industries, relocation to historically lower-wage

areas during the B-phase is the main remedy; if similar action takes place in the new location, a second move occurs. These shifts are costly but successful; however, worldwide there is a ratchet effect—the reductions never totally eliminate the increases. Over 500 years, this repeated process has exhausted the loci into which capital can relocate. This is evidenced by the deruralization of the world-system.

The increase in the cost of workforce cadres is the result, first, of the expanded scale of productive units, which require more intermediate personnel. Second, the political dangers of syndical organization by relatively low-skilled personnel are countered by the creation of a larger intermediate layer, political allies for the ruling stratum and models of upward mobility for the unskilled majority. The rise in the costs of top managers, meanwhile, is the direct result of the increased complexity of entrepreneurial structures—the famous separation of ownership and control. This makes it possible for top managers to appropriate ever larger portions of the firm's receipts as rent, thereby reducing what goes to the owners as profit or for reinvestment. This last increase was spectacular during the last few decades.

The costs of inputs have been going up for analogous reasons. Capitalists aim to externalize costs, that is, to not pay the full bill for handling toxic waste, renewing raw materials and building infrastructure. From the sixteenth century to the 1960s, such externalization of costs had been normal practice, more or less unquestioned by political authorities. Toxic waste was simply dumped in the public domain. But the world has been running out of vacant public space—parallel to the deruralization of the world's workforce. The health consequences and costs have become so high and so close to home as to produce demands for environmental clean-up and control. Resources have also become a major concern, the consequence of the sharp increase in world population. There is now widespread discussion about shortages of energy sources, water, forestation, fish and meat. Transport and communication costs have also gone up as these have become faster and more efficient. Entrepreneurs have historically paid only a small part of the bill for infrastructure. The consequence of all of this has been political pressure for governments to assume more of the costs of detoxification, resource renewal and infrastructural expansion. To do this, governments must increase taxes and insist on more internalization of costs by entrepreneurs, which of course cuts into profit margins.

Finally, taxation has been going up. There are multiple levels of taxation, including private taxation in the form of corruption and organized mafias. Taxation has risen as the scope of world-economic activity has extended and state bureaucracies have expanded, but the major impetus has come from the world's anti-systemic movements, which have pushed for state-guarantees of education, health and life-long revenue flows. Each of these has expanded, both geographically and in terms of the levels of services demanded. No government today is exempt from the pressure to maintain a welfare state, even if the levels of provision vary.

All three costs of production have risen steadily as a percentage of the real sales prices of products, albeit in the form of an A–B ratchet, over 500 years. The most dramatic increases have been in the post-1945 period. Cannot the prices for which products are sold simply be raised, in order to maintain the margins of real profit? That is precisely what was tried in the post-1970 period, in the form of price rises sustained by expanded consumption, sustained in turn by indebtedness. The economic collapse in the midst of which we find ourselves is nothing but the expression of the limits to elasticity of demand. When everyone spends far beyond their real income, there comes a point at which someone has to stop, and fairly quickly everyone feels they have to do the same.

Struggles for succession

The conjunction of the three elements—the magnitude of the ‘normal’ crash, the rise in costs of production, and the extra pressure on the system of Chinese (and Asian) growth—means that we have entered a structural crisis. The system is very far from equilibrium, and the fluctuations are enormous. From now on, we will be living amidst a bifurcation of the systemic process. The question is no longer, ‘how will the capitalist system mend itself, and renew its forward thrust?’, but rather, ‘what will replace this system? What order will emerge from this chaos?’

We may think of this period of systemic crisis as an arena of struggle for the successor system. The outcome may be inherently unpredictable, but the nature of the struggle is clear. We are faced with alternative choices, which cannot be spelled out in institutional detail, but may be suggested in broad outline. We can choose collectively a new system that essentially resembles the present one: hierarchical, exploitative and polarizing. There are many forms this could take, and some could be harsher than

the capitalist world-system in which we have been living. Alternatively we can choose a radically different system, one that has never previously existed—a system that is relatively democratic and relatively egalitarian. I have been calling the two alternatives ‘the spirit of Davos’ and ‘the spirit of Porto Alegre’, but the names are unimportant. What is important is to see the possible organizational strategies on each side, in a struggle that has been going on in some form since 1968 and may not be resolved before circa 2050.

First we must note two crucial characteristics of a structural crisis. Because the fluctuations are so wild, there is little pressure to return to equilibrium. During the long, ‘normal’ lifetime of the system, such pressure was the reason why extensive social mobilizations—so-called ‘revolutions’—had always been limited in their effects. But when the system is far from equilibrium, the opposite can happen—small social mobilizations can have very great repercussions, what complexity science refers to as the ‘butterfly effect’. We might also call it the moment when political agency prevails over structural determinism. The second crucial characteristic is that in neither of the two camps is there a small group at the top calling all the shots: a functioning ‘executive committee of the ruling class’, or a politburo of the oppressed masses. Even among those committed to the struggle for a successor system, there are multiple players, advocating different emphases. The two groups of conscious militants on both sides are also finding it difficult to persuade the larger groups that form their potential bases of the utility and possibility of organizing the transition. In short, the chaos of the structural crisis is reflected in the relatively disordered configuration of the two camps.

The camp of ‘Davos’ is deeply divided. There are those who wish to institute a highly repressive system that glorifies the role of privileged rulers over submissive subjects. There is a second group which believes that the road to control and privilege lies in a meritocratic system that would co-opt the large number of cadres necessary to maintain it with a minimum of force and a maximum of persuasion. This group speaks a language of fundamental change, using slogans that emerged from the anti-systemic movements—a green universe, a multicultural utopia, meritocratic opportunities for all—while preserving a polarized and unequal system. Within the camp of ‘Porto Alegre’, there is a parallel split. There are those who envisage a highly decentralized world, which privileges rational long-term allocations over economic growth, and permits innovation without

creating cocoons of expertise unanswerable to society as a whole. There is a second group that is more oriented to transformation from above, by cadres and specialists; they envisage an ever more coordinated and integrated system, a formal egalitarianism without real innovation. So, rather than a simple twofold battle for the successor system, I envisage a threefold struggle—one between the two great camps, and a second one within each camp. This is a confusing situation, morally and politically; the outcome is fundamentally uncertain.

What practical steps can any of us take to further this process? There is no formulaic agenda, there are only lines of emphasis. I would put at the head of the list actions that we can take, in the short run, to minimize the pain that arises from the breakdown of the existing system, and from the confusions of the transition. These might include winning an election in order to obtain more material benefits for those who have least; greater protection of judicial and political rights; measures to combat further erosion of our planetary wealth and conditions for collective survival. Nevertheless, these are not in themselves steps towards creating the new successor system that we need. Serious intellectual debate is required about the parameters of the kind of world-system we want, and the strategy for transition. This requires a willingness to hear those we deem of good will, even if they do not share our views. Open debate will surely build greater camaraderie, and will perhaps keep us from falling into the sectarianism that has always defeated anti-systemic movements. Finally, wherever possible we should construct alternative decommodified modes of production. By doing this we can discover the limits of many particular methods, and demonstrate that there are other modes of ensuring sustainable production than a reward system based on the profit motive. In addition, struggle against the fundamental inequalities of the world—gender, class and race/ethnicity/religion—must be at the forefront of our thoughts and deeds. This is the hardest task of all, since none of us are guiltless, and the world culture that we have inherited militates against us. Does it also need to be said that we must avoid any sense that history is on our side? We have at best a 50–50 chance of creating a better world-system than the one in which we now live. But 50–50 is a lot. We must try to seize Fortuna, even if it escapes us. What more useful thing can any of us do?