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*The Crisis and the Consolidation of Class Power***Is This Really the End of Neoliberalism?**

By DAVID HARVEY

Does this crisis signal the end of neo-liberalism? My answer is that it depends what you mean by neo-liberalism. My interpretation is that it's a class project, masked by a lot of neo-liberal rhetoric about individual freedom, liberty, personal responsibility, privatisation and the free market. These were means, however, towards the restoration and consolidation of class power, and that neo-liberal project has been fairly successful.

One of the basic principles that was set up in the 1970s was that state power should protect financial institutions at all costs. This is the principle that was worked out in New York City crisis in the mid-1970s, and was first defined internationally when Mexico threatened to go bankrupt in 1982. This would have destroyed the New York investment banks, so the US Treasury and the IMF combined to bail Mexico out. But in so doing they mandated austerity for the Mexican population. In other words they protected the banks and destroyed the people, and this has been the standard practice in the IMF ever since. The current bailout is the same old story, one more time, except bigger.

What happened in the US was that 8 men gave us a 3 page document which pointed a gun at everybody and said 'give us \$700 billion or else'. This to me was like a financial coup, against the government and the population of the US. Which means you're not going to come out of this crisis with a crisis of the capitalist class; you're going to come out of this with a far greater consolidation of the capitalist class than there has been in the past. We're going to end up with four or five major banking institutions in the United States and nothing else. Many on Wall Street are thriving right now. Lazard's, because it specialises in mergers and acquisitions, is making megabucks. Some people are going to be burned, but overall it's a massive consolidation of financial power. There's a great line from Andrew Mellon (US banker, Secretary of the Treasury 1921-32), who said that in a crisis, assets return to their rightful owners. A financial crisis is a way of rationalising what is irrational – for example the immense crash in Asia in 1997-8 resulted in a new model of capitalist development. Disruptions lead to a reconfiguration, a new form of class power. It could go wrong, politically. The bank bailout has been fought over in the US Senate and elsewhere, so the political class may not easily go along - they can put up roadblocks but so far they have caved in and not nationalised the banks.

But this can lead to a deeper political struggle: there is a strong sense of questioning why are we empowering all the people who got us into this mess. Questions are being asked about Obama's choice of economic advisers – for example Larry Summers who was Secretary of the Treasury at the key moment when a lot of things started to go really wrong, at the end of the Clinton administration. Why would you now bring in so many of the characters who are pro-Wall Street, pro-finance capital, who did the bidding of finance capital back then? Which is not to say that they aren't going to redesign the financial architecture because I think they know it's got to be redesigned, but who are they going to redesign it for? People are really discontented about Obama's economic team, even in the mainstream press.

A new state financial architecture is required. I don't think that all existing institutions like the Bank of International Settlements and even the IMF should be abolished; I think we will need them but they have to be revolutionarily transformed. The big question is who will control them and what their architecture will be. We will need people, experts with some sort of understanding of how those institutions do work and can work. And this is very dangerous because, as we can see

right now, when the state looks to see who can understand what is going on in Wall Street, they think only insiders can.

Disempowerment of labor: enough is enough

Whether we can get out of this crisis in a different way depends very much upon the balance of class forces. It depends upon the degree to which the entire population says 'enough is enough, let's change this system'. Right now, when you look at what's been happening to workers over the last 50 years, they have got almost nothing out of this system. But they haven't risen up in revolt. In the US over the last 7 or 8 years, the condition of the working classes in general has deteriorated, and there has been no mass movement against this. Finance capitalism can survive the crisis, but it depends entirely upon the degree in which there is going to be popular revolt against what is happening, and a real push to try and reconfigure how the economy works.

One of the major barriers to continuous capital accumulation back in the 1960s and early 70s was the labor question. There were scarcities of labor both in Europe and the US and labor was well organized, with political clout. So one of the big barriers to capital accumulation during that period was; how can capital get access to cheaper and more docile labor supplies? There were a number of answers. One was to encourage more immigration. In the United States there was a major revision of the immigration laws in 1965 that in effect allowed the US access to the global surplus population (before that only Europeans and Caucasians were privileged). In the late 1960s the French government was subsidising the import of Maghrebian labor, the Germans were bringing in the Turks, the Swedes were bringing in the Yugoslavs, the British were drawing upon their empire. So a pro-immigration policy emerged which was one attempt to deal with the labor problem.

The second thing you go for is rapid technological change which throws people out of work and if that failed then there were people like Reagan, Thatcher and Pinochet to crush organized labor. And finally capital goes to where the surplus labor is by off-shoring, and this was facilitated by two things. Firstly technical reorganisation of the transport systems: one of the biggest revolutions that happened during this period is containerisation which allowed you to make auto parts in Brazil and ship them for very low cost to Detroit or wherever. Secondly the new communications systems allowed the tight organization of commodity chain production across the global space.

All of these solved the labor problem for capital, so by 1985 capital has no labor problem any more. It may have specific problems in particular areas but globally it has plenty of labor available to it; the sudden collapse of the Soviet Union and the transformation of much of China added something like 2 billion people to the global proletariat in 20 years. So labor availability is no problem now and the result of that is that labor has been disempowered for the last 30 years. But when labor is disempowered it gets low wages, and if you engage in wage repression this limits markets. So capital was beginning to face problems with its market, and there were two things which happened.

The first was the gap between what labor was earning and what it was spending was covered by the rise of the credit card industry and increasing indebtedness of households. So in the US in 1980 you would find that the average household would owe around \$40,000 in debts now it's about \$130,000 for every household, including mortgages. So household debt sky-rockets and that brings you to financialisation, and that was about getting the financial institutions to support the household debts of working class people whose earnings are not increasing. And you start with the respectable working class, but by the time you get to the year 2000 you start to find these sub-prime mortgages circulating. You are looking to create a market. And so finance starts to support the debt-financing of people who have almost no income. But if you hadn't done that what would have happened to the property developers who are building the houses? So you try and stabilize the market by funding that indebtedness.

Crises of asset values

The second thing which happened was that from the 1980s onwards the rich are getting far richer because of that wage repression. The story we are told is that they will invest in new activity but they don't; most of them start to invest in assets, i.e. they put money in the stock market, the stock market goes up so they think it is a good investment so they put more money in the stock market, so you get these stock market bubbles. It is a ponzi-like system without the Madoff's organizing it. The rich bid up asset values, including stocks, property, and leisure property as well as the art market. These investments involve financialisation. But as you bid up asset values this carries over to the whole economy, so to live in Manhattan became all but impossible unless you went incredibly into debt, and everyone is caught in this inflation of asset values, including the working classes whose incomes are not rising. And now we've got a collapse of asset values; the housing market is down, the stock market is down.

There has always been the problem of the relationship between representation and reality. Debt is about the assumed future value of goods and services, so it assumes the economy is going to continue to grow over the next 20 or 30 years. It always involves a guess, which is then set by the interest rate, discounting into the future. This growth of the financial area after the 1970s has a lot to do with what I think is another key problem: what I would call the capitalist surplus absorption problem. As surplus theory tells us, capitalists produce a surplus, which they then have to take a part of, recapitalise it, and reinvest it in expansion. Which means they always have to find somewhere else to expand into. In an article I wrote for the *New Left Review* called ['Right to the City'](#) I pointed out that in the last 30 years an immense amount of the capital surplus has been absorbed into urbanisation: urban restructuring, expansion and speculation. Every city I go to is a huge building site for capitalist surplus absorption. Now, of course, many of these projects stand unfinished.

This way of absorbing capital surpluses has got more and more problematic over time. In 1750 the value of the total output of goods and services was around \$135 billion, in constant values. By 1950, it's \$4 trillion. By 2000, it's \$40 trillion. It's now around \$50 trillion. And if Gordon Brown is right it's going to double over the next 20 years, to \$100 trillion by 2030.

Throughout the history of capitalism, the general rate of growth has been close to 2.5% per annum, compound basis. That would mean that in 2030 you'd need to find profitable outlets for \$2.5 trillion dollars. That's a very tall order. I think there has been a serious problem, particularly since 1970, about how to absorb greater and greater amounts of surplus in real production. Less and less of it is going into real production, and more and more into speculation on asset values, which accounts for the increasing frequency and depth of the financial crises we've been having since 1975 or so; they are all crises of asset value.

My argument would be that if we come out of this crisis right now, and there's going to be capital accumulation at 3% rate of growth, we've got a hell of a lot of problems on our hands. Capitalism is running into serious environmental constraints, as well as market constraints, profitability constraints. The recent turn to financialisation is a turn of necessity, as a way of dealing with the surplus absorption problem; but one that cannot possibly work without periodic devaluations. That's what's happening now, with the losses of several trillion dollars of asset value.

The term 'national bailout' is therefore inaccurate, because they're not bailing out the whole of the existing financial system – they're bailing out the banks, the capitalist class, forgiving them their debts, their transgressions, and only theirs. The money goes to the banks but not to the homeowners who've been foreclosed on, which is beginning to create anger. And the banks are using the money not to lend to anybody but to buy other banks. They are consolidating their class power.

The collapse of credit

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The collapse of credit for the working class spells the end of financialisation as the solution for the crisis of the market. As a consequence of this we will see a major crisis of unemployment and the collapse of many industries unless there is effective action to change that. Now this is where you get the current discussion about returning to a Keynesian economic model, and Obama's plan is to invest in a vast public works and investment in green technologies, in a sense going back to a New Deal type of solution. I am skeptical of his ability to do this.

To understand the current situation we need to go beyond what goes on in the labor process and production to the complex of relationships around the state and finance. We need to understand how the national debt and credit system have from the beginning been major vehicles for primitive accumulation, or what I now call accumulation by dispossession – as you can see from the building industry. In my ['Right to the City'](#) article I looked at how capitalism was revived in second empire Paris because the state along with the bankers put together a new nexus of state-finance capital, to rebuild Paris. That provided full employment and the boulevards, the water systems and sewage systems, new transport systems, and it was through those types of mechanisms that the Suez Canal was built. A lot of this was debt financed. Now that state-finance nexus has undergone a massive transformation since the 1970s; it's become far more international, it's opened itself to all types of financial innovations including derivative markets and speculative markets etc. A new financial architecture has been designed.

What I think is happening at the moment is that they are now looking for a new financial set-up which can solve the problem not for working people but for the capitalist class. I think they are going to find a solution for the capitalist class and if the rest of us get screwed, too bad. The only thing they would care about is if we rose up in revolt. And until we rise up in revolt they are going to redesign the system according to their own class interests. I don't know what this new financial architecture will look like. If we look closely at what happened during the New York fiscal crisis I don't think the bankers or the financiers knew what to do at all, now what they did was bit by bit arrive at a 'bricolage': they pieced it together in a new way and eventually they come up with a new construction. But whatever solution they may arrive at, it will suit them unless we get in there and start saying that we want something that is suitable for us. There's a crucial role for people like us to raise the questions and challenge the legitimacy of the decisions being made at present, and to have very clear analyses of what the nature of the problem has been, and what the possible exits are.

Alternatives

We need in fact to begin to exercise our right to the city. We have to ask the question which is more important, the value of the banks or the value of humanity. The banking system should serve the people, not live off the people. And the only way in which we are really going to be able to exert the right to the city is to take command of the capitalist surplus absorption problem. We have to socialize the capital surplus, and to get out of the problem of 3% accumulation forever. We are now at a point where 3% growth rate forever is going to exert such tremendous environmental costs, and such tremendous pressure on social situations that we are going to go from one financial crisis to another.

The core problem is how you are going to absorb capitalist surpluses in a productive and profitable way. My view is that social movement must coalesce around the idea that they want more control over the surplus product. And while I don't support a return to the Keynesian model of the sort we had in the 1960s, I do think there was much greater social and political control over the production, utilisation and distribution of the surplus then. The circulating surplus was put into building schools, hospitals and infrastructure. This was what upset the capitalist class and caused a counter movement toward the end of the 1960s – that they were not getting enough control over the surplus. However, if you look at the data the proportion of the surplus which is being absorbed by the state has not shifted very much since 1970, so what the capitalist class did was to stop the further socialisation of the surplus

capitalist class did was to stop the further socialisation of the surplus. They also managed to transform the word government into the word 'governance', making governmental and corporate activities porous, which enables the situation we have in Iraq where private contractors milked the possibilities ruthlessly for easy profit..

I think we are headed into a legitimization crisis. Over the past thirty years we have been told, to quote Margaret Thatcher, "there is no alternative" to a neo-liberal free market, privatised world, and that if we didn't succeed in that world it's our own fault. I think it's very difficult to say that when faced with a foreclosure crisis you support the banks but not the people who are being foreclosed upon. You can accuse the people being foreclosed upon of irresponsibility, and in the US there is a strong racist element in this argument. When the first wave of foreclosures hit places like Cleveland and Ohio they were devastating to the black communities there but some peoples' response was 'well what do you expect, black people are irresponsible. We are seeing right-wing explanations of the crisis which explain it in terms of personal greed, both in Wall Street and those who borrowed money to buy houses. So they attempt to blame the crisis on the victims. One of our tasks must be to say 'no, you absolutely cannot do that' and to try and create a consolidated explanation of this crisis as a class event in which a certain structure of exploitation broke down and is about to be displaced by an even deeper structure of exploitation. It's very important this alternative explanation of the crisis is discussed and conveyed publicly.

One of the big ideological configurations we are going to have is what is going to be the role of home ownership in the future once we start saying things like you've got to socialize much more of the housing stock, as since the 1930s we have had huge pressures towards individualised home ownership as in a way of securing people's rights and position.. We've got to socialize and recapitalise public education and health care long with housing provision. These sectors of the economy have to be socialized along with the banks.

Radical politics beyond class divides

There is another point we have to consider, which is that labor, and particularly organised labor, is only one small piece of this whole problem, and it's only going to have a partial role in what is going on. And this is for a very simple reason, which goes back to Marx's shortcomings in how he set up the problem. If you say to that the formation of the state-finance complex is absolutely crucial to the dynamics of capitalism (which it obviously is), and you ask yourself what social forces are at work in contesting or setting it up these institutional arrangements, labor has never been at the forefront of that struggle. Labor has been at the forefront in the labor market and over the labor process and these are vital moments in the circulation process, but most of the struggles which have gone on over the state-finance nexus are populist struggles in which labor has only been partially present.

For example in the US in the 1930s there were a lot of populists who supported the Bonnie and Clyde bank robbers. And currently many of the struggles going on in Latin America are more populist than labor led. Labor always has a very important role to play but I don't think we are in a position right now where the conventional view of the proletariat being the vanguard of the struggle is very helpful when it is the architecture of the state-finance nexus (the central nervous system of capital accumulation) that is the fundamental issue. There may be times and places where proletarian movements may be highly significant, for example in China where I envisage them playing a critical part which I do not see them having in this country. What is interesting is that the car workers and automobile companies are in alliance right now in relation to the state-finance nexus, so in a way the grand dividing line of class struggle which has always been there in Detroit isn't there anymore or at least not in the same way. We have a completely different kind of class politics going on and some of the conventional Marxist ways of viewing these things get in the way of a real radical politics.

There is also a big problem on the left that many think the capturing of state power has no role to play in political transformations and I think

state power has no role to play in political transformations and I think they're crazy. Incredible power is located there and you can't walk away from it as though it doesn't matter. I am profoundly skeptical of the belief that NGOs and civil society organisations are going to change the world, not because NGOs can't do anything at all, but it takes a different kind of political movement and conception if we are going to do anything about the main crisis which is going on. In the United States the political instinct is very anarchist, and while I am very sympathetic to a lot of anarchist views their perpetual complaints about and refusal to command the state also gets in the way.

I don't think we are in a position to define who the agents of change will be in the present conjuncture and it plainly will vary from one part of the world to another. In the United States right now there are signs that elements of the managerial class, which has lived off the earnings of finance capital all these years, is getting annoyed and may turn a bit radical. A lot of people have been laid off in the financial services, in some instances they have even had their mortgages foreclosed. Cultural producers are waking up to the nature of the problems we face and in the same way that the 1960s art schools were centers of political radicalism, you might find something like that re-emerging. We may see the rise of cross-border organisations as the reductions in remittances spread the crisis to places like rural Mexico or Kerala.

Social movements have to define what strategies and policies they want to adopt. We academics should never view ourselves as having some missionary role in relation to social movements; what we should do is get into conversation and talk about how we see the nature of the problem.

Having said that I would want us to propose ideas. An interesting idea in the US right now is to get municipal governments to pass anti-eviction ordinances. I think there are a couple of places in France which have done that. Then we could set up a municipal housing corporation which would assume the mortgages, pay off the bank at so much on the dollar because the banks have been given a lot of money to supposedly deal with this, but they're not.

Another key question is that of citizenship and rights. I think that rights to the city should be guaranteed by residency no matter what your citizenship is. Currently people are denied any political rights to the city unless they happen to be citizens. So if you're an immigrant you don't have any rights. I think there are struggles to be launched around the rights to the city. In the Brazilian constitution they have a 'rights to the city' clause which is about the right to consultation, participation and budgetary procedures. Again I think there is a politics which can come out of that.

A reconfiguration of urbanisation

In the US there is the capacity to act at a local level, with a lot going on about environmental questions, and over the past fifteen to twenty years municipal governments have often been more progressive than the federal government. There's a crisis in municipal finance right now and there is likely to be significant agitation and pressure upon Obama to recapitalise a lot of municipal government (which is proposed in the stimulus package). He has said this is one of the things he is concerned about, especially since a lot of the issues which are happening are local ones, for instance the sub-prime mortgage crisis. As I have been arguing the foreclosure stuff must be understood as an urban crisis not just a financial crisis; it is a financial crisis of urbanisation.

Another important question is to think strategically about how the social economy in some alliance with labor and the municipal-based movements such as Right to the City could also be a component in a strategy. This relates to the question of technological development - for example I see no reason why you couldn't have a municipal-based support system for the development of productive systems such as solar power, to create more decentralised employment apparatuses and possibilities.

If I could develop an idealised system now I would say in the US we should create a national redevelopment bank and take \$500 billion out of that \$700 billion they voted and the bank should work with

or that if we didn't they voted and the bank should work with municipalities to deal with neighbourhoods which have been hit by the foreclosure wave, because the foreclosure wave has been like a financial Katrina in many ways; it has wiped out whole communities, usually poor black or Hispanic communities. You go into those neighbourhoods and bring back the people who used to live in those communities and re-house them on a different basis of tenure, residency rights, and with a different kind of financing. And green those neighbourhoods, creating local employment opportunities in those fields.

So I could imagine a reconfiguration of urbanisation. To do anything on global warming we need to totally reconfigure how American cities work; to think about a completely new pattern of urbanisation, with new patterns of living and working. There are a lot of possibilities the left should be paying attention to - this is a real opportunity. But it is where I have a problem with some Marxists who seem to think, 'yes! It's a crisis; the contradictions of capitalism will now be solved somehow!' This is not a moment for triumphalism, this is a moment for problematising. First of all I think there are problems with the way Marx set up those problems. Marxists are not very good at understanding the state financial complex or urbanisation - they are terrific at understanding some other things. But now we have to rethink our theoretical posture and political possibilities.

So there is a lot of theoretical re-thinking that is needed as well as practical action.

Transcribed by Kate Ferguson. Edited by Mary Livingstone.

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