

# Capitalism

What is it and how can we destroy it?

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# Contents

<b>Introduction: What is capitalism?</b>	<b>7</b>
Some classic definitions . . . . .	7
Many capitalisms . . . . .	8
Cultures and economic systems . . . . .	8
<b>Chapter 1. Capitalism and economic systems</b>	<b>10</b>
What is an economic system? . . . . .	10
Using, producing, distributing . . . . .	10
Example: Tahrir Square . . . . .	10
Example: Robinson Crusoe's Island . . . . .	11
Example: Soviet Planning . . . . .	11
Example: corporations . . . . .	11
In and out: production processes . . . . .	12
Inputs Outputs . . . . .	12
Markets . . . . .	12
Markets and Power . . . . .	13
Profit . . . . .	13
Capitalism – or capitalisms . . . . .	14
<b>Chapter 2. The high seas of finance</b>	<b>16</b>
Corporations . . . . .	17
Debt markets . . . . .	17
A very brief history of banking and debt markets . . . . .	18
A snapshot of world financial markets . . . . .	19
Meet the investors . . . . .	19
Buy, sell . . . . .	20
Risk and return . . . . .	21
Bond pricing (NB: slightly more technical) . . . . .	21
Rating agencies . . . . .	21
Financialisation and the New Financial Markets . . . . .	22
The new finance 1: securitisation . . . . .	22
Basically, this works as follows: . . . . .	22
‘Shadow Banking’ . . . . .	22
The new finance 2: derivatives . . . . .	23
Securitisation + derivatives . . . . .	23
<b>Chapter 3. The global division of labour</b>	<b>25</b>
A recap: the pursuit of profit . . . . .	25
Global incomes . . . . .	25
GDP? . . . . .	26
What explains global income inequalities? . . . . .	26
Core and periphery . . . . .	26
Imperial history . . . . .	27

Hegemony? . . . . .	27
Kicking away the ladder . . . . .	28
The price of our blood, sweat and tears . . . . .	28
Investment vs. consumption . . . . .	29
Global shift . . . . .	29
Once more, financialisation . . . . .	30
Vendor financing . . . . .	30
<b>Chapter 4: The capitalist state</b>	<b>31</b>
Role 1: Defender of property and markets . . . . .	32
Law enforcement . . . . .	32
Changing property rights . . . . .	32
Regulating markets . . . . .	33
Liberalism . . . . .	33
The bloody birth of capitalism – a hidden history . . . . .	34
Role 2: Original Appropriation . . . . .	35
The struggle continues . . . . .	35
Shock Therapy . . . . .	36
Role 3: producer and consumer of last resort . . . . .	36
The military-industrial complex . . . . .	36
The new deal and war capitalism . . . . .	36
The welfare state . . . . .	37
Outsourcing . . . . .	37
Main areas of welfare spending in the UK . . . . .	37
Bail-outs . . . . .	38
From Keynesianism to Neoliberalism . . . . .	38
Role 4: manufacturing consent . . . . .	39
<b>Chapter 5. Crisis</b>	<b>40</b>
How credit crunched . . . . .	40
400 years of bubbles . . . . .	41
New York Stock Exchange crashes 1901 and 1907. . . . .	41
Bubbles: investing or speculating? . . . . .	42
From crash to slump: how financial collapses affect the real world . . . . .	42
The last great depression . . . . .	43
Collective action problems . . . . .	43
Causes of crisis: the liberal story . . . . .	44
Causes of crisis: looking deeper . . . . .	44
Part Two: the European sovereign crisis . . . . .	45
Bonds and deficits . . . . .	46
More pain, no gain . . . . .	46
Nationalising the collapse . . . . .	46
Whose bail-out? . . . . .	48
Whose crisis? ‘Debtocracy’ and social war . . . . .	48
Technocrats and Populists . . . . .	49
Crashes to come . . . . .	49
<b>Chapter 6: Capitalism as a culture</b>	<b>51</b>
Capitalist myth 1: the eternal market . . . . .	51
Three kinds of relationships . . . . .	52

Capitalist myths 2: the passion of interest . . . . .	52
Capitalism as a culture . . . . .	53
Ideas of Culture . . . . .	54
Culture assemblages and forms of life . . . . .	54
Incorporating cultures . . . . .	55
Incorporation 2. Performativity . . . . .	56
Incorporation 3. Norms . . . . .	57
Incorporation 4. Subjects . . . . .	57
Summary . . . . .	58
<b>Chapter 7. A brief history of</b>	<b>59</b>
1) The rise of the bourgeoisie . . . . .	59
2) Making slaves and workers . . . . .	60
3) Building the nation . . . . .	61
4) Mass production and consumerism . . . . .	62
Manufacturing demand . . . . .	63
5) Recuperation and resistance . . . . .	63
Living the capitalist dream . . . . .	64
6) The creed of growth . . . . .	65
Summary . . . . .	65
<b>Chapter 8. Other cultures</b>	<b>66</b>
Not a monolith . . . . .	66
Anarchy . . . . .	67
Communist Utopias . . . . .	68
Old ways . . . . .	68
Mutualism and cooperatives . . . . .	68
Insurrection . . . . .	69
DIY culture . . . . .	70
After civilisation . . . . .	71
Now and tomorrow . . . . .	72
<b>Chapter 9. How can we destroy it?</b>	<b>73</b>
2. Social war . . . . .	73
3. Create and destroy . . . . .	73
4. Many methods . . . . .	74
5. Dangerous desires . . . . .	74
6. Propaganda . . . . .	75
7. Alliances . . . . .	75
8. Organising models . . . . .	75
9. Attack . . . . .	76
10. Terrains of action . . . . .	76
But consider: . . . . .	77
11. Infrastructure . . . . .	77
12. Acts of creation and destruction . . . . .	78
13. Dare . . . . .	79

<b>Further reading and Notes</b>	<b>80</b>
<b>Chapter 1. Economic systems</b>	<b>81</b>
Some personal favourites: . . . . .	81
Alfredo Bonanno – Let’s Destroy Work, Let’s Destroy the Economy. . . . .	81
Classic texts on the nature and origins of capitalism: . . . . .	81
Some classic capitalist economic theory: . . . . .	82
<b>Chapter 2. Finance</b>	<b>83</b>
Stephen Valdez – Introduction to Global Financial Markets . . . . .	83
<b>Chapter 3. Global power</b>	<b>84</b>
John Locke – 2nd Treatise of Civil Government; . . . . .	84
Jean-Jacques Rousseau The Social Contract. . . . .	84
geographer David Harvey’s – A Brief History of Neoliberalism. . . . .	84
<b>Chapter 5. Crisis</b>	<b>86</b>
Graham Turner – The Credit Crunch: Housing Bubbles, Globalisation, and the Worldwide Economic Crisis . . . . .	86
<b>Chapter 6. Capitalism as a culture</b>	<b>87</b>
Theories of Culture . . . . .	87
Dick Hebdige – Subculture: the meaning of style. . . . .	87
Philosophy and psychology . . . . .	88
<b>Chapter 7. A brief history of capitalist desires</b>	<b>89</b>
<b>Chapter 8. Other cultures</b>	<b>90</b>
Anarchism . . . . .	90
Some early anti-capitalist history . . . . .	90
Mutualism . . . . .	91
Insurrection . . . . .	91
325.nostate.net <b>and</b> actforfree.nostate.net. . . . .	91
Also: Bob Black – The Abolition of Work . . . . .	92
<b>Chapter 9. How can we destroy it?</b>	<b>93</b>
Positive and negative . . . . .	93
The dispossessed, and informal organisation . . . . .	94
Propaganda . . . . .	94
Diversity of tactics . . . . .	95
To life . . . . .	95
All illustrations are public domain or are used with permission of the author, unless otherwise stated. . . . .	96
<b>Back Cover</b>	<b>98</b>

## **Capitalism**

### **What is it and how can we destroy it?**

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# Introduction: What is capitalism?

This text is based on a number of talks and discussions on capitalism I've done over the years. Sometimes, I start by asking people: what does capitalism mean to you? Here are a few words that often come up: profit banks exploitation markets greed wage labour class system supply and demand consumerism commodification

These words point out some common features of the world we live in today. This book will look at all of them, and more.

## Some classic definitions

### *Yuppies by Laura Oldfield Ford*

But could we sum it all up in one handy definition? Here are a few classics by famous writers, dead and alive.

According to Karl Marx, the 'capitalist system' is a system of economic production which involves two basic classes of people:

*'on the one hand, the owners of money, means of production, means of subsistence, who are eager to increase the sum of value they possess, by buying other people's labour power; on the other hand, free labourers, the sellers of their own labour- power [and who own nothing else except their own labour power]'*

*(Capital Volume 1 Chapter 28)*

According to Max Weber:

*'capitalism is identical with the pursuit of profit, and forever renewed profit, by means of continuous, rational, capitalistic enterprise'*

*(The Protestant Ethic and the Spirit of Capitalism, Introduction xxxi)*

Marx and Weber being probably the two most famous bearded dead white man thinkers on industrial capitalism of all time. For a more recent definition, here is one from Keith Hart, a contemporary anthropologist who studies different forms of capitalism around the world:

*'that form of market economy in which the owners of large amounts of money [or, more generally, wealth] get to direct the most significant sectors of production.*

*They do so in the interest of adding to the amounts of wealth they have.'* (*The Memory Bank: money in an unequal world*, p83).

All three definitions make important points. Hart's definition helps point out that capitalism is a system of **power**, in which power to 'direct' the world comes from owning wealth and property. Weber's definition focuses on how our world has become dominated by the ruthless pursuit of profit.

Both Hart's and Weber's definitions are focused on the activities of a crucial group: 'capitalists'. Also known as 'entrepreneurs', 'businessmen', or owners (or managers) of the 'means of production', etc. Certainly, there is no capitalism without capitalists. But Marx's definition adds a crucial point here: capitalists are in the minority; capitalist systems involve a number of different groups, or 'classes', often in struggle with each other.

However, Marx's definition also has serious problems. He thinks of just two basic groups, capitalists and 'free' paid workers. What about the 'unfree' labour of slaves, indentured workers, prisoners, all of which also massively increased with capitalism? Or the billions of women and children doing unwaged domestic work? Through its history, capitalism has involved many different kinds of workers, slaves,

peasants, consumers, unemployed, and other dispossessed people. Can we group all these together as one class? Or is it only waged workers, the classic Marxist ‘proletariat’, who really matter?

Another limit of all these definitions is that they focus on capitalism as an ‘economic system’. But capitalism is more than that. Capitalism isn’t just ‘the economy’. It shapes every aspect of our lives, all our ways of living and relating to each other, from love to war, even with our closest friends and loved ones, and digs right into our deepest dreams and desires.

## Many capitalisms

Actually, I think there is no one ‘correct’ definition of capitalism. And it’s probably more accurate to think about capitalism in the plural. Over the last few hundred years there have been many capitalisms, or forms of capitalism. And, sadly, there will probably be more capitalisms to come.

Historians debate whether capitalism began in Italy in the 15th century, or the Netherlands in the 16th century, or perhaps Britain in the 17th century. All of these early capitalisms were different from capitalism today. And capitalism today is different in London or Nairobi or Shanghai, or in the South American rainforests or the Asian highlands.

And capitalism is not an all-powerful ‘monolith’. Capitalist systems co-exist, incorporate, work with or fight against other systems, cultures and forms of life. For example with older feudal or tribal institutions, or with movements to create different ways of living.

In whatever form it takes, capitalism is not ‘natural’ or eternal. It is constantly changing, being re-made by human beings, and by the bigger worlds around them. The history of capitalism is a history of invention and creativity, and of destruction, exploitation, domination, bloodshed and terror. And also of resistance and rebellion and struggles for freedom.

With all these provisos, we can use the word ‘capitalism’ as a shorthand for some key features of how our world is run today. The aim of this book is to try and understand these basic features. Understanding them will help us think about how to destroy them, and so help free ourselves to live differently.

## Cultures and economic systems

To simplify things, I am going to look at two aspects of capitalism. In the first few chapters, I will start rather narrow and look at capitalism as an *economic system*. This is the traditional province of ‘economics’. Here I will look at how capitalism works as a system for organising the use, production and distribution of economic goods or ‘commodities’.

Here are some key features of capitalist economic systems:

- *markets* play a central role in making decisions
- *property rights* set out who can use and trade goods, and so have economic power
- things, animals, and people are made into *commodities* – objects that can be owned and traded
- *the state* acts as an enforcer of the economic system, and helps it spread
- *concentrations of wealth*, of capital, channel power into the hands of capitalist elites
- the *profit motive* drives capitalists to continually expand markets
- in modern industrial capitalism, profit very largely involves the exploitation of people who are forced to *work*

[image]

*Graffiti on a wall in Poland "Do you belong to the herd?"*

But to understand capitalism we also need to look at how these economic structures are dug in deep, in ways that affect every aspect of our lives. For example, capitalism as an economic system can’t function unless many people learn, often from childhood:



- the rules of markets, how to act as buyers and sellers
- to respect property
- to see animals, the natural world, other people, and even ourselves, as ‘objects’ to be bought and sold, owned and managed
- to respect and fear the state, its laws, police, judges and teachers
- to accept gross inequalities of power and wealth
- to believe that accumulating ‘stuff ’ is the key to happiness
- to base our lives around work

To highlight this point, we could say that capitalism is not just an economic system but also, and more deeply, a *culture* or form of life. That is: a complex web of desires, values, norms, conscious and unconscious rules, practices, behaviours, attitudes, that are shared and spread in the social groups in which we are born, raised, and live our lives. In later chapters I will look further at these crucial points.

# Chapter 1. Capitalism and economic systems

## What is an economic system?

In schools and universities, economics is taught as if capitalism is ‘natural’, or the only system possible. But in fact there have been, throughout history, many different ways of organising how we use and produce resources.

Here are just a few examples:

- Hunter-gatherer traditions and cultures
- ‘Gift economies’, e.g., in the ‘Pacific cultures’ studied by many anthropologists
- Slave-based systems – e.g., Roman empire, or US Southern States in the 19th century
- Feudal systems – e.g., Medieval Europe
- Socialist command economies – e.g., Soviet Union, Maoist China
- Market Socialisms – e.g., Yugoslavia under Tito
- Syndicalism – e.g., the ‘short summer of anarchy’ in Barcelona 1936
- Co-operative production and distribution systems – e.g., co-operative movements in Europe 19th and 20th centuries

And history isn’t over. There will be other kinds of arrangements in the future ... maybe ones we can’t even imagine yet.

## Using, producing, distributing

The examples above are very different but, to simplify, we can see all of them as involving ways that groups of people organise the use,

*Non-capitalist distribution: a Klallam potlatch feast Painting by James G. Swan* production and distribution of resources. We might think of them as answering some common kinds of questions faced by groups of human beings:

- **Use.** What things can be eaten, hunted, planted, made, traded, given, hoarded, shared, etc.? What things should be shared or can be claimed as individuals’ exclusive possessions? What things should just be left alone?
- **Production.** What things should we make – cook, craft, build, decorate, repair, etc.? How much should we make? What resources and processes should we use to make things? How much time and energy should we spend making things? Who is involved in making what? Who makes all these decisions, anyway?
- **Distribution.** Who can do what with things that are found or gathered, and things that are made? Who gets all the pies – and what should they do with them?

## Example: Tahrir Square

When hundreds of thousands of people occupied Tahrir Square in Cairo in early 2011, they created their own mini ‘economic system’ to bring in and distribute food and other materials to everyone in the

occupation. There were sleeping areas, collective kitchens and food distribution points, markets, toilets and waste disposal, and lots more.

## Example: Robinson Crusoe's Island

### *Tahrir Square occupied in 2011*

Economists often like to use the example of Robinson Crusoe, from the novel by Daniel Defoe, as a very simple economic system. Even all alone on his island, Crusoe had 'economic' decisions to make, like how much fruit to eat now or how much to save to *'lay up a store, as well as of Grapes, as Limes and Lemons, to furnish myself for the wet Season, which I knew was approaching'*. Later, Crusoe met 'Friday', and started a basic kind of two-person class system.

## Example: Soviet Planning

In the Soviet Union, many economic decisions were made through a system of state planning. The central planning commission Gosplan, in Moscow, collected statistics about what resources were available in the economy, then issued detailed plans for what was to be produced by different regions and sectors (mining, agriculture, manufacturing, etc.) One important decision was: how much work and resources should go into producing goods for personal consumption by Soviet citizens, and how much into producing machines and materials to build up industry and the military?

## Example: corporations

Corporations compete with each other in markets. But internally a large corporation — and some are bigger, in terms of wealth and numbers of people, than countries — are run much like socialist planned economies. Executives try to control the whole organisation from above.

### **What is *'the economy'*?**

The term economics comes from the Greek word *oikos*, a 'household'. Economics, in ancient Greece, was the study of how a wealthy man should manage his household, including its budget and stores, and also its subordinated slaves, women and animals.

In late medieval Europe, we see the start of what would become known as 'political economy'. Philosophers started writing texts about how kings, princes and other rulers should manage their wider 'households', meaning the resources, population and wealth of nations.

Political Economy flourished as a new science in 18th century England, as trade and industrial revolution took off, with writers like Adam Smith and David Ricardo.

These *classical economists* now defined the economy as a special area that the state should keep away from. In recent years, 'neoliberal' economists have pushed things further. Theorists like Milton Friedman and Gary Becker argued that *all* aspects of human life should be seen in economic terms. Neoliberal governments, from

Pinochet in Chile to Thatcher and Blair in the UK, helped turn theory into reality.

### **Adam Smith (1723-1790)**

Even a brief look at this history shows how the very idea of the 'economy' is heavily political. Thinking about economics has always meant thinking of the world in terms of property that can be owned and managed – whether by a rich 'householder', a king, or investment funds. We need to bear this in mind when thinking about 'economic systems'. Do we want just to replace capitalism with another economic system? Or to destroy 'economy' altogether, and stop thinking and living like the world is there to be measured, carved up and dominated?

## In and out: production processes

Now to capitalist economic systems. To start things off, it could help to work through a simplified example.

Imagine ...a car factory. In at one end come inputs. These include raw materials like steel, glass, plastics, etc., shipped in from steel mills, glass plants, etc. There are also previously manufactured parts, e.g., electronic components or rubber tyres, which have already been assembled in other factories. These inputs are put together by workers — trained human beings — using machines, which need energy to run. Finally out comes a finished output, cars.

How many cars will the factory produce? It depends, amongst other things, on how much of the inputs are put in. For example, here are some (completely made-up) figures for a factory producing at full capacity:

### Inputs Outputs

Raw Materials: 1000 cars  
1000 tons steel,  
100 tons glass,  
10,000 MJ (Mega Joules) electricity, ... Some machines  
Labour:  
50,000 person/hours

Capitalist economic systems often involve *division of labour*: different workers specialise in different jobs, producing different parts of the process. They also involve *division of decision-making*. E.g., the factory has a manager whose job is to try and get as much output as possible. The hands-on job of squeezing the most hours labour out of workers is delegated to foremen. Workers get to decide things too: which way to turn the bolts ... or whether to throw a spanner into the works when no one is looking.

But the decisions about inputs are not just made by one company. The same steel, or workers, could go to other car factories, or to make toys or guns instead, or more car-making machines. Or the iron ore could stay in the ground, and people could spend their time living life creatively instead of working in production lines. How are these decisions made?

*Charlie Chaplin in Modern Times*

## Markets

In the Soviet system, decisions about allocating steel to factories were largely made by planning commissions. In a 'free market' capitalist system, many of these decisions involve markets. In this example, a number of **markets** are involved:

- The owner of the car factory tries to sell its products to consumers – in the *car market*.
- The car company, as well as other businesses producing toys or guns, all need to buy steel – in the *steel market*.
- They also need to hire workers – in the *labour market*.

Particular markets can work in very different ways – e.g., labour markets might involve internet job sites, government jobcentres and training schemes, regulations such as a minimum wage and employment tribunals, or cash-in-hand work and gangmasters, etc. But all markets have some basic points in common including: sellers (**supply**); buyers (**demand**); and **prices**.

Unlike a planning system, 'decisions' in markets can be quite **decentralised**. Overall outcomes – what is produced, how products are distributed – are not made by one individual or committee, but may be the result of many actions by many different individuals and groups, often acting independently. For

example, there are lots of different car factory managers, and lots more car buyers. Each one can make an individual decision about what to produce, sell, or buy. The total production of cars in the economy is a result of all these separate decisions. And of many more decisions made in other interlocking markets.

This does not mean that some people and groups are not more powerful than others in markets. It just means that power relations are more complex, and can be hard to identify.

## Markets and Power

A **monopoly** is where there is only one seller in a market. A monopsony is where there is only one buyer. For example, the company called De Beers had until very recently a near total monopoly on the world's diamonds. Monopolists do not have to compete with other sellers who might **undercut** them, so they have considerable power to set the price on their products; and so to make high 'monopoly profits'.

An **oligopoly** is where there are a small number of sellers. These sellers may join to form a **cartel** which **fixes prices** by agreement. The OPEC cartel of oil producing states is an important example.

According to orthodox economic theory, the more sellers there are, the more the price should be bid down by competition. In a 'perfectly competitive market', with many sellers, the price would be forced down until it just covered costs, and there would be no profit at all. Orthodox economic theory often works with this idea that markets are perfectly competitive.

But in reality, such markets don't exist outside textbooks. By controlling prices and production, big companies and cartels have power over distribution of commodities in markets. We can call this **market power**. In general, an individual or company has more power in a market the more resources – capital, money, or other commodities – it has to trade.

So, ultimately, market power comes down to owning stuff. But what does that mean? In many markets, ownership of resources is guaranteed by **property law**: the state recognises what resources belong to you, and can send in the police to back up your claim. So market power does not exist unless it is guaranteed by other forms of power: the political and **military power** of the State, which enforces property laws with violence (see Chapter 4); and the **cultural power** of the **norms** and values that keep us believing in private property and work, and desiring more and more consumer goods (see Chapters 6 and 7).

*A scene from the 1973 Chile coup: inside the Santiago football stadium where enemies of the new regime were gathered and killed*

## Profit

Most thinkers of capitalism, from Marx and Weber through to neoliberal economists, assume that owners of capital have one basic interest: the pursuit of maximum profit. In later chapters I will look at this assumption, and the very idea of capitalistic 'interest', in some more depth. For now, though, assume that it's so. In our simple example, profit = revenue – costs, where revenue is the money made from selling cars, and costs are what the factory pays for all its inputs.

So, to effectively pursue profit, the car company's managers need to think about a number of markets. On the one hand, it aims to make as much money as possible in the car market. On the other hand, it wants to buy the inputs it needs as cheaply as possible.

Suppose its market researchers predict that they can sell 1000 new cars at £10,000 each. That will be a total **revenue** of £10 million. The table below also gives some (again, imaginary) costs for inputs. The money spent on machinery here includes maintenance of wear and tear, replacement parts, etc. – what economists call depreciation.

[image]

The thing is that, usually, the car company will only get the revenue from its car sales *after* the cars are produced. But it will need to pay for inputs in advance. So it will have to *borrow* money to fund its production.

This brings in another kind of market – *financial markets*. As we will see in

Chapter 2, there are various kinds of financial markets, including bank lending, stock markets, and bond markets. They work in different ways, but again we have the same basics. This time the commodity being bought and sold is finance, i.e., money to lend. The ‘buyers’ are the people and corporations trying to borrow money; the ‘sellers’ are the lenders; the price the borrowers have to pay is the **interest rate**.

For example, the car manufacturer needs to borrow £4m to pay for inputs. It agrees to pay back the money with 25% interest a year later, after the cars are sold. In the longer term, the car manufacturer probably also had to borrow to buy the machines and building for its factory. It will have to keep paying interest on these fixed costs, probably for many years.

[image]

Suppose the car manufacturer got it right and it can sell all its cars for £10,000 each. Then it makes a profit of £4 million. Governments may take some of that in tax. Out of what is left, the car company’s owners or managers now have a new decision: how much should they invest in expanding the business, buying more up-to-date machines, etc.? And how much should they keep for themselves to spend?

Things don’t always go so smoothly. If the factory can only sell 500 cars, or has to sell them all at half price, then it makes a £1 million loss. The input costs and interest payments still have to be paid. If the company can’t borrow more money to keep afloat, it will go bust.

**From cattle to capital** Historians usually trace capitalism back to the 15th or 16th centuries; but the word ‘capitalism’ itself only goes back to the mid 19th century. The word ‘capital’ is older. It comes from the Latin *capita*, for ‘head’. In the middle ages, ‘chattels’ meant a wealthy person’s movable wealth, especially animals or livestock – including, where slavery was

*Cattle inspected for ticks in a cage* legal, slaves. The term still survives in our modern English word ‘cattle’. So, perhaps capital originally meant ‘heads’ in the sense of the number of animals (‘heads of cattle’) belonging to an owner. The 18th century ‘classical economists’ identified three ‘factors of production’: land, labour, and capital. Capital now meant all other materials and machines involved in production. By the 19th century land was no longer considered to be a separate ‘factor’, just another form of capital. In the 20th century, with neoliberal theories of ‘human capital’ (‘intellectual capital’, ‘social capital’, etc.), some started to see human energy and skill as just another kind of capital too. We can also distinguish between physical and financial capital. Finance is not actual tangible stuff, but promises, agreements, IOUs, and contracts for using physical capital. (See Chapter 2.)

## Capitalism – or capitalisms

From the simple example I have been working through, we can highlight some key features of capitalist economic systems, which will need to be investigated in more depth in the coming chapters. These include:

- **Markets.** Decisions are made through many complex interactions of buyers and sellers in markets. In the next chapter I will look at some very important kinds of markets, the markets for finance capital.

- **Commodities.** Things that are bought and sold in markets are called **commodities**. Cars, steel, energy, and even wage labour are pretty obvious examples. But just what kinds of things can be bought and sold, owned and managed? One issue we will need to look at is how, over the history of capitalism(s), different kinds of resources have become commodified. For example, in 16th and 17th century England, and in the colonies, wild spaces and land that was traditionally held in common was forcibly ‘enclosed’ and parcelled up amongst landlords. More recently ‘intellectual commons’, or even the genetic codes of wild plants, are being trademarked and patented, and so ‘enclosed’.

- **Property.** The only people who can buy and sell in markets are those who have ownership rights over commodities. Thus behind every market is a background of property rules – laws, conventions, regulations about who owns what, and what they can do with their property.

- **The State.** And behind property laws stands the state – ready to enforce them with violence.

- **Profits.** Much of the capitalist economic system, its power and invasiveness, is based on the pursuit of profits, which drives the commodification, appropriation, invention, production and spread of new commodities.

- **Labour.** Central to many forms of capitalism is the way that human time and energy is also commodified, bought and sold. This includes not just wage ‘labour markets’, but also forms of slavery, domestic labour, prison labour and more.

[image]

*Poster of the "Pyramid of Capitalism"*

## Chapter 2. The high seas of finance

If the world economy were an ocean, finance would be the currents and swells shifting resources from one shore to another.

Sometimes the flows are steady, the surface looks millpond smooth ... but then, out of the blue, things start to get rough ...

[Image]

Wall Street, 1918. Charlie Chaplin and Douglas Fairbanks at a Liberty Bonds rally.

A capitalist economy is a complex system involving many interdependent markets. To recap from the last chapter's example: a car producer sells its products in the car market, and needs to buy inputs – raw materials, energy, labour – in lots of other markets. But as a producer needs to buy inputs before making and selling its product, it often needs to raise finance from investors. Later, it will pay them back out of its profits ... if it makes any.

Traditionally, companies can raise finance capital in two ways: by selling shares in the ownership of their company; or by borrowing. Markets trading shares are called equity markets. Markets trading loans and bonds, forms of borrowing, are called debt markets. In today's very complex financial markets the distinction is not always quite so clear, but we can use it as a handy starting point.

### Equity markets

Equity markets trade shares in the ownership of companies. Company Law sets out different ownership structures for companies:

- **In a partnership**, the partners share responsibility for the company's decisions. They share the profits; and also any losses and debts. Law firms, accountancy firms, architect or GP practices, are some kinds of companies which are commonly structured as partnerships.

- **A limited company** is a special legal structure to limit the liabilities of the company's owners. Shareholders have a share in any profits; but if the company goes bust, they are only liable for debts and losses up to the value of their shares. NB. a partnership may be a limited company too: in English law, this structure is called a 'Limited Liability Partnership' (LLP).

*The Noord-Nieuwland, a trading ship of the Dutch East India Company, in Table Bay 1762.*

- **A public limited company (PLC)** or listed company is a limited company whose shares are traded on an established stock market – e.g., the London or New York stock exchanges, the Paris Bourse. Anyone can buy and sell these companies' shares through a stock broker. Only companies over a certain size can be listed, and they have to publish regular accounts. The first ever PLC was the Dutch East India Company (or: Vereenigde Oost-Indische Compagnie, VOC). Its shares were traded on the Amsterdam exchange from 1602.

Stock exchanges, where the shares of big PLCs are traded, are just the most visible face of the equity market. Many shares are traded in private deals between individuals and companies. **Private Equity** funds are investors who specialise in doing equity deals away from the listed markets.

The shareholders of a limited company are its legal owners. But a big corporation has millions of shares, and so many thousands of 'owners'. Only shareholders who own a sizeable percentage of the shares have any real control over the company's actions. Often, the managers or **executives** of the company, who are technically employees, have much of the real power.

Shareholders are entitled to a share in the profits of the company. But if the company is going to keep on growing and competing with rivals, it will need to re-invest some of its profits back in the



business. Managers and owners decide how much to invest in future production. What is left is then distributed amongst shareholders: this payment is called a **dividend**. Big companies do not always pay out dividends, but shareholders can still make a profit by selling their shares – if the share price goes up.

## Corporations

The word **corporation** comes from the Latin *corpus*, a body. In Roman and medieval law, States recognised certain institutions or associations as **legal persons** – ‘bodies’ with legal rights and responsibilities of their own. For example, the **Corporation of London**, the governing body of the City of London, was granted its first royal charter in 1067. Many Lord Mayors and other individuals have been born and died since, but the corporation goes on with its own legal life and history.

Some say that the oldest business corporation was Sweden’s Stora Kopparberg mining corporation, chartered in 1347 and finally closed in 1992. Two important corporations in early capitalist history were the British and Dutch East India Companies (1600 and 1602), licensed by the British and Dutch states as monopolies to exploit the trade and colonisation of India.

Corporate law differs around the world, but everywhere it creates some form of legal separation between the corporation and the individuals who own and manage it. Corporations are usually **Limited Liability** companies, which protects individual owners from responsibility for the company’s debts. But corporate law often goes further still, e.g., to protect individuals from legal responsibility for the company’s criminal actions.

## Debt markets

### *State of South Carolina 6% bond from 1873*

There are two main ways in which companies can borrow money: getting **loans** from banks; or issuing **bonds**.

A corporate bank loan is basically the same as if an ordinary person gets a loan, only bigger. Any loan involves a **contract**. The borrower and the lender agree:

- the **term** of the loan, or when it must be paid back (e.g., 3 months, or 3 years);
- the **interest rate** (e.g., 5%, paid each year);
- any ‘**collateral**’ or ‘**security**’ which the borrower will forfeit if doesn’t pay back the loan (e.g., in a mortgage loan, the security is the house).

If the borrower doesn’t pay back the loan, this is called **defaulting**. Banks make loans to companies, individuals, governments, and to other banks. One important financial market is the **interbank loan market**, where banks lend each other cash to balance their books in the short run. If banks stop trusting each other, this may be one of the first markets to collapse.

A **bond** is to a loan what a publicly listed share is to private equity. Basically, we can think of a bond as a tradeable **IOU**, a loan contract that can be bought and sold by anybody in the bond markets. Originally, a bond was a piece of paper with something written on it like ‘I promise to pay you £100 on 1 January 2100’.

When the date comes round, known as the **maturity** date, whoever owns the piece of paper can demand the money. Bonds may last for long terms, often 10 or 20 years. Short term bonds, which only last a year or two, are usually called ‘notes’ rather than bonds. Like all loans, bonds have

*The sealing of the charter of the bank of England, 1694.* an interest rate, also called a coupon. Fixed rate bonds have a standard set **coupon**, e.g., 5% per year. Variable rate bonds, like variable rate mortgages, have a coupon which moves against a reference interest rate. For example, a bond might be set at 2% over ‘Libor’, which is the standard London inter-bank lending rate.

The bond's **issuer** is the borrower that uses it to raise money. The bond's **buyers** are the investors who lend money to the issuer. The bond's **arranger** is a bank (or consortium of banks) that prices, markets, and often underwrites it (i.e., buys any bonds itself that it can't sell into the market). In terms of issuers, the three main kinds of bonds are **Sovereign Bonds**, issued by Governments; **Corporate Bonds**, issued by large companies; and **Financial Bonds**, issued by banks (and other financial institutions) themselves.

## A very brief history of banking and debt markets

There are 4000 year old records of loans from Babylonian temples to merchants. Not only were money lenders based in temples, but the temple authorities often ran the business. Modern banking is usually traced back to medieval Italy – the word **banca** refers to the bench on which moneylenders would conduct business. The house of Medici opened in 1397. Italy's Banca Monte Paschei dei Siena, founded 1472, is still going.

Medieval, like contemporary, banks could make money both from lending – to states, merchants, and the rich – and from taking deposits. Banks offered safe storage of gold, silver, and other valuables. The basic idea is called **deposit banking**: savers deposit money in the bank; the bank can lend out the same money to borrowers, and charge interest. So long as too many savers don't come to withdraw their money at once (a '**bank run**'), the bank can 'cover' loans with deposits. Early bank notes were simply receipts ('letters of credit') for the metal coins a saver deposited in the bank. As banking networks spread across Europe, a merchant could use the same receipt to withdraw coins from different branches of a banking house, e.g., in Antwerp or Venice.

From the beginning, European debt markets were associated with the financing of **war**. Fortunes were made by the Venetian bankers who funded the crusades. The invention of bonds, or tradeable debt securities, goes back to the Dutch war of independence (from Spain) in the 16th century. The rebel Dutch state issued perhaps the first **sovereign** (i.e., government) bonds. The Netherlands was the leading capitalist economy of the time. Other Dutch innovations included the foundation of the Bank of Amsterdam in 1609, possibly the world's first **central bank**, guaranteed by the City government. The Bank of Amsterdam began to expand on the old deposit banking model by (secretly, at first) issuing overdrafts: letting depositors take out bank notes (receipts) for more than they had deposited. The Dutch East India Company was the world's first issuer of both listed shares and corporate bonds.

By the 18th century England had taken over the role of leading capitalist state. The Bank of England was established in 1694, copying the Amsterdam model. It was set up by Scottish merchant William Patterson in a deal with the government, which used it for military financing. The first loan, for £1.2 million at 8% per annum, funded the re-building of the Royal Navy. England also led the way in advancing bond 'technology', issuing large standard issue 'Treasury Bonds' that were widely traded in the coffee shops of London. From 1694 on, the British state has been continually in debt, largely from war financing – its debt first rose to over 100% of the country's annual economic production (GDP) in the 1750s, and stayed there for more than 100 years.

The use of paper money took off in the 18th century. In 1844 the Bank of England was given an effective state monopoly (in London) on printing bank notes. Before then, any bank could issue as much 'money' as it wanted – it was up to customers to decide if they trusted its reliability or not. New Bank of England notes had to be backed 100% by reserves either of gold or of government bonds. I.e., the Bank had to keep the same value of either gold or Treasury bonds in its vaults to match the paper money it issued. The Bank became the 'lender of last resort' to commercial banks: if they got into trouble, the central bank would lend them the money to cover any 'bank run'.

Similar 'gold standard' models were adopted around the world in the late 19th century. States either held their own gold and silver reserves, or pegged their currencies (fixed their exchange rate, and so

limited the printing of new money) to Sterling or the US dollar. This system remained generally intact until the 1929 crash.

By the end of World War II the United States had clearly taken over from the UK as biggest capitalist power. The UK government was crippled by its war debts: 250% of

GDP in 1945. In the Bretton Woods agreement of 1944, a new world monetary order was agreed which fixed most world currencies to the US Dollar. US Treasury Bonds became the ultimate ‘safe’ asset against which risks and interest rates on all other debt was measured. And the World Bank and IMF, based in New York, were set up as ‘lenders of last resort’ – and financial policemen – for the world economy. In 1971, the US left the Bretton Woods agreement, unable any longer to support the world financial system, as its own debts — again, largely war debts, from Vietnam — massed up.

In the 1970s and 1980s, the US and other ‘advanced’ capitalist countries followed neoliberal policies and ‘deregulated’ their financial markets, allowing banks and brokers to develop whole new types of finance involving **derivatives** and **securitisation**. As manufacturing industry increasingly switched to the ‘developing world’ (see Chapter 3), the finance ‘industry’ became the leading edge of capitalism in the US and UK.

For much more on the history of debt, see: **David Graeber – *Debt, the first 5000 years***.

## A snapshot of world financial markets

The table below shows the amounts of financial assets in existence worldwide, and how they are broken down into different kinds of securities: equities, bonds and loans. All figures are in trillions of US dollars (a trillion = a million million).

Table 2.1

Table 2.2

**Source:** McKinsey Global Institute

The table shows how world financial markets grew massively in the 1990s and 2000s. This was the neoliberal boom period of ‘*financialisation*’. The markets shrank in the 2008 crash, but have since reached new record levels, although growth is not as fast as before.

Both equity and debt markets shared in the boom. Government and private debt both boomed, but especially non-government debt. In earlier times, debt markets were mainly made up of government bonds, and only the very biggest companies issued bonds. Now it is common for corporates, and especially banks and other financial institutions, to borrow heavily on the bond markets.

The next table breaks down the figures geographically for the years either side of the crisis:

Note how the most ‘developed’ countries are far more ‘financialised’. China in fact produces around 22% of the world’s GDP, but only owned 12% of financial assets in 2008. The next table gives a further snapshot of financialisation in different parts of the world. The figures show total financial assets for each region as a proportion of GDP, for the middle of 2012:

## Meet the investors

Who are these capitalists?

Shareholders are, technically, the owners of companies and their capital. Bond investors and lenders (including bank depositors, who ‘lend’ to banks) are the owners of ‘financial capital’, and get their share of the profits in the form of interest.

It is not so easy to get figures on capital ownership. The sums below are estimates of the size of global investment funds, from a report by the City of London’s lobbying group ‘TheCityUK’ published in November 2012:

Table 2.4: **Estimated Fund size in Nov 2012**

### Investment Fund Type \$ Trillion

Private wealth 42.7  
Pension Funds 29.9  
Mutual Funds 24.7  
Insurance Companies 24.6  
Sovereign Wealth Funds 4.2  
Private Equity 2.6  
Hedge Funds 1.8

**Source:** TheCityUK

It's hard to know if those numbers are at all accurate. Note that they don't match up with the global financial assets figures above – but then they miss out other major investors, which include banks and corporations.

'Private wealth' means rich individuals and families. Note that they are still the single biggest group of investors.

However, '**Institutional Investors**', taken together, control more capital than the idle rich. These are institutions that manage the pensions, savings, and insurance premia of the world's middle classes and better off workers. As with share ownership, we should distinguish legal ownership from actual control. Technically, these assets may be owned by individual savers; in practice, they are controlled by investment executives, called **fund managers**. These companies decide where to invest the funds they manage, and take a percentage of the profits.

Some of these funds are bigger than countries. Here are the top 15 in the 'Pensions & Investment' 500 (as of December 2012). The amounts are their 'assets under management' (AuM):

Table 2.5:

#### The Top 15 Investment Funds

\$ trillion

A rising group of investors in recent years are the **Sovereign Wealth Funds**. These are investment funds set up by states: often 'emerging market' governments such as the 'BRIC' nations (Brazil, Russia, India and China) or the oil-rich gulf dictatorships, which have large amounts of capital to invest on international markets. (See Chapter 3 for more on this point.)

## Buy, sell

### ...and in the middle

In between borrowers and investors come a host of middlemen, including:

- Stockbrokers – middlemen who buy and sell shares for their investor clients
  - Traders – who buy and sell bonds and other securities for clients
  - Underwriters – bankers who buy securities from their clients when they are first issued, then sell them on to the market
  - Insurers – e.g., offer insurance in case investments default
  - Structurers – arrange complex securitisation bonds (see below)
  - Derivatives dealers – see below
  - Lawyers – lots of them
  - Analysts – analyse securities to decide how risky they are, and what they should be worth
- ... and more.

Arranging tricky financial deals is one of the most profitable parts of banking. The fees for arranging deals are usually a tight secret. Traditionally, these roles were filled by specialist banks called **investment banks**. In 1933, following the financial crash, the US State passed the 'Glass-Steagal' act to

regulate and keep investment banking divisions separated from traditional deposit-based or **commercial banking**. This law was repealed in 1999, and the same multinational banks now control both ‘commercial’ and ‘investment’ banking.

## Risk and return

The basic principle of pricing a security is: the riskier it is, the more profit or return (i.e., interest) it should pay.

Traditionally, US government bonds, called Treasuries, have been considered the ultimate ‘safe haven’, and so paid the lowest interest rates. The assumption is that the US government will never go bust, and will always honour its debts.

The coupon (interest rate) on US Treasuries is used as a benchmark for pricing other debt.

The **spread** of a bond is the difference between its interest rate and the rate on another bond. For example, after the failure of the G20 meeting in November 2011, the spread on Italian over German 10 year bonds went to 459 basis points (4.59%, one basis point = 0.01%). That means: markets demanded an extra 4.59% return to buy Italian instead of German bonds.

## Bond pricing (NB: slightly more technical)

When bonds are first issued they are usually sold, in large multiples, with a **face value** of 100 cents each. For example, if a fund wants to invest \$1 million in new bonds issued by General Motors, it would buy one million bonds each worth 100 cents. Suppose the coupon rate is 4%. Then each bond pays an annual interest of 4% of 100c = 4c.

Now imagine that something happens to make that bond seem more risky: e.g., a dangerous design flaw is discovered in recent GM cars, and thousands have to be recalled. Potential new buyers of GM bonds will now demand a higher return to match the increased risk that GM might go bust and not pay back its debts.

The way this works is that GM bonds start to sell at a discount: e.g., existing holders of the bond who bought them at 100c each now can only sell them for 80c. The bonds still pay 4c interest on their face value every year, so a new buyer will get the same payback for a lower initial investment.

Bond traders say that the **yield**, or return relative to price, has gone up to  $4c/80c = 5\%$ . Higher risk, higher return. Italy’s yield in that example above was 6.66%. Of course, if the bond actually defaults, the investor gets nothing at all.

## Rating agencies

The infamous rating agencies – the big three are Moody’s, Standard & Poors, and Fitch – are companies that specialise in assessing the risk of debt securities. They publish a rating from AAA (the highest) down to D (default) depending on how likely they believe a bond is to default. For many kinds of bond, they are paid on commission by the borrower issuing the bond. So, clearly, they are completely impartial.

Many funds base their investment decisions on rating agency reports. Market prices are often guided by ratings. Also, pension and some other big funds are restricted by regulation to only buy investment grade bonds, meaning bonds with ratings of BBB and over. This gives the rating agencies considerable power: for example, if they decide to ‘junk’ a country’s bonds, give them a rating below investment grade, millions in pension fund money can quickly pull out.

However, remember that rating agencies only have this power because they are given it by the markets – by investors and other institutions who listen to their advice.

## Financialisation and the New Financial Markets

The figures we looked at above started to give a snapshot of the wave of Financialisation in recent decades: financial markets grew rapidly, and rather more rapidly than the ‘underlying’ production of physical commodities. I will dig deeper into the causes of this trend in the next three chapters.

As well as the growth of finance overall, Financialisation has also involved the creation of new kinds of financial markets based on **securitisation** and **derivatives**.

### The new finance 1: securitisation

The great housing boom of the last 35 years was fuelled by a new kind of bond market. In the US, until the 1970s mortgage lending was largely done by small local lenders called the ‘Savings and Loans’ or ‘Thrifts’, the equivalent of UK building societies. This sector was deregulated in 1980 and 1981, and later many of the ‘S&L’s were hit by crisis and went bankrupt. Investment banks made this crisis into an opportunity. They bought up mortgages from the crashing S&Ls for cheap and moved into the mortgage industry.

To help things along, the loans were guaranteed by US federal government agencies with cute names (Freddie Mac, Fannie Mae, etc.).

Unlike traditional mortgage lenders, investment banks didn’t have deposits that they could use to make mortgage loans. Instead they invented a new technique called **mortgage backed securitisation (MBS)**. They borrowed money by issuing bonds secured against the expected repayments on the mortgages.

### Basically, this works as follows:

- The mortgage company, with its arrangers and lawyers, sets up a kind of paper company called a ‘**special purpose vehicle**’ (SPV).
- The SPV issues a bond, promising to pay interest to the bond investors who buy it.
- As the mortgage borrowers pay back their mortgages over, say, the next 30 years, the company will pay the money into the SPV.
- So long as the money paid out to the bond investors is lower than the money paid in by the mortgage borrowers, the SPV is in surplus. The mortgage company keeps the difference as its profit – after paying out cuts to the banks that arranged the deal for it, the lawyers who wrote up all the complex SPV paperwork, any insurers who underwrote the deal, etc.

At first the new idea was strange to analysts and investors. The first US mortgage securitisations were strongly backed by the US government, through its federal agencies. Because of this state guarantee, they were rated AAA by the rating agencies, and so investors bought them.

#### *Structure of a securitised bond*

Over time, investors got more used to the idea and new kinds of securitisation were rolled out. Car loans and credit card loans were the next targets. Banks and lawyers, with the support and encouragement of the US authorities, lobbied for new legislation and regulations allowing for new kinds of SPV structures.

### ‘Shadow Banking’

Securitisation became a powerful force in reshaping financial markets: it slashed away the old deposit banking model. Banks could lend out large sums to new hordes of customers, but without needing to get in any deposits to cover its loans. In the 1990s and 2000s a new wave of ‘specialist finance companies’

got in on the act, selling credit cards and mortgages from call centres, paper companies funded entirely by securitisation. This consumer credit boom spread from the US through UK and Europe. By 2000 the global investment banks were arranging securitisation deals from Mexico to Kazakhstan. In the US, the new frontier was ‘sub-prime’: including mortgages to people with dubious credit ratings; funded by bonds sold to investors hungry for higher returns. The 2008 crisis began when investors’ faith in the sub-prime securitisation collapsed, bringing the new financial architecture crashing down. (See Chapter 5).

## The new finance 2: derivatives

The idea behind derivatives is not really new. The Greek philosopher Thales is said to have made a fortune on **futures** contracts. Predicting a great harvest, he placed orders with olive farmers for their whole autumn crop, agreeing a fixed price in advance. When the harvest came he got masses of olives cheap, and sold them on at a profit.

In general, a futures contract is an advance agreement to pay a set price for a good at a future date. When the future date comes around, if the market price for the good is higher, then the buyer of the futures contract makes a profit; if it is lower, then she loses the difference. The first standardised futures exchange began in Chicago in 1865, where farmers and traders made futures contracts for wheat harvests.

But the derivatives market really took off after the collapse of the Bretton Woods fixed currency exchange system in 1971 (See Chapter 4). Fluctuations in international interest and exchange rates became crucial in financial deals. For example, a business looking to invest in a different country could use derivatives to fix the exchange rate it would pay in the future.

On the one hand, derivatives offer a form of insurance. If I buy a futures contract to change money next year at today’s rate, then effectively I insure against the risk that the rate goes up and I have to pay more than the current price. However, I give up the chance to save money if the rate actually goes down. This use of derivatives is called **hedging**.

On the other hand, derivatives can be seen as a form of gambling, or speculation. The other party in the currency futures contract may gamble that the rate will go down, and so make them a profit.

Derivatives markets look even more like gambling when neither of the parties has any involvement in the actual good (wheat, currency) except the hope of a speculative gain. Two parties could make a contract just because they are betting different ways about what will happen to a reference asset – whether it’s an interest rate, a currency, the weather, or the chance of someone else paying their mortgage.

An **option** is a contract that gives a party the choice to buy an asset at a set price in the future – or not to buy. Other types of derivatives include **swaps**, swaptions, and more. The biggest class of derivatives contracts today are **interest rate derivatives**. These are used to hedge against the risk of losing out on investments which pay a return linked to a major interest rate.

## Securitisation + derivatives

As the securitisation market took off, investment bankers brought the two ideas together to invent credit derivatives. Credit default swaps (CDS) and Credit Default Obligations (CDOs) are insurance contracts – or, seen another way, gambles – about whether debts will default or not. There is now a

*Yuppies by Laura Oldfield Ford* major market in CDS contracts on sovereign bonds. CDS agreements also became routinely written in to mortgage securitisation deals, helping investors reduce their risk by hedging against defaults. A scandal broke, though, when it emerged that investment bank Goldman Sachs had used CDS deals to gamble that sub-prime bonds it had issued itself were going to

explode – the financial markets equivalent of match fixing. Complex CDO contracts involving bets on packages of mortgage and other debt became another way to expand the securitisation industry. They spread the ‘exposure’ to risk on sub-prime mortgages and other debts to wider ranges of investors. CDO investors never actually had to buy any mortgages or bonds, just bet about what would happen to debts other people were buying. Investments in these deals are usually confidential, and the sums complex. Whole new levels of complexity were reached with ‘CDOs-squared’, and even ‘CDOs-cubed’ – bets about bets about bets on debt defaults. The bankers and their fans saw these new markets as the cutting edge of ‘financial innovation’, unleashing more capital and ever faster growth. They helped financial markets expand rapidly – but also become more volatile, uncertain and unknown. With so many investors around the world potentially involved in betting on a mortgage in Wisconsin, in complex and often secret ways, who will be in trouble if it goes bad? What knock on effects will that have on other investors? Can anyone keep track?



## Chapter 3. The global division of labour

In 2011 China became the world's largest producer of manufactured goods, overtaking the United States, top producer for the last 110 years. China, India, and other Asian countries are now the 'factories of the world', the main centres of production for most of the tangible things we buy and use, from cars to computers to crockery. Just as they were 200 years ago, before European capitalist expansion.

Other 'developing countries' in Latin America, Africa, the Middle East, as well as Russia, provide most of the basic raw materials – fuel, metals, minerals, etc. – to run those factories. The 'developing world' – or should we now call it 'the producing world'? – also produces most of the world's food. But all this wealth is still largely **consumed** in Europe and North America. How does that work? And how long can it carry on?

*Electronics factory in Shenzhen, China, 2004.*

### A recap: the pursuit of profit

Capitalists chase profit. They can make profit 'directly' by producing and selling commodities. Or 'indirectly' by getting interest from investing finance capital; or by acting as middlemen, for a fee. Profit = revenues – costs. So to boost profits producers need to increase revenues, or reduce costs. To increase revenue they need to find higher demand for their products: more buyers; or buyers who will pay more. There are two main routes to reducing costs: more efficient production technologies; or cheaper inputs. New inventions and technological advances boost profits and production. So do finding new sources of cheap materials – or cheap labour. So the hunt for profits drives the expansion of capitalism in a number of ways, as capitalists try to find or create new markets. New consumer markets to buy their goods; new sources of raw materials; and new sources of cheap labour.

### Global incomes

The table below shows some of the global income statistics estimated (or 'guesstimated') by the economic historian Angus Maddison. They calculate income as GDP per person (annual income measured in 1990 dollars).

[table]

Of course, these figures are mostly just wild guesses, and ignore massive differences in economic systems. Including differences in what cultures consider as tradeable commodities at all. But they at least bring out some basic points. If you do measure prosperity in terms of the sheer quantity of tradeable stuff around, then the world has got much richer under capitalism. Average incomes around the world stayed pretty much the same in the centuries before the industrial revolution and capitalist take-off. China had more stuff than Europe in the millennium or so after the fall of Rome, but not dramatically more.

Then it all took off. In the early nineteenth century European and North American income was double the levels in the rest of the world. But this was just the beginning. By 1900 the US produced seven times more (per person) than China. By 1970 it produced 20 times more. World income has doubled again since 1970. This includes the 'developed world'. But the most growth is in Asia: China has grown nine times richer, India four. Only Africa has been left out.

[image]

*Map resizing countries by proportion of world GDP, estimated for 2015. From worldmapper.org*

## GDP?

GDP stands for ‘gross domestic product’. Roughly, it means the value of all the marketable goods and services produced in a country. **Economic growth** is the increase in a country’s GDP over time. **GDP per capita** is the country’s GDP divided by the number of people in the population: i.e., the average GDP.

Economists use GDP as the standard measure of economic wealth and prosperity. And, often, as the measure of all goodness and ‘progress’ in the world. But focusing on GDP hides many issues. Average GDP figures ignore the inequality of income distribution within a country. GDP statistics only reflect production that is known to the state, usually recorded in tax returns, and so ignore unpaid and unseen work: including domestic work, largely done by women; or ‘black’ work, like the work of illegal migrants. And, of course, GDP only measures commodities, things that can be bought and sold in markets.

Using GDP as a measure of goodness or ‘quality of life’ supposes, as economists standardly do, that our well-being just involves accumulating and consuming commodities.

Why is economic growth the one great goal of democratic politics? Policies that chase growth certainly help capitalist profits. And they avoid questioning the distribution of wealth: if everyone gets richer as the economy grows, we can all have more stuff without having to take it away from the rich. Questioning the distribution of wealth is labelled the ‘politics of envy’. Questioning the very idea of commodification, of economic growth, or of what never-ending increased production means for our planet, is just crazy talk. (I will come back to this issue in Chapter 6).

## What explains global income inequalities?

Neoliberal economists argue that it is all about the internal systems of countries. ‘Poor’ countries (Latin America, India, Africa, etc.) have failed to keep up with world growth because of weak institutions: corruption, weak democracy, and above all a lack of strong property law. (The Peruvian economist Hernando de Soto is the master of this line – see his *‘The Mystery of Capital’*.)

So is it just a coincidence that these ‘poor’ economies used to be colonies of the successful capitalist nations?

## Core and periphery

According to the ‘**world systems theory**’ of capitalist development, political- economic systems typically have a core and a periphery. The **core** is where high- technology, high-skilled, capital-intensive, production happens. These are usually the later stages in the production process. The **periphery** produces the raw materials which are shipped to the core. Some of the finished goods may then be shipped back to consumers in the periphery. The core is also where trading and organisation functions, such as financial markets, are based.

This division of labour makes the periphery dependent on the core: it cannot produce the finished goods on its own. Strictly speaking, core and periphery are dependent on each other. But the core has the advantage as its goods are more specialised, harder to produce, and more prestigious.

## Imperial history

In pre-capitalist civilisations, and in early capitalist Europe, commercial **cities** were cores, producing and trading the advanced goods; the local countryside was their periphery. Colonialism made core/periphery systems go global. In the 19th century, Britain was the biggest ‘core’ of the global trade system. Its products involved skilled labour, for relatively high wages, and advanced

[image]

*Map showing the "triangular trade": slaves were shipped from Africa to the Americas, where they produced sugar and tobacco, which was shipped to Europe*

</center> technology. It was also the site of the financial markets.

The ‘periphery’ of the empire produced the raw materials. The early economic role of the United States was largely as a mass grain producer for the Imperial market. India’s own cotton manufacturing industry was destroyed, and India became an intensive producer for raw cotton shipped to the mills of Lancashire. **The Atlantic Slave Trade** and **Indentured Labour** provided cheap or free labour for agriculture and raw materials production.

How did Britain become dominant? Britain’s initial advantage came from new technologies: not only cotton mills and steam engines, and new weapons; but also new financial, legal, and cultural ‘technologies’. Technology gave British industrialists a **competitive advantage** – they could produce better goods, more cheaply – and their manufactured products took over world markets.

Where capitalists in other countries could not compete with British manufacturing, their profit opportunities came from exploiting cheap labour and natural resources to produce raw materials. So the local capitalists – plantation and mine-owners, etc. – of periphery countries also gained in the core/periphery division.

Imperialism involved both **market power** and **military power** working together. Technological advantage gave the British capitalists their initial market power. As they accumulated wealth and capital, market power was further increased by the sheer size of their resources.

The British state used its share of this accumulated wealth to create the world’s most powerful military machine. Business and government worked together to ‘open’ new markets and property systems with a mixture of trade and force. This did not always require direct colonisation: e.g., in the Opium Wars, and the smashing of the Boxer Rebellion, Britain and other capitalist states forced the Chinese government to allow the trade in opium and other goods.

Nor should we ignore **cultural power**: missionaries, doctors, teachers, and other settlers, helped spread the new values, norms, and desires of the capitalist property system.

## Hegemony?

The Greek word **hegemon** (ruler, leader) is sometimes used for a state like Britain in the 19th century, or the US and USSR in the 20th, which dominates world politics and economics.

But this concept shouldn’t be over-used. In the 19th century, there were large areas of the world still uncolonised. For much of the 20th century there were two main rival powers. Even on its own home turf, a state or elite’s power is never total: there are competing factions and interests within the elite; and free spaces and pockets of resistance where domination is much weaker.

‘**Development**’ How can a country move from periphery to core? The problem is that advanced manufacturing production needs serious capital investment: factories, complex machines, energy plants, transport infrastructure, etc. These advanced goods are very profitable – but you need massive investment to get started.

*Ford assembly line 1913*

And that is assuming core producers allow access to advanced technologies and markets.

In the early 19th century the US was still a periphery country, producing grain and cotton for the British empire. But this was profitable business, and US capitalists were able to build up a surplus of finance capital for investment. They started to invest it in building up local manufacturing industry which could eventually compete with Britain. Some of the reasons they succeeded were:

- they had big enough capital reserves for the initial investment;
- new technologies – including ‘Fordism’, the production line methods pioneered by Ford Motors — gave them an advantage;
- whereas Britain was stuck in old technologies – and with all their existing infrastructure in place, it was expensive for British capitalists to switch to the new American models;
- they had cheap labour from mass immigration, whilst British labour was getting more expensive, due to workers organising and fighting;
- alongside the development of manufacturing, the US state and capitalists built up local financial markets, so that industrialists didn’t have to go to London to raise money;
- protectionism – the US government offered support to domestic industry by imposing high taxes (trade tariffs) on imported goods;
- but protectionism is only possible if existing core states allow it – the decline of British military power meant the empire was too weak to use force to defend ‘free’ markets for its goods.

## Kicking away the ladder

In the 1950s and 60s, ‘third world’ states in Latin America and Asia tried to follow the US example and use protectionist policies to develop national manufacturing industries. This policy was known as ‘Import Substitution Industrialisation (ISI)’ – building industry to substitute local products for imports of advanced goods. They used import tariffs and state subsidies to ‘nurture’ ‘infant industries’.

ISI largely failed. These countries were not strong enough, economically or militarily, to take on the US. If they introduced import tariffs, core countries could retaliate with tariffs attacking their exports. Most of their income still came from exports, and local consumer markets could not fill the gap. The rich elites could afford to buy better quality imported luxuries. Most locals were just too poor to buy anything.

And if these trade wars weren’t enough to keep third world states in their place, the US could resort to other means. Across Latin America in the 1970s, the US launched coups to impose governments that dropped ISI and kept to their place as raw material exporters. (See William Blum’s *‘Killing Hope’* for a bloody history of US military interventions since 1945).

[image]

*Rapid industrialisation is usually accompanied by the rapid growth of cities.*

*Dharavi shantytown, Mumbai, India.*

## The price of our blood, sweat and tears

GDP averages hide the vast inequalities within countries. And inequality in ‘third world’ countries is typically more extreme than in ‘developed countries’, where workers’ movements gained some concessions like higher wages and welfare services. Here are some figures on average pay in manufacturing industry, as estimated by the US Bureau of Labor Statistics. Note: these figures are estimates of total ‘compensation costs’, i.e., not just cash wages but also other costs paid by employers such as tax and national insurance, health insurance and pension contributions, etc.

Note: all data are for 2012, except China 2009 and India 2010. The US statisticians say that the data for China and India are much less accurate and transparent.

## Investment vs. consumption

The table above shows that manufacturing pay in the US and rich countries of Western Europe is more than 20 times higher than in China. But remember that the first table in this Chapter showed that US GDP per head is 4 to 5 times higher than in China. So: not much of China's rapidly growing wealth is paid out to the factory workers fuelling its economy. Where does it go?

Some goes into the pockets of China's new rich. Much of it, though, is not consumed but invested back in production. I.e., spent on new capital: new factories, new machines, more raw materials and energy, to produce even more stuff.

GDP is, effectively, the total revenue from all the production of a national economy. As we saw in Chapter 1, some of the revenue of a capitalist production process goes to cover the costs: wages (labour costs); raw material costs; and finance costs (interest payments). The rest is the producer's profit. Out of the profit, the capitalist has to decide how much to re-invest in future production; and how much to 'consume' herself.

We can do the same kind of breakdown on a bigger (national) scale. GDP is the (money) value of all stuff produced in a national economy. Some of that stuff will go to workers, as wages. Some will go to capitalists, investors, e.g., through interest and share dividends. Some will go abroad (exports). Some will go to the government, in taxes from workers and investors and on exports.

There are two things that workers, investors, and governments can do with their share of the national product. They can consume it, or save it.

What is consumption? Roughly: if a commodity is consumed, it is taken out of economic circulation. If I eat (consume) a chocolate bar, it leaves the economic system and enters my digestive system. It can no longer be traded, or used as raw material for a cake.

Alternatively, I can hide the chocolate bar under my bed for a rainy day. This is a form of saving. But, on the whole, most people with money don't save it by hiding it under the bed. They may deposit it in banks, who then lend it on. Or they may invest it in property, shares, bonds, and other markets. These forms of saving thus involve re-investing capital, through financial markets, back into production. Thus a basic assumption of macroeconomic theory: Savings = Investment.

The share or percentage of income that is saved and invested is called the savings rate. There is a lot of discussion amongst economists about how people make 'savings decisions'. Generally speaking, the more income people have, the more they are likely to save. If your wages are near starvation level, you will spend everything you earn to stay alive.

[table]

Here are some World Bank estimates on national savings rates (as a percentage of GDP):

How does that add up? People in China and India are, on average, much poorer than people in the UK and Europe. And poor people usually consume a higher proportion. But, luckily for their rapid economic growth, Chinese and Indian 'national incomes' are far from distributed equally amongst the population. Besides the 'new rich', who do their best to spend at least some of it on luxury living, a lot of China's income is still controlled by the State and state-linked corporations, who pursue a planned policy of investment and growth. Not all strongly hierarchical and authoritarian economies are booming; but inequality and centralised control certainly can be key factors in rapid growth.

## Global shift

I made a list above of some of the reasons why the US was able to successfully escape its 'periphery' status and overpower British hegemony. Now we can see how China, and also India and other former 'third world' economies, fit the picture.

*Graffiti by Tick*

- **investment capital:** accumulated through high national savings, largely centralised and controlled by the State and mega-corps;

- **cheap labour:** millions of impoverished rural labourers flocking to the cities in search of work, in scenes reminiscent of the birth of Industry in Europe, only on a much bigger scale;

- **new technologies:** production line industry taken to a new scale.

There are also differences. China and India do not follow the import substitution model. Their manufacturing is mainly for export. Local consumer markets are developing, but not fast enough to keep up with production. (Which is why Chinese capitalists are still at risk from the global depression – they need us to keep consuming their products.) Their products directly out-compete manufacturing in the old core, mainly due to much lower wage costs. So they do not need to rely on protectionist import tariffs.

What does benefit them is to keep their own currencies low, making exports even cheaper. The trade wars rumbling between China and the US have been about currency ‘manipulation’ not protectionism.

China has been winning these trade wars. The US now has neither the market power nor the military power to take on China. Like Britain 100 years ago, it has burnt out its economic and military resources maintaining a dying empire, getting caught in costly and pointless wars. All the old hegemon can do is grumble.

## Once more, financialisation

US economic independence from Britain also involved the development of financial markets in New York and Chicago to rival London. New financial centres – particularly Hong Kong, but also local markets elsewhere in Asia, and in Latin America – are developing.

But what’s interesting is that the markets in London and New York have been growing even faster. ‘First world’ GDP has been growing much slower than in the ‘emerging markets’; ‘first world’ manufacturing is in decline; the only part of the first world economy that races ahead is finance.

A couple of things really show the shift towards finance in countries like the US and UK. One is where profits come from:

1960s: financial profits were 15-20% of all profits in the US; 2000s: they were 35-40%

**Source:** Foster & Magdoff

The other thing is the work people do. Here are some employment figures from the UK (sources: Graham Turner; Office for National Statistics):

The famous ‘destruction of British manufacturing’ which started under Thatcher continued apace under Labour. By 2007, over 7 million people were working in finance. Another 7 million people were making them cappuccinos.

## Vendor financing

The question: if US and UK industry has died or, at best, stagnated, what are these bloated financial markets actually financing?

The answer: **a massive consumer debt bubble.**

How does the first world pay for all those imported goods? By borrowing from the productive world. I will look more at these points in Chapter 5.

## Chapter 4: The capitalist state

‘The military and the monetary get together whenever they think it’s necessary’.

Gil Scott Heron.

What role(s) does the state play in the market economy? One way to start thinking about that is to look at some moments in recent history:

**August 1842.** The governments of China and Britain sign the Treaty of Nanking after China loses the first Opium War. China agrees to allow opium imports, to

*Pinochet and Kissinger* declare free trade in five port cities, and to give Hong Kong to Britain.

**January 1933.** Adolf Hitler is elected Chancellor of Germany, supported by the country’s main industrialists and investors as their saviour from the communist threat. Massive state spending on arms and infrastructure gets Germany back to growth and full employment. Similar policies also work economic wonders in Japan, the US, the UK, and elsewhere, ending the Great Depression.

**July 1945.** The Labour Party comes to power in the UK, introducing the post-war welfare state: the National Health Service, national insurance and child benefit, and nationalisations of the Bank of England, railways, coal mines and more.

**August 1953.** The British government, working together with the CIA, organises a coup to topple the Iranian government headed by Mohammed Mossadegh, which had nationalised the Anglo-Iranian Oil Company. This company was then majority owned by the British government, and was a major contributor to the cost of the British Welfare State – but paid little back to Iran. It has since been privatised, and renamed BP.

**September 1973.** General Pinochet seizes power in Chile from the left-wing Allende government, which had nationalised US corporate property in the country. The ‘Chicago Boys’, Chilean economists trained at Chicago University, are given control of economic policy. Their ‘neoliberal’ programme of privatisation and deregulation will inspire Reagan and Thatcher.

**November 2011.** the leaders of two European democracies – Greek prime minister Papandreou, and the Italian Berlusconi – resign. Without elections, they are replaced by bureaucrat economists heading ‘technical governments’. With one mission: to push through the ‘austerity packages’ of cuts, privatisations and job losses demanded by Europe’s bankers.

### What is a state?

Max Weber, one of the founding fathers of sociology, gave the classic definition. A state is an institution with a ‘**monopoly on the legitimate use of violence**’ in a territory. The state uses violence through its armies, police, jailers, and other armed functionaries. A monopoly of violence means that no one else in the territory is allowed to use force without the state’s permission: citizens should not ‘take the law into their own hands’. What does ‘*legitimacy*’ mean here?

Perhaps that the state’s citizens or ‘subjects’ agree that the state has the right to use force against them. Liberal political philosophy since the 17th century has endlessly discussed the ‘legitimate’ limits of the state’s monopoly. The main point, maybe, is that no state really governs by force alone – as its troops are always outnumbered, it needs at least some level of ‘consent’ from citizens.

In reality, Weber’s definition is an ideal that states aspire to: probably no state has ever been accepted as legitimate by everyone it tries to rule; or really held a complete monopoly of violence. Just as no economic system is monolithic, state power is never total.

## Role 1: Defender of property and markets

In capitalist economic theory, a market is where people can come and make deals ‘freely’ with each other. A market could be an actual physical place: like a town market, or an old-fashioned trading floor. Or it could be a virtual network of buyers and sellers spread around the world.

Any market needs a set of **rules**. These could include: rules about what can be traded on the market; about who is allowed to trade on the market; about how deals are made, prices are decided, etc.

In most capitalist markets, one very basic rule is: you can only trade a commodity if you have a legal **property right** to it. For example, if you **own** it as your own property; or you have borrowed it, with permission from the owner to trade it. If you don’t have any property, you can’t trade on a market.

**Property Law** is a system of rules which defines who has what rights to use and trade goods. It is part of the **Legal System**: a system of rules which are defined and enforced by the State.

However, as well as legal rules, there are also **norms** and **conventions**, often unwritten, behind markets and property. For example, a market like the New York Stock Exchange has its own set of regulations which traders have to obey if they want to do business; these are not government laws, but the Exchange may exclude people who don’t follow them. ‘Black’ and ‘grey’ or ‘informal’ markets also have rules and conventions, though it will not usually be the State police who enforce them.

Theories of modern government often distinguish between three ‘branches’ of state power. The **legislature** is where laws are made – e.g., parliaments, or presidential decrees. The **judiciary** means the court system (judges, lawyers, juries, inquiries, etc.) which rules on particular cases. Finally, the **executive** enforces the law.

The executive commands state forces like the **police**, the **army**, the **prison service**, **tax collectors**, **border guards** and **customs officers**. These officers of the state do the hands-on work of **enforcing** the law. Alongside private sub- contractors: mercenaries, private prison companies, security guards, etc.

## Law enforcement

Enforcement means the threat, or actual use, of force against people who do not obey the legal rules. Perhaps this should be obvious. But liberal theorists and other state supporters do a lot of work to help us forget about the violence of the state, using euphemisms, selective reporting, etc. So, to be clear, some of the means used by the state to make sure that people do not take others’ lawful property include:

- beatings with fists, shields, truncheons, batons, etc.
- tear gas, pepper spray and other chemical weapons
- horse charges, water cannons, tasers, plastic bullets, and other ‘less than lethal’ weapons
- guns, tanks, bombs (‘air strikes’), land mines, nerve gas, computer-controlled drones, etc.
- prison cells, hard labour, isolation cells, the death penalty (in some countries)
- tortures and ‘extraordinary rendition’, cattle prods, sleep deprivation, water boarding, etc.

## Changing property rights

One role of the State is to define and then enforce who has rights over what. Property definitions, as well as enforcement techniques, are constantly changing. Here are just a few examples of how property rights can differ and change:

• **Slavery**. Most ancient ‘civilisations’ recognised chattel slavery: human beings could be owned as property, and traded on markets like other commodities. Property rights over slaves were formally abolished across the British Empire in 1833, and similar laws were enacted across the world over the 19th and 20th centuries. Some legal systems, however, still recognise forms of **debt slavery**: you sign an enforceable contract to pay back debts with labour. Many democratic countries widely practice



enforced **prison labour**. In the US, and now also UK, selling rights to the use of prison workers to private contractors is a growing market.

- **Inheritance rights.** Most property systems recognise inheritance: family members and others can pass on their property to others when they die. Inheritance helps maintain and build up concentrations of wealth. **Inheritance law** concerns who can inherit: e.g., in ‘primogeniture’ systems, the first son is entitled to most of a father’s property. Many states have introduced **inheritance taxes** to take a share of passed-on property.

- **Land rights: planning regulations.** In many countries, the State has some control over the use of land: even if you are the owner of the land, you will have to apply for permission to use it for particular purposes, such as building houses or business property.

- **Crimes and Torts.** The English legal system (and systems which descend from it, including the US) makes a distinction between civil and criminal law. For example, if you trespass on someone else’s land, this is not initially a criminal offence, but a disagreement between two ‘civil parties’ – you and the owner – which has to be resolved in a civil court. The police are only supposed to get involved if the court rules against you. The UK government recently (September 2012) changed occupying residential property into a criminal offence.

- **Intellectual Property.** Intellectual property law governs rights in ‘intangible assets’: music or books, inventions, or designs and symbols such as corporate names and ‘trademarks’. The 1709 ‘Statute of Anne’ in England is one of the world’s first laws for copyrighting written texts. The 1624 English Monopolies Act was an early patent law, granting rights to exclusively use a new invention. In 1980 the US Supreme Court upheld a patent on a genetically modified biological organism (case of *Diamond v. Chakrabarty*).

## Regulating markets

As well as guaranteeing property rights, States may actively **regulate** market transactions. States throughout history have policed markets by, for example, imposing laws on the quality of goods; on licensing for traders; or standardising the use of weights and measures.

One important form of regulation is control over what can be used as money. For example, many states throughout the 19th century (re-)introduced monopolies on coining or printing money. The regulation of financial markets in particular is a particularly hot topic – I will look at it in the next chapter.

## Liberalism

Liberalism is a political philosophy that grew up together with capitalism. Of course, not all capitalism is ‘liberal’. China is still officially Marxist. In Europe in the 1930s, many bankers and industrialists who had supported liberal democracy switched easily enough to fascism and Nazism.

The arguments of early liberal thinkers such as Thomas Hobbes, John Locke, David Hume, or Jean-Jacques Rousseau still form the basis of mainstream

### *John Locke*

‘political philosophy’ today. These writers developed theories to undermine the old medieval institutions of feudalism and supreme monarchy. At the same time, they also attacked the ideas of revolutionaries who wanted much more radical change: revolting peasants like the Dutch and German Anabaptists; the English Levellers, Diggers and Ranters; early urban rebels like the French Sans-Culottes.

Important tasks for liberal theory were: to develop new systems of **private property**; to establish the power of the **market**; and to fix the role of the state.

Liberals supported strong and standardised property rights which benefited the rising merchant and capitalist classes. Property needed to be protected from kings and lords on the one hand; and from the ‘mob’ on the other. Liberals attacked old rules and institutions that limited the market: on the one hand, aristocratic corruption, feudal taxes and levies, and royal monopolies; on the other, traditional communal land rights, traditional wage and price agreements, or the guilds of craftspeople and workers.

The English philosopher John Locke, who was also involved in the colonial administration in New England, developed a new theory of property. Land, and manufactured goods, belong initially to those who work or ‘mix their labour’ with them.

In Locke’s theory only labour creates ‘value’ – an idea later developed in the ‘labour theories of value’ of David Ricardo and Karl Marx. As the ‘American Indians’ left pastures and forests ‘wild’, colonists had a right and even a duty to take them and make them ‘productive’. Labour and industry, together with enclosure (‘commodification’) and private ownership, bring wealth and prosperity.

Hobbes, Locke, and later Rousseau, argued that government was justified by a ‘social contract’ between rulers and ruled. The government’s role is to defend private property, and so prosperity; in return, the people obey its laws. Although Locke and Rousseau argued that ‘the people’ have a right to disobey and overthrow a ‘tyrannical’ government that abuses its power.

David Hume and Adam Smith, friends and leading thinkers of the ‘Scottish Enlightenment’, argued that if individuals follow their economic ‘**self-interest**’, this brings peace and prosperity for all. Earlier philosophy had praised aristocratic virtues of honour, courage, or noble self-sacrifice, and seen ‘self-interest’ as ‘low’ and undignified. Now, in liberal theory, it became the foundation of a good society.

Many of the political struggles of 18th and 19th century Europe involved the rise of the new capitalist class – the ‘bourgeoisie’. In the ‘Glorious Revolution’ of 1688, English capitalists supported the replacement of Catholic King James II by the pro-market Dutch protestant William III. The new government was dominated by the ‘Whigs’, identified with a new property regime against the old ‘Tory’ ‘landed gentry’. In the French Revolution of 1789, and in the English reform struggles through the 19th century, the new class went further, overthrowing Aristocratic government altogether. In the new ‘Parliamentary Democracies’, all property-owners could claim some share of state power.

## The bloody birth of capitalism – a hidden history

*‘The development of capitalism was not the only possible response to the crisis of feudal power. Throughout Europe, vast communalistic social movements and rebellions against feudalism had offered the promise of a new egalitarian society built on social equality and cooperation. However, by 1525 their most powerful expression, the ‘Peasant War’ in Germany*

*... was crushed. A hundred thousand rebels were massacred in retaliation. ...*

***A witch riding a goat lets loose a rain of fire.***

*With these defeats, compounded by the spreads of witch-hunts and the effects of colonial expansion, the revolutionary process in Europe came to an end. Military might was not sufficient, however, to avert the [economic] crisis of feudalism.*

*... It was in response to this crisis that the European ruling class launched the global offensive that in the course of at least three centuries was to change the history of the planet, laying the foundations of a capitalist world-system, in the relentless attempt to appropriate new sources of wealth, expand its economic basis, and bring new workers under its command.’*

From: Silvia Federici, *Caliban and the Witch*

## Role 2: Original Appropriation

Property rules are constantly changing. In the history of capitalism, the State hasn't just enforced existing property systems; it has also been involved in actively pushing the boundaries of property, helping create new markets and 'commodities'. Again, by whatever means necessary.

In the early stages of European capitalism, national armies were built up and used to enforce a number of important shifts in power relations which allowed capitalism to flourish:

**Enclosure.** Turning communal land into private property. In England this took two main forms: abolishing the 'open-field' system in which peasants farmed strips of land in a non-hedged village field; and privatising and fencing the 'commons', lands where

*Decaying hedges planted to enclose fields under 1768 Parliamentary Act of Enclosure.* Villagers had collective rights to hunt, graze animals, gather fruits, etc. Enclosures were often the work of local landlords; but they were backed by the State with a series of 'Enclosure Acts', new laws phased in from the 15th up until the 19th century. The peasants frequently rebelled, in local riots or major 'peasant wars', and the State sent in the troops.

**Colonisation.** The biggest enclosure of all was the land grab in the colonies. The colonisation of Latin America led the way, directly enforced by armies sent by the kings of Spain and Portugal, responsible for the genocide of many millions. In later colonisations, corporate and state power worked together. The British East India Company started out as a trading company, before gradually taking over state power from local rulers. In 1858 India became a direct colony of the British State, after it crushed the 'Great Uprising' of 1857.

**Enclosing our bodies.** Enclosure threw hundreds of thousands off the land – they became fodder for the new factories and mills of the industrial revolution, or the mines and plantations of the colonies. Indigenous peoples of the colonies were enslaved en masse. Europeans became wage-workers, tied to the clock and subsistence wages. 'This process required the transformation of the body into a work machine, and the subjugation of women to the reproduction of the work force' (Federici p63).

Again, resistance was met with force, as states sent armies to smash slaves' and workers' revolts. Federici argues that the Witch-Hunts of the 16th and 17th centuries were an attack on women and on their pre-capitalist roles in rural communities 'to eradicate an entire mode of existence' which threatened economic and political power.

## The struggle continues

Enclosure, colonisation, and other forms of commodification have continued apace through capitalist history. Very often the same pattern holds: local capitalists or

*Luddite rebels in drag* landowners start asserting increased property rights; the dispossessed rebel; if property-owners aren't strong enough to smash resistance alone, or with hired thugs, they call in the State.

● **England, 1549. Kett's Rebellion.** A peasant army of up to 16,000 rebels uprooted enclosure hedges, defeated a government army, and captured Norwich. Their first demand was that 'no man shall enclose any more'. They were defeated, and 3500 massacred.

● **Chiapas, Mexico, 1994. The Zapatista Uprising.** Around 3000 indigenous rebels launched an insurrection on 1 January, taking control of major towns in Chiapas and turning villages into self-governed 'caracoles'. Their programme included communal village land rights, as well as rejection of NAFTA, (North American Free Trade Agreement) which dramatically extended the reach of global capitalist markets in Mexico.

There have been many rebellions against enclosure and commodification. What can we learn from them today?

## Shock Therapy

According to Naomi Klein in her book *'Shock Doctrine'*, modern states systematically use 'shocks' to 're-engineer societies' whilst people are too confused to resist. It doesn't matter where the shock comes from. Some, like wars, are caused by States directly: after the invasion of Iraq, corporations like Halliburton and Blackwater, close to the Bush regime, moved in quickly to grab contracts for running new infrastructure, security apparatus, and privatised oil supply. But terrorist attacks like 9:11, or natural disasters like Hurricane Katrina will do just as well. Massive profits have been made from the security industry after 9:11, and from the 'rebuilding' and gentrification of New Orleans.

The **economic crisis** is another example. Governments across Europe have been rushing through bank bail-outs, 'austerity packages' and privatisations, claiming they are necessary to save us from economic collapse. These changes benefit the same corporations and banks who caused the crisis in the first place. In the 'moment of vertigo' during a crisis, argues Klein, people are more ready to accept any emergency 'solution' offered by a government.

## Role 3: producer and consumer of last resort

*German 3rd Reich postage stamp celebrating  
autobahn building programme.*

In classical liberal theory, the State is supposed to stay in the background, defining and protecting the rules and institutions on which capitalism relies. Private companies and individuals do the actual production and trading. In reality, it doesn't work like this: states are themselves major producers, consumers, and traders.

## The military-industrial complex

In 1961 US President Eisenhower used the term 'military industrial complex' (MIC), a combination of an 'immense military establishment and a large arms industry'. In 2009 the US Government spent \$712 billion on 'defence', about 5% of US GDP. World states altogether spent \$1.531 trillion. (Source: SIPRI).

As discussed in Chapter 2, though, major government military spending is nothing new. From the beginning of capitalism, leading powers have built up military might to defend their economic interests. At the same time, military spending 'stimulates' the economy, encourages industrialisation, and has also been key in financial innovations such as early bond and share markets.

## The new deal and war capitalism

In the 1930s, economist John Maynard Keynes argued that governments should attack unemployment directly by hiring unemployed workers on schemes such as road-building. 'Keynesian' policies such as the New Deal in the US, or the massive industrialisation and infrastructure projects in Nazi Germany, were widely credited with ending the Great Depression. When financial markets collapsed and companies could no longer get finance to produce, the Government could step in. The wages paid out from government schemes would have a snowball effect, stimulating new demand for private industry also. Governments would have to borrow or raise taxes to run these schemes, but the long-run gain to the economy would outweigh the cost.

But was it roads and railways that saved the 1930s economy, or tanks and guns? According to the theory of 'military Keynesianism', what really ended the Great Depression was government spending on arms. Whilst unemployment was killed off (all too literally) by mass recruitment.

## The welfare state

After the Second World War, most developed capitalist countries developed 'welfare states'. Governments committed to providing a basic 'social safety net' of minimum healthcare, housing, education, pensions, and benefits for unemployed people, etc. There had been some 'social insurance' measures earlier on: the right-wing German government under Bismarck introduced the early pension and health insurance schemes in the 1880s. But these systems were massively expanded in the 1940s. Currently, most European countries spend at least a quarter of national income on state-organised welfare systems.

The welfare state can be seen as part of a 'historic compromise' that ended open class war in rich countries. At the end of World War One, millions of troops returned home to ruins and unemployment, but with military training. Revolutions broke out not just in Russia (1917) but in Germany and elsewhere. Western governments wouldn't let this happen again at the end of World War Two. Across mainland Europe, new welfare systems were largely funded by the US Marshall Plan. This massive US aid programme was designed explicitly to stop the spread of Communism.

Table 4.1: **Welfare & warfare spending , developed countries** (% of GDP):

[table]

Sources: OECD and SIPRI

## Outsourcing

Since the 1970s, 'neoliberal'

Table 4.2:

## Main areas of welfare spending in the UK

(figures % of GDP): western governments have been trying to 'shrink' the welfare state. The new 'austerity measures' of the economic crisis are the latest move in this direction.

But in fact government welfare spending is not really shrinking. Just, more of that

Health

Old age (pensions, care) Family (child benefit, childcare, etc.) Incapacity Housing Unemployment

[table]

0.40% money is being redirected to private companies. With outsourcing, the State doesn't directly manage welfare services; instead it pays private contractors to run everything from prisons to pensions. Politicians and bureaucrats often have close links with the successful companies, such as holding well paid 'advisory' or board positions.

Some examples: private prisons (G4S); private ('PFI') hospitals; private pension managers; corporations who run benefits systems, etc. Business is booming in the 'security' and 'anti-terrorist' industry. Some companies specialise in doing government outsourcing: like the UK's Serco, which runs everything from prisoner transport to school kitchens to the Docklands Light Railway.

## Bail-outs

The important role of the State in supporting capital when times get rough becomes very clear when we look at the recent crisis ‘bailouts’. In the aftermath of the 2008 crisis, the US Government spent about \$3 trillion on ‘bailouts’ to banks and companies hit by the economic crisis. That is about 20% of US GDP.

**US Bailouts after 2008 crisis** (money spent or loaned):

AIG bailout

Economic Stimulus Act 2008

Recovery Act 2009 (2nd stimulus package) Buying up mortgage securitisation bonds Buying up government bonds

Support to car manufacturers Bear Sterns bailout

Freddie Mac and Fannie Mae bailouts Small bank takeovers

*John Maynard Keynes, caricature from 1934*

## From Keynesianism to Neoliberalism

After WW2 most capitalist economies were run along the lines of what became known as the ‘Keynesian consensus’, named after British liberal economist John Maynard Keynes. Governments regulated markets closely to keep them running smoothly. They used fiscal (i.e., tax and spending) policy to boost consumer demand. International capital flows were stabilised with a global financial architecture: the Bretton Woods system fixed currency exchange rates until 1971; institutions like the World Bank and IMF acted as global economic police. Twenty years after Keynes’ death the system seemed solid. In 1965 Time magazine ran a famous cover story with the headline ‘We are all Keynesians now’, celebrating unparalleled economic growth and confidence. The title was a misquote from Milton Friedman, professor of economics at the University of Chicago. Two editions later Time published Friedman’s letter complaining that he’d been quoted out of context. Within a decade, Keynesianism was dead and Friedman was the reigning prophet of the new, right wing, ‘neoliberal’ economics.

What happened was the end of the post-war ‘long boom’, two decades of continued growth. In 1971 the US, crippled by its debts from Vietnam, pulled the dollar out of Bretton Woods, breaking the worldwide currency system. In October 1973 the Organisation of Petroleum Exporting Countries (OPEC) quadrupled the price of oil – the first of the 70s ‘oil shocks’. Stock markets collapsed, triggering recession. Through the late 70s Keynesian policies failed to pull developed economies out of ‘stagflation’ – a combination of stagnant production and inflation. This failure opened the way for a new doctrine which fitted nicely with the interests of big business.

The handiest term is ‘neoliberalism’. Basically, it meant turning the clock back to the 1920s. The state should defend property, but not regulate or intervene too much. Markets will run smoothly if they’re left alone.

But to get back to the ideal of ‘natural’ competition, governments first have to get busy hacking away the ‘distortions’ that hurt the economy. State-run services should be privatised; financial regulations scrapped; trade unions smashed; ‘protectionism’ for third world industry scrapped and replaced with ‘free trade agreements’.

The military government of Augusto Pinochet in Chile was the first big ‘neoliberal experiment’. Friedman flew out to give advice, and the economy ministry was run by his students – the ‘Chicago Boys’. In 1979 Margaret Thatcher introduced a neoliberal programme in the UK. In 1981 ‘Reagonomics’ took power in the US. Over the next two decades neoliberal policy became the new orthodoxy – they are all neoliberals now.

## Role 4: manufacturing consent

A bit like fairies (only not so nice), capitalism and the state can only survive so long as people believe in them. Private property, markets and the rest are systems of rules and conventions which we have to learn and accept. Even the power of the state doesn't just come

'out of the barrel of a gun': even the strongest and most brutal tyrannies can topple if people stop believing in their power.

If we grow up in capitalist societies, we learn most of the rules – how money works, how to buy and sell things, and so on – as children. We learn that the State protects and defends us. We learn to love our

*Japanese School classroom in 1930* country. We learn the histories of good and great rulers (as well as of a few 'bad apples'). We learn that consumer goods make us happy, and work makes us free. (I will look more at these points in Chapter 6).

The figures on welfare spending above didn't include one thing: spending on public education. Modern industrial states spend between 5-10% of GDP on education systems. Neoliberal politicians often propose outsourcing education to private businesses. Or transferring education back to religious institutions, which often ran schools in the past. But few would propose scrapping public education altogether. Modern worker-consumers must be trained.

# Chapter 5. Crisis

## How credit crunched

It started with the US housing bubble, and those infamous ‘sub- prime’ mortgages. Between 1996 and 2006 US house prices went up 60% more than inflation. The great real estate fantasy: if you can get on the ladder, you can

***Broken Promises. Photo by John Fekner*** just sit and watch the price of your property soar away. Money for nothing. And it wasn’t hard to join in: mortgage brokers were jumping over each other to offer loans to anyone, never mind your income or credit history. Between 2000 and 2005 total US mortgage debt rose 75%. By 2007, the housing boom had created up to \$8 trillion in supposed new ‘wealth’ for US households.

The housing bubble was the biggest part of a more general phenomenon: the debt bubble. The debt bubble went hand in hand with a massive growth in financial markets, and especially the new frontiers called ‘securitisation’ and ‘derivatives’ (see Chapter 2). There were low interest rates for borrowers, and big profits for the bankers who invented new kinds of derivatives and securitisation bonds every week, and sold them to investors all over the world. US Financial assets grew from \$48bn in 1990 to \$194bn in 2007.

One of the factors behind the debt and finance bubble was low interest rates. In 2003 the main US interest rate, set by the Federal Reserve (US Central Bank) was just 1% – cheap borrowing for all. Then it started to rise again. By 2007 it was up at 6.25%. Suddenly mortgage repayments were a lot less affordable.

Mortgage borrowers, especially those classed as ‘sub-prime’ or high risk, started to default. The housing bubble burst.

Then the finance bubble burst. Northern Rock was one of the UK’s five biggest mortgage lenders. Its story is typical: it was once a traditional ‘building society’, a ‘mutual society’ theoretically owned (though not really controlled) by all its customers. Then it ‘demutualised’ in 1997 and became a PLC. It used securitisation to expand in a hurry, selling bonds backed by its incoming mortgage payments. Then it got involved in sub-prime, in a partnership with US investment bank Lehman Brothers in 2006. In August 2007 it needed to issue a new run of securitisation bonds to refinance existing debts. But now no one wanted to buy mortgage-backed bonds. The Bank of England had to step in with a £3bn loan.

It wasn’t enough to stop the UK’s first bank run in 150 years, and the government eventually took on all the bank’s debts, totalling around £100bn.

Northern Rock crashed because no one would lend more money to a firm embroiled in the collapsing mortgage market. But who wasn’t involved? Even if some banks and insurers didn’t themselves issue mortgages they bought, traded, or insured mortgage backed securities (MBS). Investment bank Bear Stearns collapsed in March 2008. Then in September 2008 they started to fall like dominoes. Investment banks Lehman Brothers, Wachovia and Merrill Lynch. AIG, the world’s largest insurance company. No one could tell who was ‘exposed’ to how much bad mortgage debt. So no one would lend to any one: the credit market had ‘crunched’.



## 400 years of bubbles

The same pattern of bubbles and busts has been repeated many times in capitalist history. Here are just a few examples.

**Tulipmania (1637).** One of the first recorded bubbles involved the Dutch tulip market, where collectors and speculators bought and sold rare tulip bulbs, even using futures contracts (early derivatives) to gamble on the rising price. Single bulbs could trade for the price of a whole farm — before the market crashed in 1637.

**South Sea Bubble 1720.** One of the first stock market bubbles. The South Sea Company was a British corporation headed by leading politicians, originally set up to trade with South America. In 1719 it made a deal to buy up half the government's debt, which it funded by issuing new shares. South Sea shares became an investment craze, and the share price rose from £128 in January 1720 to £1000 in

August. Many shares were sold on an installment plan, so that people could invest and profit from rising prices before actually having to pay for their shares.

Then installment payments came due and a wave of selling started. By September the price had crashed to £150.

*The South Sea Bubble by William Hogarth*

**Bengal Bubble 1769.** Bubble and crash in the stock of the East India Company and London stock market.

**Panic of 1796-7.** Transatlantic financial crash following collapse of a land speculation bubble in US.

There were further financial 'panics' in the US in 1818, 1837, 1857, 1869 ('Black Friday'), 1884, 1896. Banks went bankrupt, stock markets collapsed, and recessions followed. A number of these crashed were caused by fears about gold and silver shortages in the days when the money supply was tied to gold.

**Railway Bubble 1847.** Railway frenzy in the UK led to a bubble as the middle classes invested in hundreds of new railway projects, many of which never got built. The crash spread to banking and financial markets.

**The original 'great depression' 1873-1896.** An investment bubble grew in Germany and Austria after German victory in the Franco-Prussian War (1871). The Vienna stock exchange crashed in May 1873 and many banks failed. The crisis spread through Europe and to the US, leading to a 20 year world economic depression.

**Paris Bourse crash 1882.** Crash following a bubble in the stock of bank L'Union Generale.

## New York Stock Exchange crashes 1901 and 1907.

**The Wall Street Crash of 1929.** It was the 'roaring twenties'. The US economy was booming. The new middle classes came in their droves to invest in shares and high yield bonds, encouraged by investment banks like National City Bank (today's Citibank). The Dow Jones index of share prices grew by five times between 1923 and 1929, reaching 381.87 on 3 September 1929. Irving Fischer, one of the world's leading economists, predicted a 'permanently high plateau' for the market. Without warning, the market dropped 11% on 24 October ('Black Thursday'). On 28 October, ('Black Monday') it fell another 13%. Despite some periods of recovery, the market continued falling for the next four years, reaching a 20th century low of 41.22 in July 1933.

## Bubbles: investing or speculating?

It's quite common to hear bubbles and crashes being blamed on 'speculators' — today's 'hedge funds', and 'currency speculators' are attacked by politicians of all kinds. They are not 'real' or 'serious' investors, just in it for short term gain. But what is speculation, exactly?

Take tulipmania as an example. Tulips were first imported from Turkey in the 16th century, and became a prized luxury good for wealthy aristocrats and early bourgeois. The first tulip investors were in the business of growing and trading new strains of the flower to sell to these rich buyers. Economists would say, they were investing in the 'fundamentals' of the tulip business.

But when others saw the price keep rising, then new investors came in as speculators. They weren't particularly interested in the tulip business. They might as well have been buying daffodils, or turnips. So long as the price kept going up, and new investors came in to buy on their investments at a profit.

A speculative bubble is based on **confidence**. So long as you believe that new investors will keep entering the market, then you can expect to make a profit. In this way a bubble is like a pyramid selling scheme: it needs more and more buyers. But if speculators start to think that the price will fall, then they turn from buyers into sellers, trying to get out while the market is at a 'high'. Doubt can spread quickly, and the pyramid collapses.

How can you tell when a market is a bubble? In 2006 almost everyone thought the US housing market was solid. Economists developed theories to explain why the amazing housing boom was not just about speculation, but based on real 'fundamentals': people were living longer, becoming 'middle class' and demanding more space, etc. The few who doubted were considered crazy. Now the investors and bankers who developed the new mortgage finance industry are called 'speculators'. But at the time, they were 'pioneers' and 'innovators'.

## From crash to slump: how financial collapses affect the real world

### *Graffiti: A trillion Dollar bill?*

In Chapter 2 we saw how financial markets move financial capital from investors to producers. The financial markets are where key decisions are made about what gets produced. It's not just 'speculation', but all investment, that relies on confidence. In a financial crisis, investors typically flee to safety. They move to what they see as low risk assets. For example, a scared investor might sell their shares and put their money in a bank deposit account. Or in a really serious crisis, even banks don't look safe, and depositors withdraw their savings – causing a bank run.

Traditionally 'safe' assets include treasury bonds of major governments, gold, and other 'commodities' like basic foods which will still be in demand in even the toughest times. Investors will be less ready to finance companies, or only at high interest rates. Companies that cannot raise finance will reduce production, or even go bust. They try to cut costs by, e.g., sacking workers or lowering wages. Unemployment means less people can afford to buy consumer goods, which hits the economy even more.

In the 2008 credit crunch, the crisis really hit when the interbank **lending markets** dried up. This is where banks lend to each other to cover their short term needs. The banks didn't know what bad debts from sub-prime and securitisation the others were hiding, so they just stopped lending to each other. Terrified of a run of bank crashes, governments stepped in to play the role of these markets. A similar crisis hit the **commercial paper market**, where companies do short term borrowing.

## The last great depression

The Wall Street bubble had pumped money into US capitalism. After it crashed, investor confidence was shattered. Industrial production fell by 45% from 1929 to 1932. By 1933, 11,000 banks had gone bust, and unemployment went from 3% to 25%. As many as two million people were made homeless.

Economists argue about what could have stopped the situation getting so extreme. Monetarist economists (e.g., Milton Friedman) argue that the Federal Reserve should have created more money and slashed interest rates to keep bank lending going. (The Fed kept interest rates high to maintain the Gold Standard.) Keynesians argue that the government should have stepped in directly to create jobs and production. Keynesian policies were adopted in the New Deal from 1933. (See Chapter 4).

The depression spread from the US to the world. The US was a major investor in Germany, Latin America, and elsewhere. It was also the world's biggest producer and trader. In June 1930 the US passed the Smoot-Hawley Tariff Act, which set high taxes on foreign imports in order to protect American industry. This was a big blow to countries which traded with the US. Many of them retaliated with their own tariffs, hitting back at US exporters, especially farmers. World trade dropped in a new era of 'protectionism'.

## Collective action problems

Financial crises often involve 'collective action problems'. A collective action problem is a situation where a number of people or groups (e.g., states or companies) all share an interest in a particular plan or solution; but, if they all act independently and pursue their individual self-interest, they are unable to achieve that solution. That general definition is pretty abstract; but we can see how these 'problems' keep cropping up in many concrete cases.

For example, in the great depression, the best plan for many national economies would have been to keep global free trade going, so they could export their goods. But it's even better still if all the other countries keep on buying your exports, but you can stop their goods coming in to compete with your domestic products. And that's what the first protectionist countries tried to do: they put up import tariffs to protect domestic industry, while still hoping to export abroad. The problem was that everyone else then retaliated and did the same. The overall result was the worst outcome, trade death for all.

This particular type of collective action problem is also called a 'free rider problem'. Every individual (or, here, state) hopes that everyone else will follow the best plan and trade freely; but they also hope that they can get away with being the exception (get a 'free ride' off the others). The problem is that everyone thinks the same. And if you can't trust anyone else to stick to the best plan, then why should you do so yourself? The same logic recurs in many economic situations. Capitalists (or workers) often do better if they can get together in a cartel (or union) and, for example, fix a higher price (wage): but they have to be able to trust each other not to break the agreement.

Indeed, an economic crisis and recession could be seen as one big collective action problem: the capitalist 'best plan' is for everyone to keep on producing - if everyone else also produces then there will be income to pay for your company's goods. But can you rely on all the other companies to keep on going? What can give you this 'confidence'?

Outside of economics, people do manage to co-operate and make plans together in many difficult situations. Note that in these collective action problems, the parties involved only pursue their **'self-interest'**. These kinds of problems tend to be particularly rife in markets, and in general in capitalist environments where people (and organisations) have learned to act on self-interest alone. (See Chapter 6 for more on this point).

## Causes of crisis: the liberal story

In January 2009 Joseph Stiglitz, the leading left-of- centre economist, and a Nobel prize winner, listed three big mistakes behind the crisis. In March 2009 Rolling Stone Magazine published an article naming and shaming the ‘dirty dozen’, 12 ‘bankers and brokers responsible for the financial crisis – and the regulators who let them get away from it.’

**Alan Greenspan**, former head of the US Federal Reserve (‘Fed’, or central bank) was top of both lists. Greenspan was given the job by Reagan in 1987. He then followed two main policy ideas: cut away regulation from the financial markets; and use

*Alan Greenspan* interest rates and the money supply to keep the economy booming.

Financial deregulation can’t really all be blamed on Greenspan. The Garn–St. Germain act of 1982 started deregulation of the mortgage business, and led to the collapse of the traditional ‘Savings and Loan’ lenders. In 1999 President Clinton signed the Gramm-Leach Act, repealing the 1933 laws against banking practices which had helped cause the Great Depression.

In 1998, after the spectacular collapse of derivative-trading hedge fund Long Term Capital Management (LTCM), there were proposals for regulation of the new derivatives markets. These proposals were just dropped. Proposals to regulate the Ratings Agencies were also dropped. In 2002, after the Enron and WorldCom accounting scandals, the response was the weak Sarbanes-Oxley act. In 2004 regulation was changed to let US banks get into debt worth 30 times, instead of 12 times, what they held in capital.

Deregulation was not just a US idea. Governments all over the world now agreed that the old rules were ‘out-dated’ and banks could be trusted to ‘self-regulate’. The UK was at the forefront, as the Labour government promoted the City of London as a ‘financial hub’ for Europe, where investment banks could operate free of ‘red tape’.

Liberals like Stiglitz accuse Greenspan of deliberately inflating the housing bubble. In 1997 the Asian Crisis, a panic in financial markets in ‘developing countries’, hit trade in the US and caused a recession. Luckily the US economy was saved by the ‘dot com bubble’: investment surged instead into a new craze, technology companies. Then that bubble burst in 2000. Would the US finally hit crisis? To stop a downturn the Fed cut interest rates. And kept cutting down to a low of 1% by 2003. This helped create a new bubble, consumer debt, as consumers borrowed more and more at cheap rates.

The two ingredients (deregulation and low interest rates) worked together. Abolishing the controls on banks allowed the development of a whole new ‘shadow banking’ industry (See Chapter 2). Securitisation and derivatives allowed financiers to massively expand consumer lending in a hurry, without worrying about deposits or other safeguards. Whilst low interest rates meant millions of new customers could get in on the mortgage party. They also encouraged investors to chase more and more risky financial ‘products’: as the rates on ‘safe’ assets were now also low, they needed to take higher risks to get their profits.

According to the mainstream story, the crisis was the fault of greedy politicians and bankers, who forgot the lessons of the past and embraced neoliberal faith in the market. In particular, a few powerful men made bad decisions, like abolishing regulations or cutting interest rates, which ruined the whole system. Alan Greenspan is the arch super-villain. Longer lists could include top politicians like Reagan, Clinton, Blair and Brown, and a range of other evil bankers.

## Causes of crisis: looking deeper

Financial deregulation certainly played a big part in creating the crisis. But there is lots more to the story.

There are many theories about deeper causes of the crisis (see further reading for a few). Here is one story that I think makes a lot of sense: ‘financialisation’ and the debt bubble in rich countries is

part of something much bigger, a global shift of power and production to parts of the old ‘third world’. This crisis is part of the death pangs of the old US/Europe hegemony.

**1) A global shift.** We saw in Chapter 3 how manufacturing industry has been moving from rich countries like Europe and the US to the ‘Third World’, especially Asia. That means: more and more of the stuff, from food to cars and gadgets, people consume in the ‘West’ is produced far away in poor countries. Wages are much cheaper in the Third World: it is more profitable for capitalists to open, or invest in, factories in low-wage countries.

**2) Financial hubs.** As manufacturing leaves rich countries, what keeps economies afloat in Europe and North America? The wealth in London or New York now does not come from manufacturing, but from profits on financial transactions. The US and UK are prime examples, but most ‘First World’ countries have been following the same pattern. This is called ‘financialisation’: the shift of capital into financial services. Or: bankers using the financial markets to cream profits off global movements of capital.

**3) Service work.** Obviously, not everyone in London and New York is making money off finance. But, until 2007, these rich economies seemed to be getting ever richer. Some of the money from finance spilled over into ‘service industries’: investment bankers need builders and estate agents to upsize their property, ‘baristas’ to make their cappuccinos, dog-walkers, pedicurists, au pairs, lap-dancers, and migrant office cleaners.

**4) Wages cut, debt explodes.** But while profits and bonuses in finance grew, wages in the ‘First World’ have stayed fixed for most people, or even gone down. In many European countries, unemployment, particularly amongst the young, is chronic. So how have people survived, and even kept on feeling ‘affluent’, part of a non-stop consumer culture? By borrowing.

**5) Consumer debt boom.** So a number of factors contributed to the growth of a massive debt bubble in the ‘rich’ countries. Stagnant wages meant people needed to borrow to maintain their lifestyles. A shift into financial capital meant banks pushed debt as a new growth industry. Meanwhile, all this cheap credit was made possible by vendor financing from Asia. Capitalists in China invested their profits in financial markets in the West, funding sub-prime mortgages and consumer loans in the US and Europe, which helped them keep the markets going for their products.

**6) End of the party?** So far, globalisation means that workers in the Third World make nearly everything, and a global middle class in the rich countries borrows the money to keep on consuming. How long can this go on? There are two big questions. First: how long will industrialists around the world keep on letting bankers in the West cream off big profits from their products? Will new financial markets develop that that bypass London and New York?

And, the even bigger question: how long will Asian investors keep on lending to support consumer lifestyles in the West? At the moment, they do this because Asian manufacturers still need customers in the west. With massive poverty and inequality, and not much of a middle class to buy the factory-produced goods, local consumer demand is not big enough to keep their profits rolling. But this credit boom is ending.

The economic crisis in the west is not just about a few bad bankers. It is about a fundamental shift in power and production. And it is only just beginning.

## Part Two: the European sovereign crisis

In late 2009 a new wave of financial crisis began. This time it started with the market for European ‘sovereign’ or government bonds.

The first target was Greece. On 14th January, 2009 the rating agency Standard

& Poors cuts Greece’s credit rating from A to A-. The company said it was worried about Greece’s ability to repay its rising national debt in the recession. The day after S&P’s announcement, the yield on Greek ten year bonds went up to 5.43%. (See Chapter 2 on how bonds and rating agencies work.)

This was just the beginning. On 16th December S&P downgraded Greece again, to 'BBB+'. On 21 January 2010 Greece's 10 year bond yield was 6.248%, its highest since entering the Euro in 1999. On 2 February 2010 the Greek government announced a new 'austerity package' to cut government spending and the debt. But the markets weren't listening. Investors kept selling Greek bonds.

## Bonds and deficits

Most governments, like most companies, are continually in debt. Each year they take out new debts to pay back the old ones. This is called 'refinancing' the debt. The main way governments borrow is on the sovereign bond market. Bond yields are the return investors get on existing bonds if they buy them off other investors. So why does a borrower worry about what happens to yields on its old debts?

One reason is that the interest rate it has to pay on new bonds is usually set by the yield on existing bonds. So if yields go up, the borrower will have to pay more to refinance. The government may try to put off refinancing and hope the markets calm down – but sooner or later it will run out of money and have to come back to the markets to borrow more.

There are some other reasons that might also be important. One is that if bond yields go up a lot, this may trigger 'credit events' in Credit Default Swap (CDS) derivatives which insure its bonds. The banks who write the CDS contracts may have to pay out a lot of money. Also, banks and funds who hold existing sovereign bonds will see the value of these going down, and worry about the safety of their investments. Strictly speaking, these last two reasons are problems for the investors, not the borrower. But big investors tend to have a lot of influence over governments.

## More pain, no gain

In May 2010 the European Union agreed the first 'rescue package' for Greece, after two months of negotiations. The '**Troika**' of the European Commission, European Central Bank and IMF agreed to lend Greece Eu110bn. The Greek government promised to implement Eu30bn more in austerity measures: cuts and privatisations. The loan would be handed over in installments, so long as the Greek state played ball.

But now Greece wasn't the only problem. The crisis spread to other countries on the 'periphery' of Europe, sometimes called the 'PIIGS' (Portugal, Ireland, Italy, Greece and Spain). The same pattern: investor flight from government bonds sent yields up, as rating agencies, economists, journalists and politicians spread fear about governments' ability to repay their existing debts. And then 'rescue packages' from the Troika, on condition of harsh austerity cuts. The EU sets up a centralised bail-out fund called the 'European Stability Financial Facility' (ESFF), with capital initially of Eu440bn.

But, as almost everyone predicted, the 'rescue packages' don't work, the market panic only deepens. In June 2010, Greek bond yields were above 10%. By the end of 2011, after yet more bail-outs and austerity measures, they were over 30%. Ireland had been bailed-out, Italy and Spain downgraded, and 'austerity' cuts imposed all over Europe – even in countries like the UK which weren't in trouble with the markets.

## Nationalising the collapse

Why were the markets panicking about sovereign bonds? On the face of it, investors are worried about government debt. As we saw in Chapter 2, bond yields reflect risk: where investors believe there is a higher risk of not getting repaid, they want a higher yield in return.

Why are government debts so high? According to the neoliberal politicians, and much of the media, the ‘PIIGS’ were guilty of reckless spending, with governments supporting an affluent lifestyle for civil servants, pensioners, and others living off the state.

The truth is that European governments got into heavy debt because they bailed out the banks in 2008.

In 2007, the average government deficit (how much the state spends more than it receives in taxes) was 0.6% across the Euro countries. Governments owed on average 66% of their GDP. In 2010 the average deficit was 7%, and average debt 84%. The table below shows some of the changes in specific countries:

<b>Deficit</b>
<b>Debt</b>
<b>Deficit</b>
<b>Debt</b>
<b>in 2007</b>
<b>in 2007</b>
<b>in 2009</b>
<b>in 2009</b>
Spain
1.90%
36.1
-11.1
53.2
Ireland
0
25
-14.4
65.5
Italy
-1.5
103.5
-5.3
115.8
Greece
-6.4
105
-15.4
126.8
Germany
0.3
64.8
-3
73.5
France
-2.7
63.8
-7.5
78.1

Basically, governments had ‘nationalised’ the bad debts of the banks. Spain and Ireland are two of the most dramatic cases. Both had some of the lowest national debts in Europe before the crisis.

But also some of the biggest property bubbles. When housing markets crashed in 2008, banks in both countries were set to topple en masse.

In September 2008 the Irish state gave an unlimited guarantee to six big banks: it would cover all their losses. In 2009 it set up the 'National Asset Management Authority' (NAMA), which took over Eu77bn in bad debts from the banks. By September 2010 the government had spent around 32% of the country's GDP on bailing out the banks. (This accounts for all of the rise in government debt shown in the table above.) In November 2010 Ireland took out a Eu85bn austerity-linked 'rescue package' from the EU and IMF.

In Spain, the government set up a Eu99bn fund to support the banks in June 2009. The big banks survive the crisis, but many local 'cajas' (savings banks) are shut down or bailed out.

Only Greece and Italy had big debt problems before the banking crisis. Greece's financial problems are not new; it has had a public debt over 100% since long before it joined the Euro in 2001.

## Whose bail-out?

Why did the 'Troika' step in to 'bail out' the Greek state? What would have happened if Greece had defaulted on its debts in 2010? It would, indeed, have caused a major crisis for the Euro. But also a more direct crisis for many major European banks and corporations – especially in France and Greece.

The table below shows who held Greek bonds in September 2009 (as estimated by Barclays Capital analysts). Greece had a total of \$390bn in debt. Over three quarters of that was lent by governments and private capital from outside Greece.

Table 5.2: **Who held Green Bonds?** (Sept 2009)

### **Company Investment**

#### **'nationality' Banks Insurers funds**

Greece \$55bn - \$38bn

France \$24bn \$26bn \$4bn Germany \$25bn \$8bn \$3bn Italy \$7bn \$11bn \$8bn Belgium \$9bn \$3bn \$7bn Netherlands \$8bn - \$12bn

UK \$11bn - \$1bn

**Source:** Barclays Capital Research /

By late 2011 the make-up of investors in Greece had changed substantially. The big international banks had sold most of their Greek bonds: the buyers were governments and, especially, the European Central Bank. According to figures from the Bank for International Settlements, German and French banks now owned just Eu2bn each in Greek debt.

With the first Greek bailout package of May 2010, the Troika made sure that there was no default or 'haircut' on bonds. (A 'haircut' is where bond investors agree to sell their bonds back at a percentage of the value: that is, take a loss on the debt.)

In October 2011 the Troika arranged a second Eu130bn 'rescue package' for Greece. This time investors would take a hit, losing up to 50% of the value of their investments. But by now the big banks were mostly safe out of Greece.

## Whose crisis? 'Debtocracy' and social war

When the credit crunch hit in 2008, there was some talk in the media of a 'Keynesian resurgence'. Neoliberal economics seemed discredited. Left-wingers hoped governments would use their power over the bailed out banks to return to the postwar 'social compromise'.

Instead, quite the opposite happened. The current crisis has cemented the power of finance capital. Politicians of all parties have prioritised the demands of bankers, and taken neoliberalism to a new



extreme with further privatisation programmes. In a classic use of ‘shock tactics’ (see Chapter 4), austerity is presented as the ‘only possible solution’ to crisis.

By cutting jobs and incomes, austerity throws economies even harder into depression, accelerating the economic collapse of the ‘developed world’. But financial capital, and all those who invest in it, do well, and that’s what matters.

In fact, what we have seen in this crisis so far is that most of the elite are not really interested at all in getting national economies back to growth. Rather, many capitalists and politicians take advantage of the crisis as a profit opportunity for their own or their friends’ businesses, even if it hurts the economy ‘as a whole’ or ‘in the long run’. By pushing demand down even further, austerity is the last thing that will ‘solve’ the crisis. But it will bring lots of profit opportunities: wage cuts, even more deregulation, and plenty of privatised state assets to snap up cheap.

## Technocrats and Populists

In November 2011 the Greek government fell in a political crisis around the second Troika ‘rescue’ and austerity package. A government of ‘national unity’, of parties from the Socialists to the Far Right, appointed Lucas Papademos as ‘technocrat’ prime minister. Papademos is an economist, former governor of the Greek central bank and vice-president of the ECB. A few days later Italy’s prime minister Berlusconi resigned, and was replaced by another unelected ‘technocrat’, Mario Monti. As well as being an economics professor, Monti was also an ‘international advisor’ to investment bank Goldman Sachs. These ‘unity’ governments shared a clear agenda: to enforce austerity packages.

In January 2015 all this seemed to be changing. The left-wing party Syriza, in coalition with a right wing nationalist party, won the Greek general election promising to break with austerity politics and take a radical new path in negotiations with the Troika. In Spain, the similar left party Podemos took at least a temporary lead in the polls in early 2015, ahead of a November election. Both are new political forces that have grown rapidly post crisis, building popular bases drawing on anti-austerity social movements, with charismatic media-savvy intellectuals at the top.

Within three months of victory, Syriza had already broken many of its anti- austerity promises and ‘red lines’, announcing that it would continue to see through major cuts and privatisations. Basically, it was offering ‘austerity lite’, a slightly softer version of the neoliberal consensus. In the world of globalised capitalism, all a single country like Greece, facing massive capital flight and depression, can do is negotiate a few more crumbs.

In any case, Syriza’s high-profile finance minister Varoufakis was clear on how he saw his role. The Left is too weak to offer any alternative to capitalism. The only other possibility is a fascist ‘bloodbath’. The one role left for leftists is to pitch in and help ‘stabilise European capitalism’ from its own worst excesses.

## Crashes to come

If this analysis of the crisis is right, then none of the deeper causes of the 2007- 2008 crash have gone away. Governments have propped up and bailed out finance capital, taking on its debts. The central banks have restarted the markets by holding interest rates at zero or below. None of this addresses the major global imbalances in production and consumption. It just pumps up new bubbles, which will also burst sooner or later.

Perhaps the most obvious risk is that the massive debt levels that led to the credit crunch have, within a very short time, returned and grown even further. To quote from recent research by McKinsey Global:

‘One reasonable expectation in the years following the crisis and the ensuing global recession was that actors across the economy would reduce their debts and deleverage. However, rather than declining, global debt has continued to increase. Total global debt rose by \$57 trillion from the end of 2007 to the second quarter of 2014, reaching \$199 trillion, or 286 percent of global GDP.’ (p15).

One third of this extra debt comes from increased public sector borrowing in rich countries, as both bail-outs and tax cuts roll on. Another big factor is a rise in debt in developing economies: especially, China’s total debt has quadrupled since 2007, and is now \$28 trillion or 282% of GDP.

China’s new debt economy probably will not lead to a new debt crisis, as the state there has ample resources to smooth over debt market volatility. More immediate risks, according to McKinsey’s figures, are less powerful economies that have now racked up mortgage and other consumer debt levels even higher than those of the main countries hit in 2007-8. The next debt crashes might hit in the Netherlands, South Korea, Canada, Sweden, Australia, Malaysia or Thailand. Or maybe the next wave of crises will come from a different, unexpected, source altogether.

## Chapter 6: Capitalism as a culture

Over the last five chapters we have looked at some key features of capitalist economic systems, including: markets; commodification and enclosure; private property; the role of the state; the profit motive; work. We have also touched on the very idea of an economic system, of a separate realm of human life called ‘the economy’.

Those of us who were brought up in capitalism often take these structures for granted. We are so used to buying and selling, owning or wanting to own property, working for a boss, dealing with police and states, that it can feel like these things were always there and always will be, and we can hardly imagine a life without them.

Imagine that, by some miracle, we woke up tomorrow morning and all the banks, police, armies, landlords, bosses, politicians, law courts, property deeds had disappeared. What would happen next?

My guess is that in a few weeks, months, or years people would have recreated something very similar to the current system. This is the tragic story of every ‘successful’ revolution of modern times. We are so trained and habituated in the values and practices of capitalism that we reproduce them all the time, even when no one is forcing us to do so.

To understand capitalism, and how it can be destroyed, we need to understand how this happens.

### Capitalist myth 1: the eternal market

Capitalism – or its thinkers, teachers and propagandists – makes an effort to stop us understanding. Basically the whole discipline of economics, along with much of history, philosophy, sociology, psychology and more, is dedicated to reinforcing the myth that the central features of capitalism, from the market to the profit motive to the state, are timeless facts of human nature.

Adam Smith is the godfather of the myth of the natural and eternal market. According to Smith, prehistoric ‘tribe[s] of hunters or shepherds’ were run on a basic form of barter economy: ‘a particular person makes bows and arrows, for example, with more readiness and dexterity than any other. He frequently exchanges them for cattle or for venison with his companions ...’ (Wealth of Nations I.2.2). The invention of money made markets more efficient and powerful, but the basic set-up of commodities, private property and trade was always there.

Smith, of course, had never been anywhere near a tribe of shepherds or hunters in his life. When European anthropologists started to actually study the ‘economic systems’ of hunter gatherers and other small-scale cultures in the early 20th century, even through all their prejudice and preconceptions, it was obvious that the myth of barter was plain false.

An important early summary of this research was made by Karl Polanyi in his 1944 book *The Great Transformation*, building on the work of anthropologists like Bronislaw Malinowski and Marcel Mauss. About Smith’s story of barter, Polanyi writes: ‘In retrospect it can be said that no misreading of the past ever proved more prophetic of the future’ (45). The reality is that:

*‘previously to our time, no economy has ever existed that, even in principle, was controlled by markets. [...] gain and profit made on exchange never before played an important part in human economy. Though the institution of the market was fairly common since the later stone age, its role was no more than incidental to economic life.’ (45)*

Polanyi listed three main kinds of pre-capitalist distribution:

- Reciprocal gift-giving, famously studied by Mauss, where items are passed on as gifts between individuals or groups.
- ‘Redistribution’ of wealth by leaders or other wealthy individuals, for example by holding ‘potlatch’ feasts.
- And, most common of all: everyday sharing within groups.

[image]

These three kinds of ‘economic’ practice would often co-exist in a culture, with each one being used for specific kinds of items and situations: for example, especially valued or ritual items might be passed on as gifts; basics like foods would typically be shared within groups.

Although trade happened, it was confined to very limited situations. Typically, only with distant strangers, people from other tribes living far away. It might be limited by strict rules and customs; for example, it could be seen as immoral to trade with neighbours, or to trade essentials like food.

The history of capitalism is, in part, the history of how markets have become increasingly central to more and more parts of our lives. But this is a historical development, and a line of struggle, not an inevitable fact of nature.

## Three kinds of relationships

Contemporary anthropologist David Graeber’s mammoth book *Debt* is helpful for further reading on economic anthropology. Close to Polanyi’s approach, Graeber also gives a useful schema of three distinct kinds of economic and, more generally, social relationships. He calls them: hierarchy; exchange; and communism – or, in Kropotkin’s term, ‘**mutual aid**’.

In **exchange relations**, people swap goods by calculating ‘equivalences’ (i.e., equal values). If I give you x, sooner or later you should give me y, which is worth the same. It shouldn’t matter, in a market, who you are, or what our relationship is, just what you’ve got to trade. (Although in reality, the situation is rarely so ‘ideal’.)

In **hierarchical relations**, on the other hand, the way we relate to each other is all about who we are, our status. Kings and subjects, or teachers and pupils, or judges and accused, or parents and children, don’t exchange goods as equals: they give ‘tributes’ or ‘favours’, make judgements, pay respects, etc. Ongoing relations involve patronage, support, loyalty.

In **mutual aid**, we give to each other when we need help, without expecting anything in return. As the old tag goes: ‘from each according to their ability, to each according to their need.’

Graeber argues that cultures all over the world have always had a mixture of these different kinds of relations. ‘We are all communists with our closest friends, and feudal lords when dealing with small children. It is very hard to imagine a society where people wouldn’t be both’ (p114).

## Capitalist myths 2: the passion of interest

Another big capitalist myth was pushed by Smith’s friend and mentor David Hume, amongst others. Like many other 18th century philosophers, Hume made a catalogue of the ‘passions’ or motivating forces of human life in his *Treatise of Human Nature*. He then concluded that just one basic passion is the key driving force of human history. This is the ‘passion of interest’, also called ‘avidity’, or the desire to accumulate economic goods: ‘This avidity alone, of acquiring goods and possessions for ourselves and our nearest friends, is insatiable, perpetual, universal ...’ (*Treatise* p491).

What Hume was doing here, just like Smith, was to take the capitalist values and institutions he championed himself and project them (or ‘retro-ject’ them backwards) onto all human beings throughout time. In the 18th century these writers’ theories were wild and strange. 250 years later, after being

repeated and elaborated in millions of textbooks, newspapers and classrooms, they have become mainstream ‘common sense’.

As with markets, the point is not that pre-capitalist people never lusted for money and stuff, but that the desire for gain was never before put right at the heart of a culture: it was ‘incidental’, playing a limited role. This is the question Max Weber studies in *The Protestant Ethic* and the *Spirit of Capitalism*: how did a culture develop in which

‘acquisition as the ultimate purpose of life’ (18), an idea that is ‘foreign to all peoples not under capitalistic influence’ (ibid), become something to celebrate, rather than some weird and dangerous disease?

As well as Weber’s famous book, which looks at the role of protestant religion, Albert Hirschman’s history of *The Passions and the Interests* is useful here. In medieval Christian Europe, the aristocratic elites lived off looting, cattle rustling, and extortion of the peasants who worked the land. There were small classes of bankers and merchants who profited from markets, but they were allowed only limited power as markets were strictly controlled.

### *The sin of avarice, as represented*

#### *on Lincoln Cathedral*

Disdain for the market was built into the values of official ideology: the Catholic church condemned the desire for money and possessions as the sin of ‘avarice’. According to Saint Augustine, avarice was one of three main sinful lusts, the other two being the lusts for power and sex. Although some medieval writers did openly celebrate the aristocratic pursuit of ‘honour’ and glory’, the bourgeois vice of avarice was roundly treated with contempt.

The idea of ‘interest’ – as in ‘national interest’, ‘self interest’, ‘class interest’, or ‘your best interest’ – comes together with the rise of capitalism. At first, for renaissance writers like Machiavelli, it meant the interest not of individuals but of rulers of states. Machiavelli, in *The Prince*, advised rulers to be calm and calculating rather than swayed by momentary passions. The early ‘mercantilist’ school of economics studied how princes could modernise their government to out-compete other states and amass national wealth.

Then in early capitalist thought, for the first time, economic self-interest becomes something good. It was praised as a ‘calm passion’: if people focus on accumulating wealth they make calculated long term decisions, and they become predictable, stable, governable. For Hume and Smith, self-interest has positive consequences for society. By pursuing gain, individuals create wealth and prosperity that spreads. And channelling peoples’ energy into the pursuit of profit diverts them from more dangerous and violent lusts.

By the nineteenth century, interest was no longer just one ‘passion’, it was a fundamental assumption about human nature. Utilitarian philosophers like Bentham and Mill now saw people’s desires and pleasures as things to be calmly added up like a list of assets: calculating the ‘greatest happiness for the greatest number’. In fact, the idea of interest had become so powerful that even many anti-capitalists, such as Marx, now also saw everything in terms of economic interest.

## Capitalism as a culture

Capitalism’s mythology tells us that markets, property, commodities, the pursuit of profit and self-interest, and other basic features of its economic system are eternal facts of human nature. In more or less developed forms, they have always been there, and they always will be. The point to stress is that, on the contrary, these are not necessary but **contingent** features of our current world. I.e.: things could be different.

To highlight this point I find it useful to call capitalism a **culture**. I use the term culture more or less in the sense of Raymond Williams, the godfather of ‘British cultural studies’. On his definition, a culture is ‘a particular way of life’ of a group of people (1976:90) existing in a particular time and place.

A group’s culture or way of life includes:

- **Interpretations or ‘maps of meaning’:** ways in which people in a group understand the world around them, shared beliefs and meanings.

- **Values:** ways in which they value the world, judge things or actions as good or bad, right or wrong, etc.

- **Desires:** common desires and goals.

- **Practices:** common habits, behaviours, techniques, rules, norms and other patterns of activity.

So, in today’s consumer capitalist society we learn to see the world as made up of commodities, objects which can be owned as property and bought and sold in markets. We learn to value property rights, a comfortable life,

*Symbiosis: the classic, possibly imaginary, symbiotic relationship between Nile crocodiles and certain small birds.*

</center> respect for the law. We learn to desire making money, accumulating consumer goods, climbing the status ladder. We learn everyday practices and habits like getting up for work in the morning, exchanging money for food and shelter, or watching ducks in the park and dreaming about our holidays.

## Ideas of Culture

According to Raymond Williams, ‘Culture is one of the two or three most complicated words in the English language.’ (Williams 1976:89). The word ‘culture’ has been used in many ways, for many purposes. Williams looked at the history of three main ones:

‘Culture’ comes from the Latin verb *colere*, meaning to grow or cultivate. In the sixteenth century, culture meant the ‘tending of crops or animals’. We still have this sense when we talk about ‘agriculture’, or bacterial cultures grown by scientists in petri dishes.

Later, with the Romantic movements of the later 17th and early 18th centuries, this idea of culture was applied to human life. The basic idea is that, like different bacterial cultures, human societies have developed many different ways of life. The study of culture is the study of their particularities and differences, as well as what they share.

In the nineteenth century European intellectuals started to use ‘culture’ in a narrower sense, to mean superior ‘civilisation’ or ‘high culture’. A classic case is the British Victorian poet and critic Matthew Arnold, who saw culture as ‘the best which has been thought and said in the world’. Culture now meant a separate domain or sphere of literature and ‘the arts’, as opposed to the more mundane domains of politics or economy.

Here, like Williams, I am working with the second of these senses.

## Culture assemblages and forms of life

Of course, talking about ‘capitalist culture’ involves some big simplifications. It would be more accurate to say: there are many capitalist cultures. First, as I have stressed at various points in this book, there are many capitalisms, taking very different forms in different times and places. Even in today’s globalised world, there is still not one uniform ‘capitalist culture’, but many different ways of living, some more similar than others.

And of course, even in one place and time in a capitalist system, people certainly don’t share all the same values, desires, and practices. People have their own individual views and ways of life. But also,

people may share ways of life depending on what groups and roles they are put in ‘within’ a culture. For example, bankers and bosses in a capitalist economy have different values and practices to their debtors and workers. In non-capitalist cultures, too, people are assigned to different genders, age-groups, castes, etc., which may have very different ways of life.

To get more precise, I am going to introduce two philosophical ideas: the idea of a **form of life**, and the idea of an **assemblage**.

I use the term **form of life** to mean a broad collection of recurring and interlocking values, desires, practices, projects, norms, scripts, etc. This concept comes originally from the philosopher Ludwig Wittgenstein, who used it to understand how a linguistic interaction – e.g., a conversation, or a sentence – only makes sense against a rich background of shared understanding and practice. An individual can have their own forms of life, but many are also shared by groups. For example, a group of workers in a workplace may share a form of life: some skills and habits for doing the job, some desires and frustrations, some jokes and banter routines, some tricks for outwitting the boss, etc.

An **assemblage** is any collection of different bodies or groups, which are tied together in more or less stable relationships, but still also have their own identities. This is a concept from the philosophy of Deleuze and Guattari, and recently elaborated by Manuel de Landa.

An example from biology is a symbiotic relationship between organisms: e.g., human beings have billions of bacteria in our stomachs that live off the products of our digestive systems, and which we couldn’t live without. The bacteria and the humans are different organisms with our own life cycles and identities, but we are

[image]

*”The struggle against the system that surrounds us is not more important than the struggle against the system that we have internalised.”* interdependent on each other, locked together. In this case, the relationship benefits both parties. Other assemblages, though, are parasitic or one-way: the tic needs to feed off your blood, but you don’t need the tic.

Combining these two ideas, I will say that a culture – or more exactly, a **culture-assemblage** – is an assemblage of different individuals and groups which have different forms of life of their own, but are interconnected and interdependent in many ways.

For example, in a workplace, the workers have particular forms of life; the managers also have their own different forms of life. But the different groups are bound together in a relationship that lasts over time, and their forms of life are shaped by each other.

Capitalism through its history has involved many groupings, with many cultures and sub-cultures, tied together in ‘symbiotic’ and ‘parasitic’ relationships. Bourgeois entrepreneurs and industrial proletarians, but also colonial adventurers, robber barons and investment bankers and pension fund managers, PR gurus, politicians, trade union bosses, career bureaucrats and soldiers, idle super-rich, cops, students, housewives, peasants, consumers, vagabonds and slum-dwellers and the unemployed, slaves and indentured labourers, etc. These and many more groupings and roles interact in multiple economic and non-economic relationships. They share some values, desires and practices. In other respects their forms of life are very different. I use the term ‘capitalist culture’ as a shorthand: really what we are talking about is a complex culture assemblage.

## Incorporating cultures

A culture is an assemblage of forms of life, at least some of which are **shared**. A group of people who have a culture all share at least some similar ways of interpreting, valuing, desiring and acting. But individual human beings are not born with capitalist values and practices. They have to learn them. We are educated, trained, shaped into cultures. This training begins in early childhood, but goes on throughout our lives. How does this happen?

One idea I find useful here is **incorporation**. This concept comes from the philosopher Friedrich Nietzsche. To incorporate something means to take it from the world around you, and then make it part of your own body. For example, when we eat we take in nutrients from food, and some of these are transformed into the cells that make up our own bodies. Similarly, when we are educated into a culture we pick up ideas, beliefs, values, practices, from other people around us, but then they become ‘our own’. Some of these are dug in very deep, becoming emotional, unconscious, instinctive and unthinking, ‘physical’ reflexes and ‘gut feelings’. Here I will just note very briefly a few ideas about how these education and incorporation processes work.

**Incorporation 1. Mimesis** Human beings seem to have a strong, and largely unconscious, tendency to imitate each other, and particularly people they identify as ‘role models’, or as members of their communities or peer groups. Some philosophers and psychologists use the ancient Greek philosophical term *mimesis* for this phenomenon.

Recent psychological research shows how children start to imitate people near them even a few hours after birth, beginning with facial expressions. At a few months old, babies copy and repeat patterns of action they are shown, like moving toys around in a particular sequence.

#### *Unconscious mimesis?*

‘Mimesis’ or embodied unconscious imitation seems to be a very early and powerful way that we start to incorporate the values, desires, and actions of people near us. Although there are even earlier ‘transmission mechanisms’: e.g., mammals start to develop ‘tastes’ for food even in the womb, absorbing food traces from our mothers.

Mimesis certainly doesn’t stop in childhood. All our lives we have this tendency to, largely unconsciously, imitate and shape our behaviour to ‘fit’ with others around us. This is part of what Nietzsche called the ‘herd instinct’.

Contemporary psychologists talk about ‘chameleon effects’ and sub-conscious ‘priming’.

## **Incorporation 2. Performativity**

One basic way that people learn and incorporate actions, and values and desires that go with them, is by repeatedly practising or performing them. When you learn a new sport, language, song, or other skill, at first the sounds and movements seem strange, alien and unnatural. Over time, as you rehearse and repeat, they may become unconscious and instinctive, they start to feel ‘natural’.

Again, philosophers right back to Aristotle observed how we pick up not just actions and skills, but also values and desires, through repeated performance.

The sixteenth century French moralist Blaise Pascal gave a famous example: the way to acquire faith in God is to pray every day, go through the motions of belief until it becomes ‘real’. Recent radical writers have studied these kinds of processes in terms of the incorporation of social roles and attitudes of gender, race, or class. The feminist theorist Judith Butler writes about ‘performativity’: gender identities we are taught to see as ‘natural’ or ‘essential’ are in fact ‘produced as an effect of ... performance’ (ibid:218).

Recent developmental psychology can also help here. Katherine Nelson, and colleagues, has studied how small children learn ‘scripts’, or repeated patterns of social interaction. For example, there might be scripts for ‘bedtime’ or ‘dinnertime’ or ‘going to the park’. As in theatre, a script can include a typical sequence of actions or scenes: e.g., first you wash your hands, then you sit in the chair, then you get food. And it can feature a number of characters or roles: mummy, baby, etc. Built into it are expectations of what comes next, desires and emotions about what is happening, and values including ‘right’ and ‘wrong’ actions and responses.

Nelson and other child psychologists think that basic structures of early human memory favour learning about the world in terms of scripts. Infants have little memory for particular objects or for one-off events, but have a strong memory for repeated sequences.



Small children also seem to learn scripts by ‘rehearsing’ them, as in play. In play children can try out different roles and sequences, repeat and vary rules and patterns, and perform new scripts they see in the social worlds around them.

Like mimesis, script-learning is not something that stops when we grow up. We may first learn many scripts and roles like mummies and daddies, or masters and servants, or market scripts, in early childhood. But we keep practising, refining and performing these little dramas all our lives.

### Incorporation 3. Norms

[image]

*Children playing house in Tule Lake internment camp for Japanese-Americans, 1943.*

Norms are practices – and also interpretations, values, desires, or even whole scripts combining a number of these – that people in a group feel to be normal or expected, and to be ‘right’. Very often, norms are supported by sanctions or punishments: if you go against a norm, you are likely to be punished in some way, whether this just means a ‘bad look’, or a serious physical attack. On the other hand, following a norm can bring acceptance and approval.

Some writers, following Weber, say that norms are unofficial rules, often unwritten, and enforced by neighbours or informal groups; as opposed to ‘laws’, which are more formal rules enforced by the state or other ‘specialist’ agents. I won’t make that distinction here: official laws can also work as norms, if they are accepted as normal and right.

But certainly many norms are implicit, rarely put into words, perhaps even entirely unconscious. Many developmental psychologists think that children begin learning and using norms before they can speak. Some primatologists think that groups of chimpanzees and other apes also use norms. As Nietzsche put it, we learn ‘moral feelings’, to sense and judge right and wrong emotionally and unconsciously, long before we develop rationalised ‘moral concepts’. We add in conscious justifications of our gut-level judgements of right and wrong ‘only later in life’, as ‘a matter of decency’ (Dawn 34).

For Nietzsche, normativity is another aspect of the ‘herd instinct’, a deeply innate feature of human life, as we have evolved to cling together in groups seeking approval and belonging. Contemporary psychologists tend to agree. Even if this is true, it’s also true that this ‘herd’ tendency can be made stronger or looser, reinforced or resisted. The traditional way of training people into a group’s norms is with humiliation and violence for norm-breakers, and rewards of status for conformity. Early training, with sanctions and rewards, builds up strong emotional associations of fear, shame and comfort that are very hard to break in later life.

It can be useful to bring together the ideas of norms and scripts. We copy and incorporate scripts. At the same time, we also learn that some scripts are normal and correct, and start to fear or hate any deviations from these scripts. Note also that a script can feature a number of people in

*Electroshock therapy, for curing of abnormal minds* different roles. For example, think of a script for an encounter between men and women, or bosses and workers. The norms, what you are supposed to do in these situations – and want, and value, and expect, and how you are supposed to interpret the world, etc. – will be different depending on how you are identified, what role you are expected to play.

### Incorporation 4. Subjects

The process mentioned above – mimesis, performativity, and normativity – all begin in early childhood. They can all work largely unconsciously, whether or not we are aware of what is happening. Conscious awareness – and particularly self-consciousness, in which we see ourselves as individuals with

a continuing identity, a past and a future – seems to develop only when we're a few years old, and is often connected to learning to use language.

Once humans develop self-consciousness, a new kind of educating can get to work. Human beings become 'subjects' (to use the traditional philosophical term) who can reflect on themselves and their actions, and make conscious plans and projects over time. We can become self-governing or self-policing. For example, I measure myself against an idealised image of what I 'should be', strive to become more like the ideal, and feel inadequate or guilty if I fail.

Philosophers have often noticed a paradox of subjectivity. On the one hand, we seem 'free' to make and re-make ourselves in new ways, pursuing our chosen projects. But the projects we choose don't come from any pure source 'inside' us: we have incorporated them, too, from cultures around us.

For example, you might be a strong, committed and independent subject, but the ideal you aim for comes off the shelf of capitalist norms and stereotypes: ideal ruthless money-maker, model worker and family man, model housewife or object of desire, model gangster-consumer or vacuous playboy, etc.

The philosopher Michel Foucault is an important reference for thinking about what he called 'process of subjectivation', or 'techniques of the self'. One of Foucault's key points is to show how thinking about and working on yourself as an individual is an important form of social domination in modern life. For example, think of how we are sold 'aspirational lifestyles' and the need for 'self-improvement'.

**Self-transformation** This doesn't mean that the subject is 'doomed' to cultural slavery. On the contrary, I think with Foucault that 'care of the self' is a vital starting point for developing new ethics and freer ways of living. But just being a 'sovereign individual' is not all there is to being free. Self-consciousness and techniques of the self are tools that can work in many different ways. They can be used to defend and reinforce capitalist forms of life dug into our bodies, or they can be used to destroy and overcome them.

## Summary

I've introduced a lot of philosophical and psychological ideas in a couple of pages. There are some suggestions for further investigation at the end of the book. For now, here are some key points to take from this discussion:

- We incorporate values, desires and practices of the cultures around us through a range of processes.
- Some of these processes are deeply unconscious, they work on us even if we're not aware of them, and without any conscious effort on our part.
- These unconscious incorporation processes start in early childhood, but they keep on working throughout our lives.
- But this doesn't mean that we are just unthinking slaves of the cultures we grow up and live in. We can learn to understand the processes that shape us, and use our self-consciousness to help transform our ways of life.

# Chapter 7. A brief history of

## capitalist desires

In many parts of the world, capitalism now seems unchallenged as the dominant culture. It hasn't always been like this. For most of its history, capitalism struggled to survive, and to spread and grow.

Looking back, it's remarkable how devastatingly successful it has been. No other culture has transformed the world so dramatically in just a few hundred years. Capitalism is on a roll. Which doesn't mean it's unstoppable.

How has capitalism been so successful? Here are just a few points to look at:

- **Invasive culture.** Capitalism is, to the core, an invasive culture. The 'passion of self-interest' may not be the eternal core of human nature, but it has proved a powerful motor. It drives the entrepreneurs and colonisers at the frontline of capitalism on a continuing crusade for new markets, new commodities, new sources of profit and exploitation.

- **By force.** To expand, capitalism has to confront and overcome other cultures. It can do this in different ways. One way is by physically, and psychologically, smashing them with violence. Here it can draw on a massive power to produce and organise industrial and military resources.

- **By contagion.** Another way is to spread its own ways of life contagiously, infecting other groups with its values and desires. Often these two techniques go together: first, the use of force to destroy existing ways of life, traumatise individuals and their values; then, spreading new desires to weakened bodies.

- **By assimilation.** Where capitalism faces strong opposition, it can also work by adapting to, and eventually assimilating, or perhaps merging with, rival cultures. For much of its history, capitalism lived in an uneasy relationship with feudal and aristocratic elites, before eventually largely assimilating them within its new forms of life. In the 20th century, capitalist elites learnt to adapt to, accommodate, and assimilate workers' and socialist movements.

- **Crises.** Capitalism does have deep instabilities. It is riven by internal competition, conflicts and collective action problems. For example, capitalism seems completely incapable of organising any concerted effort to stop destroying the natural world it sucks dry. But as a machine of destruction it is unparalleled, and it keeps on surviving through every crisis.

- **Re-invention.** Key to its survival is its ability to constantly transform and reinvent itself. In the nineteenth century, Marx predicted that capitalist economies would stop growing as they ran out of technologies and markets to exploit. Yet capitalism has kept on creating new technologies and markets, in completely unpredictable ways. We'd be foolish to hope that capitalism will destroy itself through any 'internal contradictions'.

I want to look at some of these themes now in a whistle-stop tour of capitalist cultural change in the 'developed world' in the last 500 years. This is necessarily very incomplete: and, in particular, it is much too focused on the well-written history of Europe, and above all England. But it's kind of a start.

## 1) The rise of the bourgeoisie

Maybe there have always been a few individuals dedicating their lives to getting rich. In medieval Europe, the ancestors of today's capitalist billionaires were powerful families of bankers and merchants like the Medicis and the Fuggers, who created mini-empires based on international trade and financing the aristocrats' crusades and wars. The protestant Dutch republic, declared in 1581, is sometimes seen as

the first capitalist state. Its wealth came from new international trade routes with the American colonies and the Far East, as well as a concentration of skilled craftspeople and merchants, including many protestants fleeing from religious persecution elsewhere in Europe. Writers at the time were fascinated with what seemed like a new culture being created in the low countries, in which the merchant class wielded considerable political power with relative independence from the old feudal lords.

But the real breakthrough for capitalism came in England. A lot of historians have written about the rise of the English bourgeoisie in the 17th and 18th centuries.

Here are a few oft-mentioned points:

- The spread of non-conformist protestant sects, especially Calvinism and later forms of puritanism, which valued hard work, saving, and accumulation of wealth as moral virtues. This thesis is famously explored by Max Weber in his *The Protestant Ethic* and the *Spirit of Capitalism*.

- The reformation and dissolution of the monasteries, under Henry VIII, transferred massive wealth from the old religious orders to 'nouveaux riches' individuals. This also meant a leap in the enclosure of common lands, as the new landlords broke

*Early 1970s London graffiti by King Mob* traditional arrangements between the monasteries and peasant villagers. R.H. Tawney emphasised the importance of this event in his *Religion and the Rise of Capitalism*, and its place in a general shift in English religious and class politics.

- In general, the 17th and 18th centuries saw the emergence of a new 'class conscious' bourgeoisie, with both great wealth and its own thriving culture. The ruling classes became increasingly dependent on middle class funds to wage colonial wars and maintain its lifestyle. Middle class leaders used their financial power to make successful alliances with 'respectable' working class radicals on the one hand, and modernising 'Whig' aristocrats on the other. They were able to gain increasing political power, from the Civil War (1642-

51) and the 'Glorious Revolution' (1688) coup against Catholic King James II, through to the 19th century Reform Acts. This political power was used to transform property laws, deregulate markets, and attack workers' traditional rights.

- Early forms of capitalism were based on finance and trade, rather than the direct exploitation of labour. Two major new kinds of production changed all this, and massively built up the wealth and power of capitalist entrepreneurs further. In the colonies, slave plantations produced bulk consumer goods such as sugar and coffee, and raw materials such as cotton. Back home in Europe, with the industrial revolution, the factory system concentrated hundreds of workers paid near-starvation wages to produce textiles and other valuable commodities.

## 2) Making slaves and workers

Many histories focus on the cultural changes needed to create a strong new capitalist class and culture. But industrial capitalism also involved the creation of other radically new forms of life.

Millions of people in Asia, America and Africa were slaughtered, invaded, colonised and enslaved. Millions of Africans were ripped from their homelands, had their traditional cultures destroyed and repressed, to be turned into plantation slaves. Millions of Europeans were dispossessed from their lands and villages to be turned into workers.

As well as murder and destruction, these ruptures meant the creation of new groupings and cultures. Mestizo cultures of the Americas; Atlantic cultures of black slaves, and maroon cultures of escaped fugitives; proletarian cultures of European factory workers; cultures of settlers and migrant workers moving across states and oceans; and many more.

In early European capitalism, a pressing issue was the threat posed by the many villagers dispossessed by land enclosures. The English elites lived in perpetual terror of hordes of 'vagabonds' and 'paupers' lawlessly roaming the countryside, and forming unruly mobs in the city slums. From the 16th century increasingly harsh punishments and controls were brought in to settle the 'itinerant' population, from

Tudor hangings and ear-cuttings to the more efficient Victorian workhouse system. The ideal long-run solution was offered by the factories, machines for turning vagabonds into proles. But this wasn't an easy process: proletarians need to be trained and disciplined into labour. Marx put it like this:

*'Thus was the agricultural people, first forcibly expropriated from the soil, driven from their homes, turned into vagabonds, and then whipped, branded, tortured by laws grotesquely terrible, into the discipline necessary for the wage system. [...] The advance of capitalist production develops a working class, which by education, tradition, habit, looks upon the conditions of that mode of production as self-evident laws of nature.'* (*Capital* Volume 1: Chapter 28).

Marx's historical insight here is powerful. But note how he sees the proles as just passive victims in this process. More recent writers, including Marxist historians like E.P. Thompson, have studied the active role played by workers in the 'making of the working class'. Violence and control from 'above' was certainly crucial; but slaves and workers have their own ideas about how to respond to attacks, their own strategies and tactics of accommodation or resistance. By dispossessing people and destroying their existing ways of life, capitalism forced the creation of new cultures of slaves and workers. But it could not entirely control just how these new cultures developed.

Indeed, throughout the history of capitalism, movement and migration has nourished revolutionary cultures. To give just a few examples: English itinerants in the 17th century spread radical religious ideas such as those of the Levellers, Diggers and Ranters; as similar vagabonds had done in the Germany of the peasants wars a century before. In Spain and Italy in the 19th and early 20th centuries, anarchism was carried from village to village, or between cities, by landless and migrating labourers. In Argentina, 'crotos' or anarchist tramps played a similar part as they moved from farm to farm; as did 'Wobbly' syndicalist migrant workers in the western United States. Whilst trans-Atlantic migrations spread European anarchist movements to New York, Chicago, Buenos Aires or Sao Paulo.

In these situations the breakdown of traditional and local identities didn't mean a passive mass waiting to be enslaved. It was the birth of new possibilities and forms of life that posed a deadly threat to capitalism.

### 3) Building the nation

The growth of capitalism goes together with the rise of the nation state. In Europe, rulers created new national infrastructure to support the growing markets, such as:

- **Transport:** railways and canals, to move commodities.
- **Ports:** for international trade, defended and policed by customs systems and navies.
- **Armies and police forces:** to enforce property law.
- **Parliaments:** where capitalists and industrialists shared power with the old aristocratic elites.

Alongside enclosure and the growth of industrial cities, transport and national markets were further forces that dispersed local communities and put people on the move. But they also brought capitalists a crucial new weapon: **nationalism**.

From the late 18th century on, as bourgeois groups began to gain political power, they used it to build new kinds of state institutions that were all about creating national identities. These included:

- Patriotic **wars** and conscripted national armies, which really took off with the French revolutionary and then Napoleonic wars.
- State-sponsored **education** systems: teaching conformity, patriotism, and the 'naturalness' of the market system.
- National mass media, controlled by capitalist **media** barons.
- From the end of the 19th century, national insurance and **welfare** systems.

Wherever resistance to capitalism was on the rise, nationalism was a key response. Every time workers' movements started to threaten the elites, rulers mobilised patriotic feelings against 'foreigners' or 'unpatriotic' radicals. Just to take a few examples from English history:

- **1780s.** Patriotic ‘**Church and King mobs**’, paid mainly in beer by crown agents, were used to attack and intimidate ‘Painites’ and ‘Republicans’.
- **1800s. Napoleonic wars.** Repression against trade union and radical organisers justified by war conditions, radicals accused of being French spies.
- **1890s.** Introduction of ‘**Aliens Act**’, first major anti-immigration legislation, in a climate of media hysteria against Jewish ‘anarchists’ and other undesirables.
- **1914+. First World War.** Internment of foreigners, censorship and martial law. Patriotic upsurge (across Europe) helps dampen dangerous syndicalist movements.
- **1982. Falklands War.** A new war, a new patriotic frenzy, helps the neoliberal Thatcher government back to power in the 1983 elections, despite recession and massive unpopularity before the conflict.
- **2000s.** UK becomes world’s most surveilled state, as government whips up and rides panic over Muslim ‘**terrorism**’.

#### 4) Mass production and consumerism

But by the beginning of the 20th century capitalists in the most ‘advanced’ industrial nations faced two very big problems.

- **Revolutionary movements.** More ‘enlightened’ elites used concessions such as workplace reforms, wage increases, and charity, alongside nationalism, to calm workers. But many people still saw capitalism as their enemy, and resistance was growing.

[image]

##### *Photomontage by Stig*

- **Lack of consumers.** As production kept on growing, producers were running out of affluent customers to sell to.

Mass consumerism saved the day for capitalism, and transformed the world. The change is often dated back to 1910, when Henry Ford set up the first ‘**production line**’ in the Highland Park, Michigan car plant. On the original 1910 production line it took workers 12 hours and 48 minutes to assemble one car chassis. By 1914 Ford had got it down to one hour and 33 minutes, and the Highland Park factory produced over 1000 cars a day. Over the next 10 years ‘Fordist’ methods were copied across American industries, as every producer raced to keep up. (This section draws on Stuart Ewen’s book ‘*Captains of Consciousness*’.)

But now the new factories were producing much more than the small upper and middle classes could buy. More intelligent capitalists could see what would have to give. The market had to be expanded, and the only way to do that was to welcome the workers into consumer society. US President Herbert Hoover made it clear in this speech in 1926:

*‘The very essence of great production is high wages and low prices, because it depends on a **widening range of consumption** only to be obtained from the increased purchasing power of high real wages and increasing standards of living.’*

[image]

##### *Yuppies by Laura Oldfield Ford*

The problem is that someone has to go first: if one boss raises wages, but her competitors don’t, then she is at a competitive disadvantage. (Another classic ‘collective action problem’ — see Chapter 5). This was Marx’s argument for why wages will always be forced down to subsistence level, and capitalism be condemned to crises due to lack of consumer demand.

Yet in the 1920s advanced capitalist economies did manage to solve some of their collective action problem, raise wages and living standards, and cut working hours.

Ford himself led the way with the famous five dollar work-day wage in 1914. But still wages didn't rise nearly as fast as production, and the gap in consumer demand was largely filled by credit (mainly installment plans), which indeed contributed to the financial boom and then the massive bust of 1928. It was really after World War 2 that workers' living standards in the industrialised world increased rapidly, thanks to Keynesian government intervention.

## Manufacturing demand

However, it turned out that just paying workers more, and giving them time to spend their wages, still wasn't enough. Workers might decide to save their income instead of spend it, remembering the hard times that weren't so far away. Or, rather than endlessly pursuing the lust of avarice, they might have other things to do with their 'free time'.

This is where **advertising** came in. Before mass production, advertising had been about highlighting special qualities of a product to make it stand out from similar commodities. The new breed of advertising gurus in a rapidly growing industry saw this as too primitive. The idea now was to create a 'real or fancied need' for the product in the first place.

Schooled in the latest Freudian psychological theories, advertisers sought to create new desires by appealing to 'profound .. human instincts'. In particular, they targeted the 'instinct' for 'social esteem'.

The main technique was to create feelings of '**social insecurity**' which their products were supposed to ease, albeit temporarily. How can you find a husband if your nails aren't fashionably polished? How will you get ahead at the office if you had bad breath from not gargling with listerine? If immigrants wanted to be accepted they needed to dress like proper Americans. Be anxious about your body, your background, your neighbours, your workmates, the modern world is a rat race and you need to stay sharp to keep afloat. A 1938 article in the ad industry journal *Printer's Ink* put it bluntly:

*'advertising helps to keep the masses **dissatisfied** with their mode of life, discontented with ugly things around them. Satisfied customers are not as profitable as discontented ones.'* (quoted in Ewen p38)

This dissatisfaction is not one that calls for political or collective solutions. The solutions are individual, products you can buy. But there are always more problems to come, more lacks and failings, more commodities you need to buy to keep up with the others. Cultivating the 'instinct for social esteem', mass consumerism became an endless race on a treadmill, an itch you can't ever scratch.

## 5) Recuperation and resistance

The 1960s saw an outbreak of anti-consumerist rebellions amongst students and youth, mainly in rich countries. Counter-cultures which rejected establishment values and desires spread with unexpected speed. Suddenly everyone took LSD and had group sex in parks, and some even took part in student occupations and new revolutionary movements.

One new intellectual current of the 1960s was the **Situationist International** (SI) radical/art movement. According to the SI writer Guy Debord, society in advanced capitalist countries had become a

'spectacle'. Commodification had 'completed its colonisation of social life'.

In the 'society of the spectacle', the only meaning left in our lives comes from the things we 'have', or try to have; all our desires are shaped by the 'images' we passively receive from advertising billboards and TV screens, and see reflected back off the other consumers we try to keep up with.

If everything is produced for us by an immensely powerful capitalist system, what can we ever do to escape being just passive consumers? The SI's answer was what they called (in French) 'detournement' (there isn't any great English translation – maybe 're-turning', 'derailing', or just subversion). This means: we take the products and values fed to us by the system, but instead of consuming them passively, change them, mix them up, hack them, pervert them. Here the SI gave a theoretical name to what youth subcultures have always been doing.

From the English 'Teddy Boys' in the 1950s adopting aristocratic Edwardian fashion and turned it into working class machismo; to punks and queers taking derogatory labels and images and turning them into symbols of defiance.

But the flipside of subversion is what the SI called 'recuperation'. This means: the establishment takes a 'radical' symbol or value and makes it safe, acceptable, and marketable. A classic example is the face of Che Guevara on a million T-shirts. In the 1970s, a new wave of advertising execs found that they could make just as good money selling new 'alternative' commodities to the youth. Was the lasting legacy of 60s counter-culture just some new lines in consumer products?

## Living the capitalist dream

Our desires don't appear from nowhere. They are embedded in the ways we live, in our interactions and relationships, in our habits and practices, in the value systems and power systems we live in. As advertising execs know, creating desires is fundamentally about creating identities. You desire the car, the watch, the shoes because of who they make you: successful businesswoman, playboy, filmstar, upstanding citizen, loving husband, wife and mother. Or: gangster, bad girl, rebel.

Capitalism offers a repertoire of roles or identities to aspire to. Each one is a dream of how you can live, what you can be. Simplifying, we might identify some historical stages of capitalist dream creation:

- In the early days (18th and 19th centuries), the identities you could aspire to were very limited by obvious social hierarchies. As wages were pushed low and people could only afford necessities, workers were not of much interest as consumers. Elites mainly tried to shape workers' identities and desires through the state (nationalism, schooling) and religion. But their grip on people's desires remained fairly weak. Anti-capitalist movements had the space to thrive, and they offered people different desires, identities, and dreams. These alternatives were a real threat to the elites. Lacking 'consent', the state had to routinely use extreme force to defend property and markets.

[image]

- In the 20th century, mass production and mass consumerism created new identities for workers in rich countries. Now many more people could be included in the capitalist dream. But the available identities were uniform. Advertisers worked on the same lines as state education, promoting a basic set of roles: heterosexual nuclear family roles (husband and father, wife and mother); successful careerist; responsible citizen; patriot.

- Responding to 1960s counter-culture, advertisers started to offer a wider range of identities. Even identities that go against state-promoted norms can be profitable. With less uniformity, there can be more tension between different corporate and state-promoted values — but they usually manage to get along in the end.

Old or new, conformist or 'rebel', profitable consumer identities all need to share some basic properties:

- The role needs to be defined by commodities, by what you have.
- You have to remain dissatisfied and anxious in the role. You can never be quite sure that you're doing it right, there's always a risk of losing your place. Very often, this dissatisfaction is linked to anxiety about status — about your position relative to other consumers. But in any case, the essential result is: you always need more.



## 6) The creed of growth

Economists, politicians, journalists, and anyone else on TV, Left-wing or Right-wing, agree on one big thing: the goal is growth. Growth means producing and consuming more stuff. If the economy falls into recession everything goes wrong. People lose jobs, people go hungry, hospitals close, and your granny has to sleep on the street.

By the early 20th century, most of the ‘Left’ had accepted mass industrial production and consumption, but insisted that wealth should be spread more equally. Whether by revolution or income tax, there should be **redistribution of wealth** away from the rich to the poor.

One of neoliberalism’s victories is the idea that everyone can get richer together: the needs of the poor don’t have to be satisfied by taking from the rich. If we can create enough stuff, at least some of it will ‘trickle down’ to those at the bottom. The rich get richer, and the poor get richer too.

In the richest nations, until very recently, this idea actually seemed to work. Living standards, or the amount of stuff you have, were going up for almost everyone. Certainly, the rich were doing the best of all, getting most of the new stuff – and so inequality has risen dramatically. But there was still enough new wealth left to improve incomes at the bottom.

Now, in the Europe of austerity, we are living the end of that dream.

## Summary

By the start of the 21st century, these once weird ideas have become mainstream ‘common sense’:

- Everyone wants more and more stuff.
- The economy can keep on creating more stuff for everyone.
- To keep it going we need to let markets be ‘free’: regulation or redistribution would hurt the markets, and the engine of growth will stop.
- To keep it going, we all need to keep wanting more stuff.

Even in very narrow economic terms, there are a few problems here, and recent crises should be making these increasingly apparent. For example:

- As we saw in Chapter 5, most people in rich countries were only getting more stuff because they were getting heavily into debt.

[image]

- As we saw in Chapter 3, rich economies as a whole only carried on getting more stuff because they were getting heavily into debt to productive ‘developing’ countries.

- The world as a whole does still keep producing more stuff. But for how long? This growth has been made possible by cheap petroleum, massive quantities of easily extractable fuel. Cheap fuel is disappearing. And now the ecological cost of industrial growth is starting to hit us.

And zooming out from the restrictive frame of capitalist culture: is more and more stuff really what we want? Is it giving us what they said it would? Is it what we really want to want?

[image]

Or as the Angry Brigade put it back in 1971:

*‘Brothers and Sisters, what are your real desires? Sit in the drugstore, look distant, empty, bored, drinking some tasteless coffee? Or perhaps BLOW IT UP OR BURN IT DOWN. The only thing you can do with modern slave-houses — called boutiques — IS WRECK THEM. You can’t reform profit capitalism and inhumanity. Just kick it till it breaks.’ The Angry Brigade — Communiqué 8.*

## Chapter 8. Other cultures

*'Their needs are so few that they do not wish to adopt civilized habits. What we call conveniences and comforts are not sufficiently valued by them to cause them to undertake to obtain them by their own efforts ... the great majority look upon the white man's ways with indifference and contempt.'*

- Nathan Meeker, US reservation agent to the western Utes, 1879. Quoted in Dee Brown: *Bury My Heart at Wounded Knee*.

Capitalism has been a devastating success. The global capitalist economy is better than any previous system at producing massive quantities of commodities, and moving them around the world. Many millions of people in the 'developed' world use, hoard, and waste masses more stuff than their ancestors could ever imagine. Other billions of people in the 'third world' can dream of joining them.

But capitalism can't last much longer in its current form. It is based on rapid growth, promising more and more commodities for everyone. This massive growth has been fuelled by cheap energy: seeming limitless supplies of oil and other fossil fuels; and an ecosystem that can absorb seemingly endless destruction. These resources are running out. The damage of global climate change is already irreversible. Capitalism has dramatically shifted the earth's ecosystem, with implications that will be disastrous for most humans and other animals on this planet.

But capitalists face major collective action problems: to solve their economic and ecological crises, corporations and states need to cooperate globally in ways they have never been able to achieve. Most likely they won't be able to do this. Markets and states will try to carry on as before, but keep on getting hit by new crises. Without growth, governments will not be able to keep us feeling 'included' in prosperity.

Unfortunately this doesn't mean that capitalism is doomed. It may, once again, re-invent itself and survive in new forms. Probably crueller forms than even before. If elites cannot maintain social order with the carrot, they will turn more and more to the stick, keeping us down by force. The razorwire fences going up all around the borders of Europe and other still-rich enclaves are maybe the most visible symbols of this turn.

In some respects, history seems to be turning backwards. Like in capitalism's earlier days, we will live in societies of drastic inequality and violent social conflict. Billions of people will be left out of the 'dream' of growth and consumption. Many will die.

What other dreams do we have today to inspire rebellion? What other cultures and forms of life will have the power to destroy capitalism and create new futures?

**Marxism is dead** The dream of Marxist socialism has, thankfully, died. The idea was that the state can step in to 'plan' mass economies, playing the role filled by markets in a capitalist system. State technocrats could work out what goods were needed to be produced, and where they needed to be distributed. The people would be happy as the system worked efficiently. The officials, despite their massive power, would somehow be immune from corruption and tyranny. It didn't work. State planning did not produce stuff as efficiently as capitalism. Socialist officials, just like other officials, used their power to set themselves up as a tyrannical elite, a 'new class' just as vicious as the worst capitalists.

### Not a monolith

I keep saying that capitalism is not a monolith. This means: first of all, it is formed of many interwoven institutions and forms of life, all of which are continually open to change. You might imagine

capitalisms without advertising, for example, or even without banks, or maybe even without states or families – though they would be very different kinds of capitalism from the one we know now.

But also, not all the institutions and relationships we live with now are fully capitalist. States, or families, or churches, for example, have changed dramatically in the last few hundred years, but they existed before. And even within a highly capitalist society lots of things are going on which are not very capitalist at all.

The anarchist Kropotkin often used to point out lots of examples of what he called ‘mutual aid’ at work even in very capitalist environments. For example, even institutions like the Red Cross, or mutual insurance systems for shipowners, which were set up by capitalist businessmen, worked on quite non-capitalist principles. And our everyday lives are not run on the profit motive.

Most people don’t exchange their time for money with their friends or lovers. We help someone in need in the street without calculating how much it should cost. People still choose to fight and die for things they believe in.

So even in our lives under capitalism, we can find of models and practices that can help us see how to live differently. And we don’t have to start from scratch. If you dig underneath the failed history of state socialism, you can see people have been thinking about, working on, and fighting for different forms of life for hundreds of years.

## Anarchy

Not all of these people, by any means, have been or called themselves anarchists. But before I look further at some examples, I want to mention anarchism. Anarchism, as I understand it, means fighting for a life free of all kinds of domination and oppression. Not just the oppression of capitalism, but all kinds of domination. And not just in some perfect world ‘after the revolution’, but also right here, right now.

Or here is the beautiful way one anarchist called America Scarfó put it, sixteen years old at the time:

### America Scarfó

*‘I believe that, thanks to our free actions, individual or collective, we can arrive at a future of love, fraternity and equality. I desire for all just what I desire for myself: the freedom to act, to love, to think. That is, I desire anarchy for all humanity. I believe that in order to achieve this we should make a social revolution. But I am also of the opinion that in order to arrive at this revolution it is necessary to free ourselves from all kinds of prejudices, conventionalisms, false moralities and absurd codes. And, while we wait for this great revolution to break out, we have to carry out this work in all the actions of our existence. And indeed in order to make this revolution come about, we can’t just content ourselves with waiting but need to take action in our daily lives. Wherever possible, we should act from the point of view of an anarchist, that is, of a human being.’*

- America Scarfó: Letter to Emile Armand

In 2015, there’s no sign of a great revolution breaking out any time soon. But that doesn’t stop us fighting to live and breathe free every day.

*‘So, when these gentlemen say, “You are utopians, you anarchists are dreamers, your utopia would never work”, we must reply, “Yes, it’s true, anarchism is a tension, not a realisation, not a concrete attempt to bring about anarchy tomorrow morning”. But we must also be able to say but you [...] what have you gentlemen accomplished? A world worth living in? Or a world of death, a world in which life is a flat affair, devoid of any quality, without any meaning to it? A world where one reaches a certain age, is about to get one’s pension, and asks oneself, “But what have I done with my life? What has been the sense of living all these years?”* Alfredo Bonanno: The Anarchist Tension

## Communist Utopias

Historians like to say that early capitalism was a radical force overturning old feudal structures. This story hides the fact that there were much more radical ideas and movements around already. Revolutionary ideas were often clothed in Biblical language — the supposed slogan of the English peasant rebels of 1381 was ‘when Adam delved and Eve span, who was then the gentleman?’ Heretical sects throughout Europe, as also in the Muslim world, formed communities without private property or hierarchies. Most were wiped out with extreme violence. In 16th century Germany some 300,000 peasants rebelled against feudal authorities in the Peasants Wars, and published a charter of ‘12 Demands’. Perhaps 100,000 of them were massacred. Soon afterwards appeared the Anabaptists, a radical Christian communist movement mainly in Germany and the Netherlands. In the English Revolution of the 1640s similar ideas reappeared. The

Diggers called for people to defy property law, occupy unused land and farm it in communities. Some ‘Ranters’ were still more radical: they opposed the family, or even religion altogether.

*Ranters: an anti-ranter propaganda woodcut from 1651*

## Old ways

Throughout history, revolutionary movements have looked both forwards and back: developing new ways for the future; whilst defending existing cultures against capitalist attacks. German peasant rebels, English Diggers, or later anti- enclosure rebels defended ancient rights to the use of ‘common land’. The Luddites defended traditional arrangements on wages and working conditions which were being swept away by the capitalist market.

Russian peasant revolutionaries in the 19th and 20th centuries saw the traditional village commune or ‘mir’ as a possible base for a future without either capitalism or the Tsarist state.

There is little left of these European movements but their histories. In other parts of the world, capitalism has not yet entirely wiped out resisting traditional cultures. There are peoples like the Mapuche of South America, or the Mi’kmaq in the North, to name just two examples, who never fully ceded their lands and cultures to the invaders, and are still fighting today. Recent decades have seen a resurgence of indigenous struggles in many parts of the world, one very well known example being the Zapatista uprising in Mexico which combines traditional systems of village self-government and collective land rights with influences from Marxism and from more recent anti-capitalist movements.

*Luddites breaking factory machines*

## Mutualism and cooperatives

Industrialisation increased rapidly in 19th century Europe, as millions were thrown off the land forced to join the new urban ‘proletariat’. Many of the first urban workers to form radical anti-capitalist movements were skilled artisans who still maintained some independence. In France and other European countries, the ideas of the anarchist printer Proudhon were influential.

Proudhon and others sought to organise skilled workers into co-operative workshops which would share tools, knowledge, and defend each other against the bosses.

Cooperatives of workers in different trades, and different towns, would then form federations to exchange their products and resources. (So Proudhonist federalism did involve some level of exchange at a bigger level, as well as mutual aid at the level of individual coops.) The idea was that these cooperative federations, by pooling their resources, could become altogether independent of capitalist markets. Thus they would create the ‘new society in the shell of the old’.

Cooperative movements have shown a number of weaknesses. They were often easily co-opted and assimilated by ‘reform’: the English co-operative movement, basically just an ‘ethical business model’

linked to the Labour Party, is an obvious example. And they often failed to involve the people who really have the most to win, and least to lose, in the struggle against capitalism: the dispossessed masses of the unskilled, unemployed, and work-refusing. In the last decades of the 19th century Proudhonism in France and elsewhere was eclipsed both by Marxism and by more militant anarchisms of the dispossessed, which would fight for freedom right here and now.

## Insurrection

In 1534 Anabaptist rebels took over the city of Muenster in Germany and set up an early form of socialist commune. Just one of many uprisings throughout history that hoped to create new worlds.

A particularly important insurrection of 19th century Europe was the Paris Commune of 1870. Although the elected

*A barricade of the Paris Commune at Rue Saint Sebastien* government of the city commune was not radically anti-capitalist, people in the working class neighbourhoods on the outskirts took things much further. They came together voluntarily to organise everything from defence militias, to canteens and first aid clinics, to free self-run schools, and redistribute clothes and supplies. The commune lasted just two months before it was brutally destroyed by government troops. But it inspired many for the future.

In the last decades of the nineteenth century, Marx's programme for the workers to take state power and abolish capitalism through parliamentary elections won over many workers' movements. But others, including most anarchists, saw popular uprisings as the basic tool to destroy capitalism. Peter Kropotkin, in his *The Conquest of Bread*, was one influential anarchist who tried to think from the lessons of Paris and other uprisings about how an insurrectionary population could manage its resources. He argued that any successful insurrection must immediately reclaim all private property from the rich and establish an 'anarchist communist' system of mutual aid, where everyone is fed, clothed and housed according to their need, and collective decisions are made by free assemblies.

Europe's most famous insurrectionary period was the Russian Revolution of 1917, which eventually led to Lenin's Bolshevik party taking state power.

Initially, the Bolsheviks took up popular anarchist slogans calling for 'all power to the Soviets', local assemblies of workers and peasants. But once in charge they turned the soviets into hollow shells controlled by the party, and established a brutal dictatorship.

Recent decades have seen new ideas of 'insurrectionary anarchism' flourish. One influential anarchist here is Alfredo Bonanno, who in the 70s and 80s in Italy called for anarchists to focus again on preparing and participating in insurrections, using "informal self-organisation" rather than the stale old structures of Marxist parties and moribund anarchist federations. Bonanno continues to be a strong voice for uncompromising attack on the state and capital.

In Greece, the killing by police of 15-year old anarchist Alexis Grigoropoulos on 6 December 2008 led to a month-long uprising in which anarchists were outnumbered by youngsters, immigrants and other dispossessed people fighting against the state and capital. The ripples of this insurrectionary moment continue to play out as Greece lurches through economic and political crises.

The latest wave of insurrections in the 'Arab Spring' have, as so often through history, turned to tragedy and counter-revolution. One positive note is that they have helped spark anarchist and anti-authoritarian ideas in the Arab world, and lit a chain of fires that are still burning as far away as Brazil.

**Workers' control** The first mass workers' movements appeared in the factories and slums of the late 19th century. At the turn of the 20th century a new organising strategy emerged that many thought could overturn capitalism – revolutionary syndicalism. Millions of workers had now

*CNT worker-run armoured car factory, Barcelona 1936* joined radical trades unions open to all, skilled and unskilled. The idea was that factories would be run by workers directly, through their

union assemblies; the big unions' federal structures would take over coordinating the distribution of the different factories' inputs and outputs. So: the same structures that workers had built for strikes and self-defence would turn into the basic economic institutions of the new world.

By the 1910s, syndicalism seemed to have a real chance in many European countries. Theorists like Pataud and Pouget, activists in the French CGT union, had their plans ready: when the moment was right, a massive general strike would collapse capitalism, and the new workers' organisations would step in.

Faced with this threat, the capitalist elites fought back with extreme repression, imprisonments, assassinations against workers' leaders. But what ultimately saved capitalism was probably the First World War, a bloodbath of nationalist destruction. And then the Russian Revolution: the seeming success of the authoritarian Bolshevik 'communists' in Russia undermined anarchist and syndicalist movements, as many switched to their model of party and state-led revolution.

The most serious syndicalist movement to survive was in Spain. In 1936 the anarchist CNT union put a form of syndicalism into practice in Catalonia for a few short months, before it was wiped out by Franco's fascist armies – supplied by Germany and Italy, and tacitly supported by all the capitalist states of Europe

– as well as being attacked from within by Stalinist agents.

From 1917 until 1990 worker resistance was often smothered by the Russian (and Chinese) backed Communist Parties. They funded and co-opted workers' movements, turning on any that threatened to upset their grip on power. And yet pockets of resistance always kept

*Syndicalist cooking union, La Paz, Bolivia 1935* reappearing – and more so as the Soviet empire weakened in the 1970s. In Italy there was a wave of factory occupations, where workers took over their workplaces and ran them with workers councils. A movement of 'workers control' also grew up across the Iron Curtain in Yugoslavia. Similar movements in Latin America were largely wiped out by US-backed totalitarian dictatorships. But these ideas would resurface in Argentina in 2001 when workers occupied factories deserted by capital after the economic crash.

Some factory occupations have been appearing again in crisis-hit European countries, particularly Greece. But undoubtedly the main area of worker rebellion is now in the manufacturing zones of Asia, and especially China. If new industrial workers' movements are going to develop that can pose a real threat to capitalism, it will happen there.

Many anarchists strongly criticised syndicalist strategies from the start. Like mutualist movements, in practice syndicalist organisations have moved far from their declared principles. The French CGT turned into a standard reformist trade union. The Spanish CNT largely became an authoritarian structure in which, infamously, in 1936 four of its anarchist leaders decided to become government ministers. By this point the organisation had developed a centralised bureaucracy in which decisions were completely out of the hands of 'rank and file' workers. These mass-scale organisations were too big, formalised, and hierarchical to resist becoming mirrors of the system they hoped to destroy. At the same time, syndicalist organising has often swallowed whole the capitalist "work ethic", rather than attacking the very idea that we should be slaves to the timeclock and the working day.

Could there be worker movement of the 21st century that develop new ways of self-organising and avoid these traps?

## DIY culture

In the richest countries like France, West Germany, UK, or US, workers' resistance had all but disappeared by the mid 20th century, incorporated into tame trade union and parliamentary movements. But radical ideas were kept alive by flourishing 'counter-cultural' movements mainly of students and youth. The student rebellions of 1968 revived interest in anarchist ideas. New anarchist and anti-authoritarian

thinking saw how consumer capitalism was now effectively commodifying and colonising not just work but every aspect of our individual lives.

In the 1970s, punk appeared with its rebellious ethic of 'Do It Yourself' (DIY). Punk squatters  
[image]

*“Enough Raids!” Solidarity poster from Italy for comrades arrested fighting evictions*

</center> and drop-outs lived off the excessive waste of consumer society in the rich world where food, clothes, and all kinds of goods are simply tossed away unneeded into the street.

Living off the scraps of rich cities doesn't offer much of a challenge or alternative to capitalism. But there is life in the experimental ethos of DIY culture, and its attacks on passive consumer values and on all hierarchies and bureaucracies.

## After civilisation

Many 19th and 20th century anti-

*The Can Vies squat in Barcelona* capitalists and anarchists had no problem with the industrial economy. Kropotkin in *The Conquest of Bread* put great faith in the advance of labour- saving technologies to improve the lives of city-dwelling masses. Syndicalists rarely mounted any critique of mass production or division of labour, so long as the factories are run by workers' committees.

Now we are starting to feel the ecological, as well as the human, costs of industrial life, these positions are untenable. There is no way a system of mass industry based on fossil fuels can continue for much longer, and in the process of its collapse it will transform the earth's climate and ecosystems beyond recognition.

Capitalism is not going to provide any smooth 'transition' away from mass industry, and in any case rapid global warming processes are now irreversible.

Our dreams of the future, and our projects of struggle, need to recognise this. How will we deal with the ecological and population crises to come? I am not going to try and deal with this massive question in any depth here. Here are just some immediately obvious points:

- any sustainable new cultures must involve smaller-scale, simpler ways of living
- they will have to deal with major upheavals including 'natural disasters', mass migrations and resource wars
- conditions will be very different in different global and climactic zones as some areas become desert or flooded, rich regions fortify their borders against climate refugees, etc.

Various strands of 'green' anarchism have focused on developing small-scale forms of life. In the 1990s and early 2000s, above all in the US, one flourishing tendency was primitivism, which advocates returning to pre- industrial, and indeed pre- agricultural, social arrangements.

Primitivism is part of a wider anti- civilisation critique in recent anarchism: we need to break from enlightenment ideas of civilisation and progress, from seeing the world as property of human beings. An 'anti-civ' perspective does not necessarily mean primitivism, which can be criticised for romanticising ancient cultures and, often, ideas of 'human nature'. We may have things to learn from hunter-gatherers and other 'barbarians', but we have to actively create our own forms of life, under very different conditions from our ancestors. I quote the anarchist Wolfi Landstreicher:

*'If civilization were to be dismantled in our lifetime, we would not confront a world of lush forests and plains and healthy deserts teeming with an abundance of wildlife. We would instead confront a world full of the detritus of civilization — abandoned buildings, tools, scrap, etc., etc. Imaginations that are not chained either to realism or to a primitivist moral ideology could find many ways to use, explore and play with all of this — the possibilities are nearly infinite.'*

- Wolfi Landstreicher

And moving away from mass society does not have to mean abandoning all recent technologies. In the 18th and 19th centuries technological ‘advances’ came together with massification, division of labour, and concentration of people in factories. More recent information technologies often do the opposite: ‘all purpose computing’ means any of us can become a designer, engineer, artisan with one small machine; ‘future manufacturing’, e.g. 3-D printing, means that we can manufacture even very advanced technological products locally; phenomena like free software suggest possibilities for long-distance communication and mutual aid without mass concentration or financial exchange.

## Now and tomorrow

Capitalism survives by spinning dreams. The basic story all over the world is the same: just hold on a bit longer, and you can have your place in the capitalist dream too. We are living at the end of this dream. Crises of capitalism are opportunities to break free and make different ways of living. But these opportunities mean nothing unless we take them.

### *A hacklab in Germany?*

Look at Europe right now: millions of people, especially the young, migrants, the unskilled, and everyone else at the bottom, are being cut off from the job market and the welfare state. Like village dwellers in past centuries, we are being dispossessed. If we can make new forms of life, and build new alliances and communities of the dispossessed around them, then we have a serious chance.

But this won’t happen automatically, just because conditions are getting bad. We have to make it happen.

How can we do this? I don’t think there is any point trying now to draft a grand plan of what a post-capitalist society would look like. At best, it would be irrelevant as struggles and situations shift. At worst, it would be a fetish or a dogma tying us down. Most urgently, we need to find ways to struggle right now. And that is how we learn what methods can work, by living them in practice. And we can aim to create structures that are versatile, that can develop and play new roles as situations change.

We can learn a lot from the history of past non-capitalist and anti-capitalist cultures. But we don’t live in 1871 or 1936. We also need to experiment, create, and develop in practice, our own new forms of life, learning as we do so. These forms of life must be fighting cultures, which can destroy capitalism.



## Chapter 9. How can we destroy it?

I don't have the plan. I don't think there is 'a' plan. Capitalism was not made by any individual, group, party or conspiracy with a plan, and it won't be destroyed that way either. It is far too big, complex, uncoordinated, fast-changing and unpredictable for any plan to grasp. Maybe a conspiracy with a plan can topple and take over a state, but one thing we should know by now is that taking over a state is the last thing that will destroy capitalism. It will be destroyed as the result of many acts by many individuals and groups, scattered in time and space, who may all have very different plans of their own. Though certainly some of them may confer, coordinate, copy and learn from each other.

So all I can do is make my plans, my projects, alone or with friends and comrades, for my actions, which I hope will contribute in some way to destroying capitalism. I will share some ideas that help me in thinking about my projects. Perhaps they will help some others too, or at least spark some fruitful discussions.

**1. Capitalism can only be destroyed by other forms of life** If all banks, markets, capitalists, governments, policemen, and the rest of them disappeared overnight, people would recreate capitalism tomorrow. This is the story of all the 'successful' revolutions of the last century. Capitalist values, desires and practices have been deeply dug right into our bodies, and we keep reproducing them. To destroy capitalism, we need to have other ways to live instead.

So destroying capitalism has to involve making different forms of life. That is, developing and strengthening values, desires, beliefs, practices, projects, individual and shared, that break with the norms of capitalist culture and strike out for new ways of living. For me, these must be: ways of living and fighting in which we seek not to dominate others or be dominated ourselves, in which we constantly fight hierarchy and oppression of all kinds. In which we pursue anarchy.

To be clear, I don't propose one mass "anarchist culture" to replace capitalist culture. Rather, we can make many different anti-capitalist forms of life, as individuals and as groups. Some of our projects will be quite separate and maybe clash, but some will interweave and support each other.

### 2. Social war

Anarchic forms of life can't coexist peacefully with capitalism. I don't believe it is possible, today, to escape capitalism and create a utopian retreat. Capitalism is an endlessly invasive culture that will leave us nowhere to hide. In any case, I won't be free in any utopian retreat, while I know that others remain dominated and oppressed. In any case, capitalism is rapidly destroying our whole world. So if we are to make forms of life that can survive and flourish, they have to be ones that stand and fight, and can become powerful enough to destroy capitalism.

So what we are talking about is war. Social war between opposing forms of life. Not democracy, 'consensus', or a rational public debate. Capitalist elites use 'reason' and democracy when they think these tactics work for them. Or they use any other means necessary, from isolation cells to cluster bombs. We're not going to win by smiling sweetly at the cameras.

### 3. Create and destroy

Being at war, I need to think in two ways at once: how to create, strengthen and defend my projects; and how to attack and destroy the capitalist structures that threaten me and those I love. You can't

have one without the other. There is no point making forms of life that will be easily wiped out. There is no point just attacking capitalism without also building alternatives that can flourish.

So, when I make my plans, I will keep this twofold aim in mind: to strengthen and grow my forms of life; to weaken and destroy the enemy.

I think this idea, that our struggles are at the same time creative and destructive, has always been at the heart of anarchism. I am fighting both for freedom and against domination.

## 4. Many methods

What kind of strategies, tactics and actions can work for this twofold aim? Capitalist elites regularly use torture, imprisonment, indiscriminate killing, and other tactics of terror and cruelty. But using these methods would destroy and poison us, turn us into twisted copies of our enemies. Similarly, if we're trying to get away from hierarchies, bureaucracies, bosses, leaders, elections, central committees, paid officials, market exchange, alienated labour, and all that shit, then the last thing we want to do is set up organisations that duplicate these features. To make anarchic forms of life, we need to live these values and desires in our practices right now, including in attack.

My basic criteria for thinking about projects, strategies, tactics, and actions flow directly from the twofold aim.

- Will they help create and strengthen the forms of life I want?
- **Will they be effective at weakening capitalism?**

These are 'my' criteria, that are intrinsic to my own aims. They are the only criteria that matter. What don't matter are 'external' criteria or judgements from other value systems that have nothing to do with me. For example, it doesn't matter:

What schoolteachers, journalists, politicians, judges, cops, or other pundits and enforcers tell us is right or wrong, moral or immoral, legal or illegal.

What the fears and social anxieties we've incorporated tell us is right or wrong. What supposed revolutionary dogmas, authorities and gurus, whether they quote Marx or Gandhi or Bakunin or whoever, tell us is right or wrong.

## 5. Dangerous desires

Why talk about social war between forms of life, rather than just 'class war'? I think the idea of class struggle can still be a powerful one. But if there's a class war going on at the moment, it's one-sided: the ruling classes enslaving and murdering the exploited classes without much come-back.

To destroy capitalism you need the desire to fight. Being a worker doesn't mean you're born with this desire, or automatically acquire it once you're working in a factory or a call centre or coffee shop. Working in these places makes you bored and pissed off. But capitalism has found ways to channel that anger and frustration very effectively, providing consumer dreams that feed off it. In the past, workers' movements that fought against capitalism did so because they actively made new fighting cultures, with dreams and desires all of their own.

This is one really vital point to learn from the 20th century. People's 'material conditions', economic or social situations, by themselves, mean nothing for action. What count are our desires. As long as capitalism includes us within a system based on desires for consumer goods and social status, it has little to fear from us. The danger comes when the system no longer feeds those desires. This is what is happening in austerity Europe right now. Whether because elites can't afford to any more, or because they think they don't need to – or a mixture of both – they are pulling the post-war rug of consumerism and welfare away from millions of people. Many millions are becoming newly excluded, dispossessed.

And this is a dangerous move – as it was, for example, when early capitalism dispossessed millions of people from the land. Why is it so dangerous? Because it creates an opening for people to develop new rebel desires that can shake the system apart. But it is only an opening, a possibility.

These dangerous desires don't appear from nowhere. They need to be actively developed, nurtured, and spread.

## 6. Propaganda

The greatest force of 21st century consumer capitalism is its power to spread infectious desires. We are up against saturation advertising, TV, facebook, free newspapers, state education, and the habits of a century of consumer culture.

In the past, anarchists were very open about their desire to spread anarchic ideas and desires to more people. For one thing, they lived and loved anarchy with a passion, it was the 'beautiful idea', and they wanted to share it. For another, they knew that to have a chance of destroying capitalism they needed more comrades fighting alongside them.

So one of the most common activities of anarchists was what was called propaganda. Propaganda by word: talking about anarchism, maybe informally in the workplace or the bar, or giving speeches, talks and workshops, or 'soap-boxing' in the street; and producing and spreading newspapers, leaflets, images, posters, books, etc. And propaganda by deed: examples in action of ways we can live and ways we can fight.

Nowadays many anarchists, and other anti-capitalists too, seem to have gone shy. We hide and guard our ideas rather than spread them. We write and talk only for other sect-members, about boring issues no one outside the 'scene' could care less about. Or we use esoteric language and jargon that no one outside the 'scene' can follow. We treat newcomers with suspicion, or interrogate them to gauge their 'political correctness' before we let them in.

Spreading anarchic desires doesn't mean we become politicians or Jehovah's witnesses. I'm not looking for voters, followers, clones, cannon fodder or cash cows. I'd like to make propaganda that stimulates people to question authority and make new projects and forms of life of their own. Some may think of themselves as anarchists, many others not.

What I want are comrades: independent individuals who are fighting authority in their own ways. But it would indeed be good to have more comrades.

## 7. Alliances

Anarchists have always been, and maybe always will be, a tiny minority. Freaks, outsiders, with strange dreams and desires. We are not going to destroy capitalism on our own.

To destroy capitalism we need to work and fight alongside others who share some, but usually not all, of our struggles. We can make alliances that are more or less temporary or enduring, around particular battles and projects. If these alliances are to strengthen and grow anarchic forms of life, they must work without domination. That means being open about our aims and intentions, not trying to lead or deceive others, but working as equal partners. If we can't work together, we go our separate ways.

I think the most powerful alliances for destroying capitalism are with those who are dispossessed and excluded by the system, and have their own desires to fight.

## 8. Organising models

What kind of structures and practices of coordination should we use in our alliances? Here there are more important lessons from history. Mass formal organisations, like the syndicalist federations of old,

have repeatedly degenerated into hierarchies and bureaucracies. The most alive and active struggles today have moved well away from these models. We don't need central committees, officials, secretaries, membership lists, elections.

This idea is one of those that can sound very strange to people who encounter anarchism for the first time, and even for many anarchists. The need for centralised order is another very powerful myth. And not just a capitalist myth, it goes back through thousands of years of hierarchical cultures. Don't we need bosses? (Or even if we give them nice-sounding names, like recallable delegated officials.)

The best way to overcome this myth is to see it disproved in action. I've learnt from my own experience that we can coordinate much more quickly, securely, and powerfully as informal groups of comrades, who come together to form bigger networks and alliances when we need to for particular projects. And of course internet communication makes spread-out decentralised networking so much easier than in the past. All the most powerful actions and projects I have seen worked like this. Hierarchical decentralisation through markets is one of capitalism's strongest powers. Non-hierarchical decentralisation – informal self-organisation – including using network methods that we are still learning and developing, is one of ours.

Admittedly, what we maybe don't know how to do – yet – is scale up these methods to deal with major infrastructure. For instance, a new Paris commune – if that is something we want to see. Which doesn't mean we can't learn how.

## 9. Attack

Ideas and desires only survive and grow when they are put into practice. Capitalist desires are reproduced by being enacted, lived a thousand times over everyday at work, at home, in the market. In the same way, to make new ways of living means living them right now.

For example, a very important one: we can only develop fighting cultures that are able to destroy capitalism by actually carrying out attacking actions, right now. If we just dream and wait for the 'great day' when we rise up and make the revolution, meanwhile bowing our heads and accepting the system, we are training ourselves to be passive consumers and slaves. Only action will break our habits of passivity. Acting to attack capitalism has to be right at the heart of the cultures we are making. It plays a number of vital roles:

- It weakens the enemy.
- It strengthens us by strengthening our desires.
- It strengthens us as we learn about what works and what doesn't, and develop new kinds of action.
- It strengthens us by spreading our desires and practices: the most effective propaganda is to spread examples of how we can fight.
- It strengthens us by helping us form alliances: e.g., it shows potential allies that we are serious.
- It can strengthen other groups and allied cultures, as we learn from each other. E.g., if we act in 'replicable' ways that can be imitated and spread, and if we share information, skills and knowledge.

## 10. Terrains of action

Of course, in all these respects, some actions are going to be more powerful than others. There is no universal hierarchy of good and bad actions or projects: what matters is how, in a particular situation, what we do strengthens our forms of life and weakens those of the enemy. Here are just a few examples of different contexts of struggle in capitalism today:

- Classic tactics of workers' movements have included strikes, factory sabotage, takeovers or occupations. These tactics are still very present and powerful in parts of the world where industrial production remains a major part of life – for example, in regions of China where industrial action is thriving. I

am not saying that they are not still relevant in countries like the UK where there is little industrial production, but they are not going to be the big front lines of struggle that they once were.

- In rural regions, and particularly highlands and other areas that are hard for states to control, rebel movements have been able to occupy and defend whole areas of territory. For example, these kinds of struggles are still going on in indigenous areas of the Americas, or in Kurdistan.

- But what about a city like London, which has no industrial production and no mountains? It's hard not to feel like this city is about the most difficult terrain you can get, with the world's most advanced surveillance, policing and control systems, and a pretty solid culture of apathy.

## But consider:

- One of the key infrastructure nodes for global finance, with billions flowing through its capital markets every day. Concentrated in the centre of the city: the 'Square Mile' of banks and exchanges, and the hedge fund quarter of Mayfair. Heavily dependent on advanced technologies, an overloaded transport network, and compliant service workers.

- The world's biggest concentration of billionaires, oligarchs, third world tyrants and their offspring, arms dealers and warlords, and other blood-soaked bastards.

- Thousands of refugees and exiles, often from war zones destroyed and depopulated by said bastards, many with their own strong traditions of struggle.

- Surrounding the moneyed quarters, a population increasingly unemployed, excluded, dispossessed, gentrified, evicted, sanctioned, raided, beaten, tasered, and otherwise fucked over.

After 2011, the lid stuck down with 'total policing' and 1000 prisoners, but for how long?

In some ways, London is a paradigm of many global cities. Not factory cities, but new mercantile hubs of financial power and money-laundering for 'super- rich' world elites. These cities are key nodes for global flows of wealth and power. Like mercantile cities of the ancient and medieval past, their vulnerability and fear is not industrial action but urban unrest, the 'mob'.

These are just three examples of different terrains of struggle. Individuals and groups active in these zones might follow very different strategies and tactics, and develop quite different organising structures. But perhaps they can also learn a lot from, and inspire, each other.

And also: imagine what kinds of links and alliances revolutionaries could form between these different zones. For example, rural 'free territories' sometimes link up with and act as bases and zones of retreat and education for industrial and urban movements. (And the very existence of 'free territories' has a great symbolic and inspiring power.) Or what if workers in the 'developing' world find ways to coordinate actions with people in the global cities where their products are financed and the profits laundered?

## 11. Infrastructure

Effective action requires infrastructure and resources. To grow strong forms of life we need:

- Spaces to meet, learn, think, plan, welcome new people. Historically many kinds of spaces have played these roles: cafes and pubs, meeting halls, free schools, social and cultural centres, festivals, fairs, camps, picnics (a tradition of Spanish anarchism), hiking clubs, ...

- Spaces to live, sleep, hide, recover.

- Resources for production and spread of information: printing presses, publishers, computers, servers, distribution networks, libraries, study groups, ...

- Resources for action of all kinds.

- Transport infrastructure: e.g., vehicles, garages and repair workshops, cross- country and cross-border accommodation and travel networks.

- Communications infrastructure and secure networks.

- Means to live: food and drink and all the basics we need to survive and keep healthy and well.
- Health: access to medics, medical supplies and equipment, all resources to care for our bodily and mental health.
- Education, training, sharing of skills, knowledge and arts of all kinds, for struggle and for life.
- Music, art, dance, spaces for social life and community, places to get lost in nature, all things that bring us joy and keep us strong without dominating or exploiting others.

Well resourced movements or networks can dramatically increase our capacities for action. To give a very basic example, in a city like London we have an everyday struggle just to survive. To pay rent and bills. Or spend much of our time just on finding, maintaining and defending precarious cold squats. To bring together friends and comrades scattered across the city.

To make spaces that are welcoming for people outside our existing 'scenes'. To find peace and beauty to replenish energy and soul in a desolate urban landscape. We can end up becoming burnt-out city drones, or we just abandon the field – thus a transient turnover of comrades who don't stay for long or make commitments.

What if we could have the spaces and resources to feed, nourish, house, equip, teach, support and inspire each other? Just developing some of this basic infrastructure could dramatically strengthen our movements in the city.

Again, there is no universal hierarchy of means that are best for doing this. The same criteria apply for actions and practices we use, for example, to find food, equipment and shelter. Do these practices strengthen the culture we are making? Do they empower us to attack?

Again, it is only 'our' criteria that matter. Not how a means is judged by external standards of the dominant culture. For example, many anarchists have found using illegal means to fund themselves both very effective, and a powerful part of creating cultures that challenge authority. Others create cooperative structures for housing, employment, transport, etc. But these are methods, not dogmas. In many situations it might be more empowering to stably own or rent a building, open a cafe that sells food, or do paid work.

In thinking about these questions, we can also look to what potential our practices have for future development. For example, as capitalism hits increasing economic and ecological crises it could get harder to live off work, welfare or other scraps in big cities. We may need to develop new skills of expropriation and self-reliance.

## 12. Acts of creation and destruction

To sum up, here are a few things we can think about in terms of making, strengthening, and growing our forms of life:

- Building infrastructure and resource chains.
- Learning and training new skills.
- Studying, thinking, alone and together, experimenting with new ideas.
- Propaganda: sharing desires and practices with others, particularly those being dispossessed by capitalism.
- Making alliances: finding and getting to know other rebel groups and individuals.

The forms of life we make need to be fighting cultures, which do not hesitate to attack. Acts of attack may involve, to note some very broad points:

- Attacking capitalist infrastructure and resource chains, means and spaces.
- Constantly outwitting, pre-empting and overcoming enemy tactics and attacks.
- Uprooting and overcoming capitalist values, desires and practices in our own lives too.
- Propaganda: undermining capitalist values and desires.
- Undermining capitalist alliances: helping divide elites and their accomplices.

## 13. Dare

It's good to make plans and think strategically about what we're doing. But above all, it's good to act. And the most powerful and surprising outcomes often come completely unexpectedly. Experiment, take risks, try new things, dare. If you don't, what kind of a life do you have to lose?

*'Our hope was folly, but then revolutionists have their heads a little out of... equilibrium. And without this folly the world would never change, and revolutions would perhaps be impossible.'*

*Enrico Arrigoni, Freedom: My Dream.*

## Further reading and Notes



# Chapter 1. Economic systems

Like other subjects, economics is a political battlefield. A battalion of ideology lurks behind every claimed ‘fact’. What makes it even worse is how hard economists try to hide this basic point. So you get a mass of pro-capitalist economics textbooks which never talk about politics, or even history, and ignore the existence of any alternative positions. And also a few Marxist textbooks which are just as confident about their own dogmas. You may find that you will learn more from historians, and a few anthropologists, than from economists.

## Some personal favourites:

**Peter Kropotkin – The Conquest of Bread.** Still classic statement of anarchist communist economics. Kropotkin thinks about the urgent question for an age of revolutions, inspired by the Paris commune of 1870: how can an insurrectionary city or country feed and resource itself without domination or exploitation, while simultaneously having to fight off counter-revolution?

## Alfredo Bonanno – Let’s Destroy Work, Let’s Destroy the Economy.

**Silvia Federici – Caliban and the Witch.** Excellent feminist and autonomous Marxist history of the rise of capitalism and the state, the commodification of our bodies, the attack on women by early capitalist institutions, and the resistance.

**E.P. Thompson – The Making of the English Working Class.** Massive, detailed, history of early industrial capitalism in England, the destruction of pre-capitalist social relationships, and the development of new forms of resistance.

**Anonymous – Desert.** Any discussion of capitalism and anti-capitalism risks being irrelevant unless we consider what drastic climate change means for our future possibilities. This book is a very important anarchist contribution to doing that.

**Marshall Sahlins – Stone Age Economics.** Hunter-gatherer economics and the ‘original affluent society’.

**Naomi Klein – Shock Doctrine.** I think this is one of the most interesting texts on recent neoliberalism and ‘disaster capitalism’.

## Classic texts on the nature and origins of capitalism:

**Karl Marx – Capital.** I have very mixed views on this book. Some of it is very important, and still insightful. In particular, the last part (Part 8) of Volume I is certainly worth reading. This is where Marx looks at the history of the development of capitalism in England. This is not only the inspiration for a lot of later historical work on capitalism, but its ideas are still powerful in their own right. On the other hand, I think that the first part of Volume I, which introduces the core ‘labour theory of value’, is just deluded, and dangerous, metaphysical nonsense. Other parts, like the unfinished discussions of the ‘tendency of the falling rate of profit’ in Volume III, offer a mixture of genius and claptrap.

**Max Weber – The Protestant Ethic and the Spirit of Capitalism.** This book is important because it is one of the first to think about capitalism not just as an economic system but as a culture, with its own new values and forms of desire. Weber’s particular historical explanation of the emergence of the profit motive is interesting, but probably not the whole story. And he definitely takes it too far in trying to see capitalism as having just one guiding ‘spirit’, an ethos that he thinks explains not just entrepreneurial capitalists but also factory labourers.

**R.H. Tawney – Religion and the Rise of Capitalism.** Another important take on the rise of bourgeois culture, again focusing on England. Tawney’s main contribution is to look at the breakdown of the old medieval religious ideologies which had helped limit the scope of the market.

**Karl Polanyi – The Great Transformation.** Polanyi’s book was the first to bring new insights from anthropology to bear on the history of European capitalism. It’s an interesting read, but you might also skip to more recent studies which update this approach. Of which I’ll mention two:

**Keith Hart – The Memory Bank: Money in an Unequal World.** Is a helpful clear exposition of some basic themes in the history and anthropology of capitalism, and brings in Hart’s research on how different forms of capitalism have emerged in their own ways in Africa and other parts of the world.

**David Graeber – Debt: the first 5000 years.** A big book, with a wealth of information and further reading suggestions in the anthropology and history of capital, debt and money. Although some of Graeber’s particular theories are pretty speculative.

## Some classic capitalist economic theory:

**Adam Smith – The Wealth of Nations**

**David Ricardo – On The Principles of Political Economy and Taxation**

**J.M. Keynes – The General Theory of Employment, Interest, and Money Milton Friedman – Free To Choose.** This being his more ‘popular’ defence of capitalism.

**Gary S. Becker – The Economic Approach To Human Behaviour.** Perhaps the most radical statement of the all-conquering ambitions of neoliberal economic theory and the rational choice model.

There are also some useful (though sometimes a bit technical) discussions and notes on different traditions in economic theory on the History of Economic Thought website of the New School for Social Research (leftie university in New York).

## Chapter 2. Finance

There are a few mainstream introductory books on global finance around. This one is okay:

### Stephen Valdez – Introduction to Global Financial Markets

There is a lack of good ‘radical’ studies of contemporary financial markets. Some of the stuff from the Dollars and Sense collective in the US is good, though US- focused. But pro-capitalist finance sites are usually more interesting and informative than the socialist ones. Here are a couple worth checking out:

**Nouriel Roubini**, the ‘doctor doom’ of the economics profession, and his gang of researchers: [www.roubini.com/](http://www.roubini.com/)

**Paul Krugman**, the guru of liberal economists, has a blog at the New York Times: [krugman.blogs.nytimes.com/](http://krugman.blogs.nytimes.com/)

If you want to do more research yourself on the intricacies of financial markets, there are various places to look for reports, statistics, etc. Often the most interesting are research reports by the investment banks themselves. Some of these you can find by googling about, though many are restricted access. If you are really inquisitive, one thing you could do is call up the banks’ press offices and ask for their research on a particular topic saying you are a freelance journalist. Otherwise, a few other sources of info:

**IMF**: publish annual ‘global financial stability report’, ‘economic indicators’, and other interesting stuff: <http://www.imf.org/external/pubind.htm>

**World Bank**: also lots of data and research publications, mostly public access: <http://econ.worldbank.org/>

**ISDA** (International Swaps and Derivatives Association), the international industry body / lobbying group for derivatives issuers and traders. Publishes research papers, anti-regulation propaganda, statistics and other info: <http://www2.isda.org/>

If you are interested in specific countries or regions, look at local central bank and finance ministry websites, and local industry bodies.

Those evil ratings agencies publish online their ‘rating reports’ on transactions, and the underlying methodologies behind them, as well as more general research papers. These are a really important source of info on securitisation deals and such. Some are freely available, though you may have to fill out a registration form.

**Fitch**: [Fitchratings.com](http://Fitchratings.com)

**Moody's**: <http://www.moody's.com/>

**Standard & Poors**: <http://www.standardandpoors.com/>

## Chapter 3. Global power

A good general introduction to World Systems Theory (WST) and global political economy is: **Herman Schwartz – States vs. Markets**

The godfather of WST is Immanuel Wallerstein, who has written many books (google him).

**Ha-Joon Chang – Kicking Away The Ladder** looks at how industrialised nations use protectionism to grow their nascent industries, then ‘kick away the ladder’ to stop others copying them.

For a brazen neoliberal ‘institutionalist’ theory of development and inequality, which comes recommended by Reagan and Thatcher, see **Hernando de Soto – The Mystery of Capital**. If you want to know your enemy.

On the iron fist of the invisible hand: **William Blum – Killing Hope. A history of US military and clandestine interventions since 1945**. [www.killinghope.org](http://www.killinghope.org) and to download here: [sandiego.indymedia.org/media/2007/02/125025.pdf](http://sandiego.indymedia.org/media/2007/02/125025.pdf).

On the crisis and the current global shift: **Graham Turner – The Credit Crunch; Paul Mason – Meltdown**; and other references for Chapter 5.

The mainstream sources for global income etc. stats are the research and data departments of the **IMF** ([www.imf.org](http://www.imf.org)), **World Bank** ([www.worldbank.org](http://www.worldbank.org)), and **OECD** (‘Organisation for Economic Cooperation and Development’ – [www.oecd.org](http://www.oecd.org)).

**Angus Maddison’s** historical global income stats are at:

[www.theworldeconomy.org](http://www.theworldeconomy.org)

### Chapter 4. The State

**Max Weber’s** famous definition of the state appears in his lecture ‘**Politics as a Vocation**’.

Some classic references in liberal political philosophy include:

## John Locke – 2nd Treatise of Civil Government;

**David Hume – A Treatise of Human Nature Book III Part II** (section 2 on the origin of property, section 7 on the origin of government) and his political Essays;

## Jean-Jacques Rousseau The Social Contract.

On the dark history of liberalism and its involvement with slavery, colonialism, etc., one book is **Domenico Losurdo Liberalism: A Counter History**

Again, **Silvia Federici – Caliban and the Witch** is a brilliant feminist and anti-capitalist history of the early days of capitalism and the nation state.

For recent developments in neoliberalism and ‘disaster capitalism’ **Naomi Klein – Shock Doctrine** is really worth reading. There’s also marxist

## geographer David Harvey’s – A Brief History of Neoliberalism.

A good source for research on outsourcing of the state (with a UK focus, but a bit of global stuff ) is [corporatwatch.org](http://corporatwatch.org).

**Statewatch** is a research organisation monitoring the growth of state power in Europe today, surveillance, border controls, etc.

See **SIPRI** (Stockholm International Peace Research Institute) for stats on military expenditure and the arms trade. Also the **UK's Campaign Against the Arms Trade** (CAAT).

## Chapter 5. Crisis

For a more in-depth look at different theoretical approaches (Keynesian, Marxist, etc.) to the 2008 crisis, see **Dariusz Sokolov – Crisis Stories, part of Making Sense of the Crisis**, published by Corporate Watch. Online here: [www.corporatewatch.org/publications/2012/making-sense-crisis](http://www.corporatewatch.org/publications/2012/making-sense-crisis)

There are lots of books out on the causes of the current crisis. Two decent ones are:

### **Graham Turner – The Credit Crunch: Housing Bubbles, Globalisation, and the Worldwide Economic Crisis**

**Paul Mason – Meltdown.** Mason's website also has a quick powerpoint run-through and other useful links: [www.paulmason.typepad.com/](http://www.paulmason.typepad.com/)

Marxist geographer **David Harvey** also has some interesting thoughts. This animation of one of his talks on the crisis is a decent intro: [www.youtube.com/watch?feature=player\\_embedded&v=qOP2V\\_np2c0](http://www.youtube.com/watch?feature=player_embedded&v=qOP2V_np2c0)

**Foster & Magdoff – The Great Financial Crisis** is also worth a look. It is good on financialisation, particularly with reference to the US economy, but lacks a global analysis. Note: most of the chapters are available as earlier article versions on the web: <http://www.monthlyreview.org/0506jbf.htm>

Two feature-length films on the crisis are okay in parts. **Inside Job** is a good example of the 'blame the bad bankers' approach, but has lots of useful info. Similarly, **Debtocracy** has a reformist state socialist agenda but some useful info particularly on the politics behind the debt crisis in Greece.

And here are a few interesting articles you can read online: <http://old.atterres.org/?q=node/13&page=6> <http://www.independent.co.uk/news/business/analysis-and-features/what-price-the-new-democracy-goldman-sachs-conquers-europe-6264091.html> <http://mobile.bloomberg.com/news/2011-12-09/european-crisis-timeline-from-maastricht-treaty-to-fiscal-union-agreement?category=> <http://www.nytimes.com/2010/04/29/business/global/29banks.html> <http://www.economist.com/blogs/freeexchange/2011/06/greek-debt>

To enter the mind of **Varoufakis** visit his blog: <http://yanisvaroufakis.eu/> Particularly interesting is his position statement from 2013 "Confessions of an errant Marxist": <http://yanisvaroufakis.eu/2013/12/10/confessions-of-an-erratic-marxist-in-the-midst-of-a-repugnant-european-crisis/>

## Chapter 6. Capitalism as a culture

On anthropological approaches to capitalism, here again are the references I gave above for Chapter 1:

**Karl Polanyi – The Great Transformation.** Polanyi’s book was the first to bring new insights from anthropology to bear on the history of European capitalism. It’s an interesting read, but you might also skip to more recent studies which update this approach. Of which I’ll mention two:

**Keith Hart – The Memory Bank – Money in an Unequal World.** Is a helpful clear exposition of some basic themes in the history and anthropology of capitalism, and brings in Hart’s research on how different forms of capitalism have emerged in their own ways in Africa and other parts of the world.

**David Graeber – Debt: the first 5000 years.** A big book, with a wealth of information and further reading suggestions in the anthropology and history of capital, debt and money. Although some of Graeber’s particular theories are pretty speculative. The section on self-interest is largely based on **Albert Hirschman – The Passions and the Interests: Political Arguments for Capitalism before its Triumph.** I think a very important book for understanding the development of liberal capitalist ideology.

**Michel Foucault’s** lecture course on **The Birth of Biopolitics** is also fascinating on liberalism, neoliberalism, ‘homo economicus’ and the idea of human beings as ‘subjects of interest’. Though perhaps not the easiest reading.

### Theories of Culture

A nice starting point for ‘British Cultural Theory’, and a key text on working class youth sub-cultures:

### Dick Hebdige – Subculture: the meaning of style.

These texts are following a line started by **Raymond Williams** in the 1960s. His historical look at definitions of culture in his **Keywords** is a good quick introduction. He goes into much more depth in **The Long Century** and his later textbook **Culture**.

**E.P. Thompson** makes a Marxist critique of Williams’ view of culture in his review of **The Long Century** (also called ‘The Long Century’, published in issues 9 and 10 of the journal *New Left Review*). Thompson argues that we need to distinguish ‘culture’ from the ‘material life’ of groups and classes: people develop values and ‘maps of meaning’ in response to their ‘material conditions’. I am with Williams on this, but Thompson raises some interesting questions.

The collection **Resistance Through Rituals** edited by **John Clarke, Stuart Hall, Tony Jefferson & Brian Roberts** develops the ideas of both Williams and Thompson with a theoretical introduction and then lots of essays applying these ideas to the study of subcultures.

**Wittgenstein** introduces the idea of “form of life” (lebensform) in his **Philosophical Investigations**. He writes that the ‘language games’ people play when they communicate only work against a rich and complex shared background, a “form of life”.

The idea of assemblages is developed by the philosophers **Gilles Deleuze** and **Felix Guattari** in their **A Thousand Plateaus**. But maybe an easier starting point is **Manuel De Landa – A**

**New Theory of Society.** Delanda simplifies their account and language, and specifically applies the assemblage idea to thinking about social structures.

## Philosophy and psychology

**Nietzsche** developed his main psychological ideas, and the theory of ‘incorporation’ and the ‘herd’, in his three ‘middle period’ or ‘free spirit’ books: **Human, All Too Human; Dawn;** and **The Gay Science.** His ideas are scattered around these books in short ‘aphoristic’ sections. The first two books of Dawn are probably a good starting point.

On developmental psychology, here I largely follow, and recommend: **Katherine Nelson – Young Minds in Social Worlds.** Nelson is working in a tradition of embodied and socio-cultural approaches to child psychology which owes a lot to the Soviet psychologist Lev Vygotsky. This is an alternative to the more orthodox ‘cognitive’ approach pioneered by Jean Piaget, which like most psychology and cognitive science has a strong universalist bias: human beings develop on the same basic patterns across times and cultures.

A compilation of some of **Vygotsky’s** writings, heavily edited but a very useful introduction: **Lev Vygotsky – Mind in Society**

On recent psychological research on imitation, this 2 volume compilation contains many key papers: **Hurley, Susan and Nick Chater – Perspectives on imitation: from neuroscience to social science.**

**John Protevi – Political Affect** develops a philosophical approach similar to the one I am taking here, bringing Deleuze and Guattari together with recent psychological research to think about how political power and domination works through our psychology and physiology.

**Judith Butler – Gender Trouble** is a classic text in feminist philosophy and develops her idea of performativity. Though her writing style is famously difficult.



## Chapter 7. A brief history of capitalist desires

For Weber, Tawney, Marx and all, see the references above to Chapter 1.

On the dispossession and ‘disciplining’ of the proletariat, again, **Silvia Federici** – Caliban and the Witch.

On the history of advertising and mass consumerism, **Stuart Ewen** is excellent. The section here largely follows his book Captains of Consciousness. His more recent book **PR! A Social History of Spin** is also good.

Another useful history of US advertising and consumer culture is **William Leach – Land of Desire: Merchants, Power, and the Rise of a New American Culture**.

**Adam Curtis**’ TV documentary series **The Century of the Self** also largely follows Ewen’s account, with an added emphasis on the link between advertising and Freudianism. Some of the claims are a bit simplistic, but it is fascinating and entertaining. Last time I looked it was all up on youtube.

**Guy Debord**’s master work is **The Society of the Spectacle**. There’s also a movie version, which should be on youtube. The other SI classic is **Raoul Vaneigem – The Revolution of Everyday Life**. Both these, and more, are available at this SI online library: [www.nothingness.org/SI/](http://www.nothingness.org/SI/)

On subcultures, and subcultural resistance, see **Dick Hebdige – Subculture: the Meaning of Style**.

The first part of **The Coming Insurrection** (by the ‘Invisible Committee’) is certainly influenced by Debord in its style as well as content. The second part, which moves from critique to theses for new insurrectionary movements, is also worth reading.

But if you really want French theories of desire, nothing compares to **Gilles Deleuze and Felix Guattari – Anti-Oedipus**.

## Chapter 8. Other cultures

For the story of Meeker's complete and brutal incomprehension of a superior culture, and many other sad stories, see **Dee Brown – Bury My Heart at Wounded Knee** (An Indian History of the American West).

NB: pretty much all of the anarchist texts I reference in this section can be found at **theanarchistlibrary.org**.

### Anarchism

Many people have written introductions to anarchism, short and long, and I find it hard to recommend any particular one. A couple of classics from the early 20th century are **Alexander Berkman – What is Anarchism?** and **Errico Malatesta – Anarchy**.

There are many many more introductory and other anarchist texts at the amazing website **theanarchistlibrary.org**. At this moment, the category 'introductory' has 70 entries. Of all the recent short 'introductions', one of the best written ones is '**Anarchy 101**' by **Bob Black**. I don't agree with all of it by any means, but one of the good things about anarchism is that we don't all have to agree.

The first quote in this section is from a letter that **America Scarfó**, then 16 years old, wrote to the French anarchist and individualist Emil Armand.

America was writing on the subject of free love and her relationship with Severino Di Giovanni, a very active anarchist insurrectionary and propagandist who was killed by the Argentinian state in 1931. America went on to have a long and active life. The letter is online at <http://theanarchistlibrary.org/library/america-scarfo-emile-armand-letter-of-america-scarfo-to-emile-armand>

The second quote is from **Alfredo Bonanno's 'The Anarchist Tension'**, in which he discusses what it means to be an anarchist. Anarchism is not a fixed ideology to be 'guarded in a safe', but something each of us has to develop and continually discover for ourselves in action. It is not a distant objective to be achieved 'after the revolution', but a joyful struggle for freedom in our life lived every day.

### Some early anti-capitalist history

**Raul Vaneigem – The Movement of the Free Spirit**. On medieval heresies, communes, uprisings, and rejection of the Church's ideology of 'survival' against 'life'.

**Luther Blisset – Q**. Radical historical novel featuring German peasants war, Anabaptists, the invention of leafleting, free love, and international bank fraud. Described by its authors as a 'handbook of survival skills'. And great fun.

**Christopher Hill – The World Turned Upside Down**. History of the Diggers, Ranters, Levellers, and others in the English Revolution.

**E.P. Thompson – The Making of the English Working Class**. Massive scholarly reference on the early period of industrial capitalism in England, and resistance to it. Includes perhaps the most complete history of the Luddite movement.

**Norman Cohn – The Pursuit of the Millenium**. A history of "revolutionary millenarians and mystical anarchists of the middle ages".

**Peter Linebaugh – The London Hanged.** Excellent, detailed history of class struggle in 18th century London. Highwaymen, prison escapes, riots, everyday expropriation, and how they eventually managed to tame the London Mob.

**Marcus Rideker and Peter Linebaugh – The Many Headed Hydra: The Hidden History of the Revolutionary Atlantic.** Fascinating study of social war in the Atlantic colonies and ports and on the high seas, including mutinies, pirates, slave rebellions, and much more.

## Mutualism

If you can sort out the interesting stuff from the rabid misogynistic and anti-semitic rants, here is an online archive of **Proudhon's** writings: [http://dwardmac.pitzer.edu/anarchist\\_archives/proudhon/Proudhonarchive.html](http://dwardmac.pitzer.edu/anarchist_archives/proudhon/Proudhonarchive.html)

**Kevin Carson** is a contemporary Proudhon-inspired 'mutualist' who describes himself as a 'free market anti-capitalist': <http://mutualist.blogspot.co.uk/>

## Insurrection

**Peter Kropotkin – The Conquest of Bread.** Classic statement of insurrectionary anarchist communism from 100 years ago. While certainly outdated in some number of ways — e.g., its faith in labour-saving technologies

— this is still a great anarchist work on economics. Its main interest is in how to coordinate resources for an insurrectionary society, learning from the experience of the Paris Commune in particular. But also has more insights on economic theory in general, and a critique of Marx's economic thought and the 'labour theory of value'.

On the Paris Commune, for passion and deep personal involvement, I would start with the memoirs of the French anarchist **Louise Michel**. <http://theanarchistlibrary.org/library/louise-michel-memories-of-the-commune>

There are many of **Alfredo Bonanno's** writings online in English at [theanarchistlibrary.org](http://theanarchistlibrary.org). Some that directly discuss the idea of insurrection are: **Why Insurrection?; Insurrectionalist Anarchism;** and **From Riot to Insurrection.**

Some interesting recent English-language insurrectionalist writing can be found in the US journals **Killing King Acabus, Willful Disobedience** and **Anarchy: A Journal of Desire Armed**. Many back-issues of these can be found on [theanarchistlibrary.org](http://theanarchistlibrary.org). In particular look at the short texts written by **Wolff Landstreicher**. For instance **Against the Logic of Submission**. An interesting Landstreicher article discussing a number of recent insurrectionary events and anarchists' relations with them is: **Autonomous Self-Organization and Anarchist Intervention: A Tension in Practice.**

Live insurrectionist websites with short texts and action reports include:

## 325.nostate.net and actforfree.nostate.net.

A good introduction to the Greek revolt of 2008, which collects many short texts, letters, leaflets, interviews, etc., is **We Are An Image from the Future** – edited by **A.G. Schwarz, Tasos Sagris,** and **Void Network**, published by AK Press.

On the emerging Arab anarchism one resource is the website [tahriricn.wordpress.com](http://tahriricn.wordpress.com).

### Syndicalism and its critics

**Rudolf Rocker – Anarcho-Syndicalism: Theory and Practice.** Classic exposition of anarcho-syndicalism from 1938.

**Emile Pataud and Emile Pouget – How We Shall Bring about the Revolution.** Fictionalised manual for a syndicalist revolution beginning from a general strike, from 1909.

On the success (or otherwise?) of syndicalist economic organisation in Spain 1936 see: **Gaston Laval – Collectives in the Spanish Revolution.**

**Ursula Le Guin – The Dispossessed.** Classic science fiction novel from the 1970s. Although a fantasy novel, this is also one of the best worked out programmes for what an anarcho-syndicalist society (and on a desert planet, too) could actually look like.

For a strong critique of syndicalist organisation and its tendencies to ‘degenerate’ into compromise and authoritarianism see **Alfredo Bonanno - A Critique of Syndicalist Methods.** Bonanno was writing this in the middle of the resurgence of workplace unrest in Italy in the 1970s.

A classic earlier (1926) anarchist critique of syndicalism is **Errico Malatesta – On Syndicalism.** Malatesta sees syndicalist organising as a useful means for workers’ struggles, but certainly not the magic road to anarchist revolution that some of its supporters were claiming.

For critiques of the very idea of work see **Bonanno’s Let’s Destroy Work, Let’s Destroy the Economy.**

## **Also: Bob Black – The Abolition of Work**

### **Post-industrial futures**

**Anonymous – Desert.** Any discussion of capitalism and anti-capitalism risks irrelevance unless we consider what drastic climate change may mean for our future possibilities. This book from a UK anarchist opens a crucial debate.

Notable US primitivist writers include **John Zerzan** and **Kevin Tucker.** Besides [theanarchistlibrary.org](http://theanarchistlibrary.org) there is a dedicated library of primitivist texts here: [www.primitivism.com/primitivism.htm](http://www.primitivism.com/primitivism.htm)

**Wolfi Landstreicher’s** anti-civ critique of primitivism is titled “**A Critique not a Programme, for a non-primitivist anti-civilisation critique**”.

And another beautifully written feminist Sci-Fi novel: **Marge Piercy – Woman On The Edge of Time.** A vision of a society of self-sufficient small scale communes which also raises many issues about gender, sexuality, and cultural identities. Its utopian dreams are embedded in a story of the dystopian present. The bit where the cows telepathically ask people to eat them, though, is pretty silly.

## Chapter 9. How can we destroy it?

Where do the ideas in this chapter come from? Where do any ideas come from. A load of sources, some you can consciously identify, others you've unconsciously incorporated, and all of them digested and mixed up in your own ways.

NB: again, pretty much all of the anarchist texts I reference in this section can be found at [theanarchistlibrary.org](http://theanarchistlibrary.org).

### Positive and negative

The idea that our projects are both creative and destructive, building and attacking, struggling at once for freedom and against domination, has always been at the heart of anarchism.

**Bakunin** made this point with his famous phrase 'the passion for destruction is also a creative passion' in 1842 – albeit in a rather abstract article laced with Hegelian philosophy of 'the spirit' (called *The Reaction in Germany*), and before he had actually become a revolutionary anarchist.

The line immediately before is: 'Let us therefore trust the eternal Spirit which destroys and annihilates only because it is the unfathomable and eternal source of all life.' Destruction isn't a end in itself, but necessary for new life.

The same point was made again and again by many 'classical' anarchists. For example, **Emma Goldman** in '**Anarchism: What it really stands for**' addresses two big criticisms of anarchism: it can never work; it's just mindless violence and destruction. Her argument is very close to Bakunin's, and also uses a grand metaphor – 'nature' rather than Hegelian 'Spirit':

*'Destruction and violence! How is the ordinary man to know that the most violent element in society is ignorance; that its power of destruction is the very thing Anarchism is combating? Nor is he aware that Anarchism, whose roots, as it were, are part of nature's forces, destroys, not healthful tissue, but parasitic growths that feed on the life's essence of society. It is merely clearing the soil from weeds and sagebrush, that it may eventually bear healthy fruit.'*

But this doesn't mean focusing on negative destruction now, so we can have happy creativity in the future. Anarchism (usually) rejects this idea of deferred life. We want joy today, even as we're in the midst of the war. Here's how **Kropotkin**, for example, makes this point (in his '**Anarchist Morality**')

*'Struggle! To struggle is to live, and the fiercer the struggle the more intense the life. Then you will have lived, and a few hours of such life are worth years spent vegetating. Struggle so that all may live this rich, overflowing life. And be sure that in this struggle you will find a joy greater than anything else can give!'*

This attitude is at the heart of so many anarchist writings from before the Second World War. To see how anarchist lived it in action – and also thought about strategies for destroying capitalism, too – perhaps the best references are not theoretical texts but memoirs and letters. Just to name a few examples: **Kropotkin's Memoirs of a Revolutionist**; **Goldman's Living My Life**; the **Prison Letters of Sacco and Vanzetti**; or **Enrico Arrigoni's** autobiography **Freedom: My Dream**, quoted at the end of this chapter.

We seem to have lost sight of these points sometimes in recent anarchist writing. A very big problem here was that, as anarchist movements weakened after the 1930s, they became vulnerable to the spread of defeatist pacifism. See **Peter Gelderloos – How Nonviolence Protects the State** for an analysis of the 'dogma of nonviolence', how it has helped make anarchist and other anti-capitalist movements

(at least in rich countries like the US) increasingly passive and submissive in recent decades, and so served well the state and capital.

In the 21st century some currents of insurrectionalist anarchism have swung right the other way, towards an attitude very largely focused on destruction. At least in part this seems to be a reaction to the passivity of previous generations of anarchists, anti-capitalists – and people in general under capitalism today. A destruction-focused view of anarchy is sometimes associated with the idea of nihilism. For a useful introduction to nihilist thinking, and its historical and current relationship with anarchism, see **Aragorn! – Nihilism, Anarchy and the 21st Century**.

## The dispossessed, and informal organisation

**Alfredo Bonanno's From Riot to Insurrection**, from 1985, develops the idea of struggles of the 'included' and 'excluded' in contemporary capitalism. He looks at the growing gulf between those still 'inside' the 'castles' of capitalist consumption, work and welfare, and the dispossessed pushed out into the cold.

**Wolfi Landstreicher** is another insurrectionalist writer, influenced by Bonanno, who looks at class struggle in terms of 'dispossession' in **The Network of Domination**. He argues that 'The ruling class is defined in terms of its own project of accumulating power and wealth.' While:

*'The exploited class has no such positive project to define it. Rather it is defined in terms of what is done to it, what is taken away from it. Being uprooted from the ways of life that they had known and created with their peers, the only community that is left to the people who make up this heterogeneous class is that provided by capital and the state ...'*

These two texts are examples of something all too rare: serious anarchist analysis of capitalism, how it is changing and so how our forms of struggle need to change too. They try to think beyond Marxist approaches which have been too much of an intellectual straitjacket, often on anarchists too. Although to some degree, as in that quote from Landstreicher, in some ways they still stay rather close to Marxist thinking.

**Bonanno's** essay '**From Riot to Insurrection**', and other writings, then goes on to argue strongly that only 'informal' organisation can destroy capitalism in its new forms :

*'If industrial conditions of production made the syndicalist struggle reasonable, as it did the marxist methods and those of the libertarian organisations of synthesis, today, in a post-industrial perspective, in a reality that has changed profoundly, the only possible strategy for anarchists is an informal one.*

*By this we mean groups of comrades who come together with precise objectives, on the basis of affinity, and contribute to creating mass structures which set themselves intermediate aims, while constructing the minimal conditions for transforming situations of simple riot into those of insurrection.'*

'From Riot to Insurrection' was written in 1985. Though its core points are spot on, understandably some of its predictions now look rather off-target. To help bring the analysis of shifting 'inclusion' and 'dispossession' into the 21st century, again, **Desert** (by Anonymous) is a good starting point. It adds two important elements: the role that ecological crises are playing and will play; and how these shifts are developing very differently in different global regions.

## Propaganda

For one old-school anarchist approach to propaganda see **Errico Malatesta – Anarchist Propaganda**. Malatesta thinks that:

*'Our task is that of "pushing" the people to demand and to seize all the freedom they can and to make themselves responsible for providing their own needs without waiting for orders from any kind of*

authority. Our task is that of demonstrating the uselessness and harmfulness of government, provoking and encouraging by propaganda and action, all kinds of individual and collective initiatives.’

Malatesta also argues that ‘as a general rule we prefer always to act publicly’. Of course there are situations when we need to act secretly and clandestinely:

*‘One must, however, always aim to act in the full light of day, and struggle to win our freedoms, bearing in mind that the best way to obtain a freedom is that of taking it, facing necessary risks; whereas very often a freedom is lost, through one’s own fault, either through not exercising it or using it timidly, giving the impression that one has not the right to be doing what one is doing.’*

As for more recent efforts, looking at it from the UK, there is one beacon that still shines: the newspaper **Class War**. The best recent example, at least in English, of how to get across uncompromising anarchist and class struggle messages to a wide audience. Though not all that recent: we haven’t had much like this since the 1980s! See the book by Class War founder **Ian Bone – Bash The Rich** for more about the paper and the times.

Class War also shows that writing in an accessible style doesn’t mean you can’t do serious analysis and strategy too. A great example of this is **Martin Wright’s** 1984 Class War article **Open The Second Front**. This is another rare thing: strategic thinking in the heat of the action, precise, direct, clearly written, and incendiary.

## Diversity of tactics

Leaving aside the idea of ‘the masses’, here is a resounding statement of much the same kind of point I’m trying to make, from the UK ‘libertarian socialist’ group ‘**Solidarity**’ in their statement ‘**As We See It**’ of 1967:

*‘Meaningful action, for revolutionaries, is whatever increases the confidence, the autonomy, the initiative, the participation, the solidarity, the egalitarian tendencies and the self-activity of the masses and whatever assists in their demystification. Sterile and harmful action is whatever reinforces the passivity of the masses, their apathy, their cynicism, their differentiation through hierarchy, their alienation, their reliance on others to do things for them and the degree to which they can therefore be manipulated by others – even by those allegedly acting on their behalf.’*

One of the main ‘dogmas’ that can cause problems in thinking about types of action is the pacifist dogma of non-violence. To be clear: the point is not that ‘violent actions are always good’. That would just set up a new dogma in reverse. Once again, ‘good’ actions are those that empower and strengthen our struggle. Sometimes, these actions will involve the use of force. It should never fail to be pointed out that we face the much greater violence of the state, a murderous war machine. On these points see **Peter Gelderloos: How Non-Violence Protects The State**.

On issues of ‘legalism’ or ‘illegalism’, a text from 1911, **Is The Illegalist Anarchist Our Comrade?** by the individualist anarchist **Emile Armand**, that still makes strong points. It concludes:

*‘the criterion for camaraderie doesn’t reside in the fact that one is an office worker, factory worker, functionary, newspaper seller, smuggler or thief, it resides in this, that legal or illegal, MY comrade will in the first place seek to sculpt his own individuality, to spread anti-authoritarian ideas wherever he can, and finally, by rendering life among those who share his ideas as agreeable as possible, will reduce useless and avoidable suffering to as negligible a quantity as possible.’*

## To life

**Enrico Arrigoni**, who’s quoted at the end, was a wandering individualist anarchist who had an amazingly rich, joyful and active life, full of travels, love affairs, friendships, learning different trades,

and participating in a dizzying number of revolutions. Again, a lot of the best ideas and examples for struggle are not to be found in theoretical tracts but in memories like his.

### List of illustrations and photographs

## All illustrations are public domain or are used with permission of the author, unless otherwise stated.

- P2. Yuppies, by Laura Oldfield Ford.  
P5. Graffiti from Poland: “Do you belong to the herd?” P6. Painting of Klallam potlatch feast by James G. Swan. P7. Photo of Tahrir Square in occupation by James Rashad.  
Creative Commons license 2.0.  
P8. Portrait of Adam Smith by John Kay. P9. Charlie Chaplin in Modern Times. P10. “World’s Highest Standard of Living”.  
P11. A scene from the 1973 Chile coup: inside the Santiago football stadium where enemies of the new regime were gathered and killed.  
P13. A cow being inspected in a cage.  
P14. IWW poster of the “Pyramid of Capitalism”.  
P15. Wall Street, 1918. Charlie Chaplin and Douglas Fairbanks at a Liberty Bonds rally.  
P17. VOC trading ship by Table Mountain.  
P18. State of South Carolina 6% bond from 1873.  
P19. The sealing of the charter of the bank of England, 1694. P21. Bankers.  
P27. Structure of a securitised bond. P29. Yuppies, by Laura Oldfield Ford.  
P30. Electronics factory in Shenzhen, China, 2004. Photo by Steve Jurvetson. CC 2.0.  
P31. Fuse factory, Woolwich Arsenal, late 19th century.  
P32. Map resizing countries by proportion of GDP – from worldmapper.org. Under CC license from Sasi Group (University of Sheffield) and Mark Newman (University of Michigan).  
P33. Map of the Atlantic “triangular trade” in slaves and commodities by Sémhur, CC license 3.0.  
P35. Ford assembly line 1913.  
P36. Dharavi shantytown, Mumbai, India. By YGL Voices licensed under CC 2.0.  
P39. “Preocupado conmigo?” By Tick.  
P41. Pinochet and Kissinger. CC Chile license 2.0. P42. Poster: capitalist and cop.  
P45. Portrait of John Locke.  
P46. Woodcut: A witch riding a goat lets loose a rain of fire.  
P47. Decaying hedges planted to enclose fields under 1768 Parliamentary Act of Enclosure of Boldron Moor, County Durham.  
Photo by Andy Waddington licensed under CC Attribution-ShareAlike 2.0 license.  
P48. Luddite rebels in drag.  
P49. German 3rd Reich postage stamp celebrating autobahn building programme.  
P52. John Maynard Keynes, caricature from 1934. P53. Japanese school classroom in 1930.  
P54. Broken Promises. By John Fekner CC 3.0 license. P55. The South Sea Bubble by William Hogarth.  
P57. Graffiti from Athens: A trillion dollars. P60. Alan Greenspan.  
P70. Black Friday. Photo by Powhusku. CC 2.0.  
P72. The sin of avarice. Statue from Autun Cathedral, France. Photo by Gautier Poupeau, licensed under CC 2.0.  
P74. Symbiosis: the classic, possibly imaginary, symbiotic relationship between Nile crocodiles and certain small birds.



P76. Poster: "The struggle against the system that surrounds us is not more important than the struggle against the system that we have internalised."

P77. Unconscious mimesis?

P79. Children playing house in Tule Lake internment camp for Japanese-Americans, 1943.

P80. Electroshock therapy, for the curing of abnormal minds. P81. Gay Liberation Front poster.

P83. Poster: the economy is suffering, let it die. P85. Early 1970s London graffiti by King Mob.

P89. Photomontage by Stig.

P90. "East meets Westfield", by Laura Oldfield Ford. P92. Poster: " I didn't go to work today ..."

P93. Che T-shirts on sale in the Revolution Museum gift shop in Havana. P95. Stuff in a superkarket. Photo by Lyza. CC BY-SA 2.0 license.

P96. Christmas tree from Athens 2008. P98. Poster: Destroy what destroys you. P99. America Scarfó.

P100. Anti-ranter propaganda woodcut from 1651. P101. Luddites breaking factory machines.

P102. A barricade of the Paris Commune. Rue Saint Sebastien, 10th arondissement.

P104. CNT worker-run armoured car factory, Barcelona 1936. P105. Syndicalist cooking union, La Paz, Bolivia 1935.

P106. Italian anti-eviction solidarity poster for arrested comrades.

P106. Can Vies squat, Barcelona. Photo by Otto Normalverbraucher CC 2.0 license.

P107. Poster: "Visualise vast wilderness, actualise industrial collapse." P108. A hacklab. Photo by Windgeist. Licensed under CC 2.0.

## Back Cover

What is capitalism? An economic system built on private property, markets, exploitation and profit, enforced by state violence. But also, digging deeper, a culture of fear and passivity, in which we learn to see the natural world, other people, and even ourselves, as objects to be owned and managed, bought and sold.

The first part of this book gives an introduction to capitalist economics in accessible, non-specialist language. It covers: the basics of economic systems; financial markets; the global economy and shifting world power; the roles of the state; crisis. The second part delves into how capitalism shapes our values and desires. Finally, it turns to resistance and rebellion. So how can we destroy this poisonous system, and start to create new worlds of freedom?

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A critique of his ideas & actions



Shahin

Capitalism

What is it and how can we destroy it?

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