EDITORIAL PERSPECTIVES

"EXPLAINING" THE CRISIS: SHOALS O' RED HERRINGS

Before getting down to work, and mindful of our long lead time to publication (I am writing in early October; this is the only "blog" that has to wait *six months* to be read), I must start with a plug. If you haven't yet seen Michael Moore's film, *Capitalism: A Love Story,* and if it is still available where you are, please *don't miss it*! (Assuming it is still playing. If not, rent the DVD version and organize a home viewing party.) My wife and I saw it yesterday, at the Brooklyn Academy of Music (BAM) in New York. It is a heartfelt cry of anger against the shocking immorality of a society that secures vast wealth and power at one pole, resting upon the increasing misery of the vast majority at the other. Moore's humor cuts the pain of the interviews with people whose homes, and lives, have been taken from them. Without the humor, the human stories would be unbearable. With it, one comes away with hope, and the film ends with a ringing call to replace capitalism with — well, "democracy." You probably expect me now to jump into this apparent failure to use the "s" word; our readers will know of S&S' long-standing attention to this topic. But in the context of Michael Moore's film, I think, this is *not* an evasion; the vagueness of the alternative as stated there is entirely appropriate, and the democracy called for *is* the search for alternative ways of organizing our shared existence. What matters is that this film — unlike *Science & Society,* it must be said — has the potential to reach vast audiences of working people, in movie theaters on Main Street across the USA (far from BAM) and, one must assume, powerful forces are at work to prevent that from happening.

In the meantime, amid signs that Wall Street is increasingly happy with multi-billion dollar taxpayer bailouts, the crisis deepens for working people. Unemployment (as officially understated) creeps toward the 10% mark, foreclosures (one every 13 seconds or so) continue, the Senate somehow can't abide even a meager "public option" in the Health Care Bill, and communities continue to deteriorate. In this environment, the talking heads, predictably, produce what I am calling "shoals" of red herrings.[1] Everyone wants to "explain" the financial meltdown and the Great Recession in some way; many of these explanations, however, keep us from getting to the heart of the matter and filling in the contours of Michael Moore's "democracy."

So. What caused the crisis?

1. *The Federal Reserve.* Yes, folks, the problem is the excessive power of the Federal Reserve system, the network of 14 quasi-governmental banks that are the U. S. equivalent of what every other capitalist country knows as a Central Bank. In a piece written for the online Huffington Post (huffingtonpost.com) ("Priceless: How the Federal Reserve Bought the Economics Profession," posted July 9, 2009), Ryan Grim explains that the Fed (as it is affectionately known) missed the signs of the meltdown and therefore failed to act to prevent it; moreover, its dominance over the economics profession caused that profession to miss them as well. Grim documents the number of Ph.D. economists in the employ of the Fed, at both the Board of Governors and the participating banks, and the power of current and past Fed employees on the editorial boards of important economics journals (I am glad to report that *Science & Society* is not on the list!). I passed this article on to a friend who is currently a research fellow at one of the Fed district banks, and chided him about not spending his Thirty Pieces of Silver all in one place! Grim actually does not propose a vulgar payoff theory. He quotes a knowledgeable source: "It's more like being one of, part of, a club — being respected, invited to conferences, have a hearing with the chairman, having all the prestige dimensions, as much as a paycheck." But the result is the same: there is a conflict of interest, which keeps economists from being duly critical, and this cozy relationship in turn keeps the Fed from serving as a true watchdog. Had it done so, the crisis might have been averted.

You might have noticed that the argument is circular. It doesn't explain how the free-market ideology, promoted by the Fed and not questioned by the subservient economics profession, gets its hegemonic status in the first place. I should also mention that, from personal knowledge, the Fed is hardly monolithic in its views, and in fact mirrors developing trends, dominant or otherwise, in the fields of macroeconomics and monetary economics. The New York Fed has been rather middle-of-the-road and eclectic, even at times inviting heterodox economists to give seminars. The St. Louis Fed, by contrast, has been quite Chicagoish and free-market over the years, but in fact has recently acquired a new interest in stabilization policy. It is not clear which,

1 The reference is to Ewan MacColl's Radio Ballad about the lives of deep sea herring fishermen, and its title song, "Shoals O' Herrin'"; see Ben Harker, "Class Composition: The Ballad of John Axon, Cultural Debate and the Late 1950s British Left," S&S, July 2009.

the Fed or the economics profession, is the dog and which is the tail. In any case, failure to predict the meltdown is quite different from causing it.

Which brings us to . . .

2. *Mathematics*. Yes (again), the failure of the economics profession to predict the crisis, and thereby contribute to its prevention or abatement, is due to its Platonism: its love for the elegance and beauty of mathematics. Here is Paul Krugman, in *The New York Times* (September 2, 2009):

> The economics profession went astray because economists, as a group, mistook beauty, clad in impressive-looking mathematics, for truth. . . . economists fell back in love with the old, idealized vision of an economy in which rational individuals interact in perfect markets, this time gussied up with fancy equations. . . . They turned a blind eye to the limitations of human rationality that often lead to bubbles and busts. . . . When it comes to the all-too-human problem of recessions and depressions, economists need to abandon the neat but wrong solution of assuming that everyone is rational and markets work perfectly.

I will address the "limitations of human rationality" later. Here I just want to mount a (brief) defense of mathematics.

One of my graduate students recently contemplated a mathematical model of capitalist economic growth that I am currently developing (with help from friends with mathematical skills greatly superior to my own). If you start from specific — but *abstract* — assumptions about a *capitalist* economy (not an eternal, transhistorical "market" economy populated by rational "individuals," but one that is divided into classes and populated by *boundedly rational* capitalists and workers), you arrive, I think, at a set of nonlinear differential equations (these are equations that depict the *motion* of variables through time). One implication of these equations is that, in a wide range of conditions, the *wage share* (the proportion of wages to the total net output produced by workers) *rises* over time as the economy matures. My student, who was steeped in the neoclassical orthodoxy, was puzzled: "If the wage share rises, there must be something wrong with the math," he said. "It's not rigorous enough." Now if the wage share rises toward unity, the profit share (and rate) must be falling toward zero, and the efficacy, or coherence, of the capitalist economic system is increasingly called into question. This student was *equating mathematical rigor with conditions under which capitalism is eternal*, and not even realizing that he was doing that.

But don't blame the mathematics! Mathematical tools as such are neutral. And if we are ever to build up the competency in the subaltern population of capitalist societies, in whom Michael Moore places such hope, so that the "democracy" alternative can be fleshed out in realistic and therefore politically significant ways, we must aver, with apologies to von Clausiewicz, that math is too important to be left to the capitalists, or to their favorite economists. We should not condemn mathematics as such for its more-than-occasional misuse.

3. *Financial innovation.* In one hilarious sequence in the film, Michael Moore stands outside the Wall Street banks asking bankers as they come through the door: "What's a derivative?" They either don't know, or don't want to talk about it.

A derivative is, quite simply, a bet. It is a contract that says, if something else moves in a certain direction, you win; if it moves in the other direction, you lose. Options and futures contracts are not new inventions; they have been part of financial markets for a long time. In the first, you buy the possibility of choosing whether or not to buy a stock, at a certain price; in the second, you arrange to purchase (or sell) a stock at a future point in time, at a certain price (regardless of what the spot price — the price at that future moment — may be).[2] Now the "insight" that leads to modern derivatives is that the wager can be decoupled from any particular stock, or commodity. You can bet on the trend of a stock market index, for example, or on a basket of stocks; the securitized mortgages so infamously involved in the sub-prime mortgage crisis are nothing but (questionable) mortgages bundled together into a derivative. This secondary asset is used by a bank to unload its obligations onto some other party, presumably at a discount that is agreeable to both.

At this point the question arises: does the purchasing party know about the status of the underlying assets (the original mortgages, let's say), and how can it measure (quantify) the quality of those assets? This is the core problem in the mathematics of derivatives. For the present, we can simply say that, in an expanding market in which everyone believes that the underlying assets will appreciate, the problem is trumped by expectations of gain. *To act on the expectation of appreciation, given that everyone else will so act, is rational, not irrational.* The underlying problem of speculative bubbles has little to do with derivatives or any other newly crafted financial "products" — although these certainly give the recent bubble some of its unique character. It is, rather, that a system of atomistic markets *requires* rational individuals to act in a way that will lead to crisis, because any other action, in the presence of competitors, will be ruinous, and therefore irrational. But this leads us in the direction of the historically specific social relations of capitalist markets, and so toward Michael Moore! The ideological guardians of the capitalist fortress, by contrast, would be in serious trouble if they were to run out of red herrings.

2 For an excellent introduction to the workings of these instruments, in a Marxist context, see John Parsons, "Bubble, Bubble, How Much Trouble? Financial Markets, Capitalist Development, and Capitalist Crises," *Science & Society*, Fall 1988.

4. *Human nature.* It usually comes down to this.

Economist and business ethicist Robert H. Frank offers a *New York Times* piece headlined "Flaw in Free Markets: Humans" (September 12, 2009). His description of the way markets impose a short time horizon on rational participants entirely supports the analysis in the preceding paragraph: "Real investors faced a tough choice: continue earning high returns from mortgage-backed securities, or move their money to safer vehicles and watch their friends and neighbors pass them by."[3] His meta-analysis moves in a different direction, however:

> Given the conditions under which human nervous systems evolved, these aspects of our behavior are unsurprising. Because immediate threats to survival were pervasive, those who didn't seize short-term advantage often didn't survive. . . . Such nervous systems provide an erratic guidance system for the invisible hand . . .

Frank's solution to the problems generated by our "nervous systems" is, of course, regulation. But it is noteworthy that it is human nature, not capitalism, that is to be subject to this regulation.

One could just as easily suggest that our "nervous systems" evolved over eons in biological time to enhance the cooperative behaviors and long-term perspectives on which our survival depended. This would be an equal, if opposite, *non-sequitur.* More to the point, the acquisition by humans of symbolic reference, especially language, entailed a radical freeing from genetic determination of behavior.[4] If this is right, then just as little as competitive capitalist markets, financial or otherwise, are consciously chosen, are they in any sense ineluctable, inherent in our genes. Blaming the crisis on human nature is one more red herring, albeit a very common one.

What else? There was a theory around the end of the 19th century that blamed business cycles on sunspots: bursts of ultraviolet radiation that astronomers observed on the surface of the sun, which occurred with a periodicity of about seven years. The pundits will, apparently, look for the causes of cycles, crises, meltdowns, etc. on the sun, in the eternal imperatives of the human "nervous system," in the high tech of financial derivatives, in economists and their mathematical blind spots, in the nefarious influence of the Fed — in short, everywhere *except* where they should be looking: at the social-structural necessities of capitalist accumulation.

3 "Friends and neighbors." This is the replacement of the *capitalist* by the undifferentiated human being. There is a saying in corporate business circles: "If you want a friend, get a dog."

4 For full discussion, see "Editorial Perspectives": "'Twixt Creationism and Reductionism," Winter, 1997–1998; "Radhika's Cats," Summer, 2002.

But that returns us to Michael Moore's "democracy." We can be confident that we *know* what it is, in general terms; we always have. It is not some vague redirection of priorities, based on the moral claims of the poor. It is what Marxists have always called, generically, *communism* or *socialism*. If the powers that be don't like those words, so much the worse for them! If the debate emerges, as we hope it will, concerning the content of "democracy," they will poison the atmosphere around that word as well, just as surely as they have done with the "c" and "s" words. We will then be forced to defend "democracy," by infusing it with ever-new content. And just as surely as we *know* that socialism/communism is the heart of that new content, we *do not know* how the infusing process will take place; exactly what forms the new content will take, or how it will reflect the needs and experiences of new generations.

The openness and plasticity of our symbolic species, however, suggests that, in Michael Moore's sense of the term, democracy is inevitable — *because* it is possible. (Assuming, of course, that we survive; but that, as always, is a story for another occasion.)

IN THIS ISSUE

Science & Society has given special attention over the years to two broad areas of research and theoretical interest: the transition from feudalism (see S&S, vol. XIV, 1950; republished as *The Transition from Feudalism to Capitalism*, R. H. Hilton, ed., New Left Books, 1979; S&S, special issue, "Rethinking Marx and History," Alan Carling and Paul Wetherly, eds., April 2006); and the origins and present-day qualities of the oppression of women (see S&S, special issue, "Marxist–Feminist Thought Today," Martha Gimenez and Lise Vogel, eds., January 2005). Now these two streams merge in the study by Paddy Quick, "Feudalism and Household Production." Her proposal to re-analyze the feudal system of surplus extraction by keeping at the center the entire network of relationships among households and all of their members (both peasant and lordly households) enriches our understanding of the sources of feudal decline and the nature of the ensuing transition. It also contributes indirectly to the ongoing study of gender relations in capitalist societies, both in general and in the present. Quick also nicely shows how quantitative estimates of, *e.g.*, rates of exploitation can be gleaned from very limited data, and why it is important to do this, rather than limiting study to periods for which data are more abundant, but which may not reveal the deepest properties of the mode of production under examination.

Another special issue of S&S, edited by Bernard Moss, was published on the occasion of the bicentennial of the French Revolution ("The French Revolution and Marxism," Fall 1990). There the issue between revisionist historians (who deny the bourgeois character of the Revolution) and defenders of the classical position of Marx was joined. More recently, Bertell Nygaard ("The Meanings of 'Bourgeois Revolution': Conceptualizing the French Revolution," April 2007) argued that the bourgeois character of the Revolution must be sought not in the class nature of its agents or of their ideology, nor even in its immediate results, but rather in a complex unity of its situation within an international system in transition, and its role in placing capitalist developmental potentials at the core of social evolution in France. Now historian Henry Heller returns to the subject ("Marx, the French Revolution and the Spectre of the Bourgeoisie") with a more direct counter-revisionist claim: the existence of the bourgeoisie as a *class-in-itself* at the time of the Revolution *is* confirmed by much new evidence. On the question of whether the bourgeoisie was conscious of its existence and mission (*i.e.*, was a *class-for-itself*), Heller cites contemporary documents in support of a nuanced view: the development of bourgeois self-consciousness was delayed, owing to the thrust of the revolutionary leadership toward unity with popular strata and the consequent need for an abstract republicanism.

Christian Fuchs ("Critical Globalization Studies: An Empirical and Theoretical Analysis of the New Imperialism") marshals a wide array of data to contest the view that capitalism has evolved away from Lenin's classical theory. In his view, Lenin's *Imperialism* remains highly relevant to an understanding of the world economy today, although of course it is necessary to grasp and explain, within an *Imperialism*-based framework, the changes that have taken place since the period in which Lenin was writing. Fuchs' analysis is important for the continuing debate concerning Hardt and Negri's *Empire* and *Multitude*, as well as the view that an emerging transnational capitalist class and state change the terms in which global capitalism must be comprehended (see William Robinson and Jerry Harris, "Towards a Global Ruling Class: Globalization and the Transnational Capitalist Class," S&S, Spring 2000).

We note, finally, the review article by Roberta Garner and Michael Ash on Nassim Nicholas Taleb's *The Black Swan*. Taleb's point is that improbability and unpredictability are increasing in importance (viz., the old debate about whether a black swan was even possible, and its eventual discovery in Australia); that, in his words, we are transitioning from a place called "Mediocristan" to one called "Extremistan." Garner and Ash work us through some of the delightful data and metaphors, and important insights generated along the way, but ultimately conclude that, as a way of understanding the deepening crisis of capitalist social formations, Taleb's construction misses that crisis' true underlying determinants, mistaking "vultures circling overhead for an improbable flock of Black Swans!"

D. L.

ERRATUM

In our last issue, a review of Richard Peet's *The Geography of Power*, by Sean Johnson Andrews, was inadvertently listed in the Table of Contents. That review appears in the current issue. We regret the error.