

Can Global Capitalism Be Saved? “Exit Strategies” for Capitalism or Humanity

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Abstract: Global capitalism is currently recovering from the Great Recession of 2009. But the basic contradiction of neoliberalism has not been resolved. The fiscal deficits in the western countries and China’s real estate bubble are setting up the world for a potentially more devastating crisis. China may emerge as the key battleground of global class struggle. As the global ecological system approaches total collapse, any further expansion of capitalism is now in fundamental conflict with the long-term survival of humanity.

Keywords: Global capitalism, crisis, class struggle, global ecological crisis

Introduction

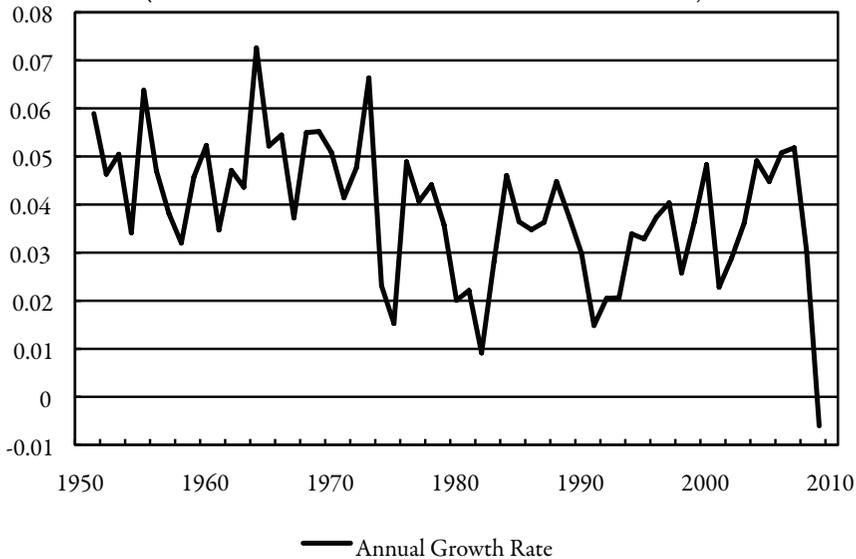
In 2009, global capitalism suffered the deepest economic crisis since the Great Depression. In previous crises, such as in the early 1980s, early 1990s, 1998, and 2001, the global economy had managed to grow, though at comparatively slower rates. In 2009, according to the International Monetary Fund (IMF), the global economy as a whole contracted in absolute terms for the first time since the Second World War (see Figure 1). In response to the crisis, leading capitalist governments have thrown trillions of dollars to bail out the financial markets and kept the economies afloat through massive increases in fiscal deficits. Since then, the global economy seems to have recovered. The IMF now predicts the global economy to grow by 4.6 percent in 2010 (IMF 2010). Has global capitalism been saved, after all?

The question may be addressed at three different levels. First, there is no doubt that capitalism has survived the most recent economic crisis. However is the world

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back to some form of “normal conditions”? Capitalism is basically an economic system based on the pursuit of profit and capital accumulation. Saving capitalism, in this sense, has to do with securing the conditions that favor high profit rates and rapid capital accumulation (economic growth). Will these “normal conditions” required for capitalist expansion be reestablished in the foreseeable future? Second, there is the long-term, world historical question whether capitalism as an economic and social system can be saved in the long run. What historical conditions are required for capitalism to remain a “savable” system? Under what historical conditions may capitalism cease to exist as a historically viable system? Third, if it turns out that capitalism is no longer historically viable, in that case, what might be the “exit strategies” that are available for humanity? The following pages attempt to shed some light on each of these questions.

Figure 1. World Economic Growth
(Annual Growth Rate of World GDP, 1951-2009)



Sources: Maddison (2003); World Bank (2010); and IMF (2010).

Profit and Accumulation

Capitalist profit derives from the exploitation of workers’ surplus labor. From this point of view, maximum profit requires maximum exploitation of labor. However, other things being equal, maximum exploitation is always beneficial for individual capitalists; it is not necessarily in the interest of the entire capitalist class however. Excessive exploitation reduces workers’ purchasing power. Under certain conditions, it could also reduce the overall “effective demand” in the capitalist econ-

omy, thus lowering the total profits for capitalists. Successful capitalist accumulation requires an effective (though temporary) solution to this contradiction. This may be illustrated by the following formula:

$$W + \Pi + T = C + I + G + NX$$

This equation shows that in a capitalist economy, the sum of wages (W), profits (Π), and taxes (T) must equal the sum of consumption (C), investment (I), government purchases (G), and net exports (NX), that is exports less imports, or net purchases by foreigners. In other words, total incomes must equal total expenditures.

Rearrange terms and one arrives at the following profit determination formula:

$$\Pi = I + (C-W) + (G-T) + NX$$

This equation illustrates that capitalist profits may increase if there is a rise in capitalist investment, or household consumption in excess of wages (which roughly corresponds to “household deficit”), government deficit or trade surplus.²

From the point of view of a national capitalist economy, the most ideal solution would be to keep wages and taxes low, while keeping profits high through large trade surpluses. However, this obviously cannot work for all national capitalist economies as some economies’ surpluses have to be matched by other economies’ deficits and, for the global capitalist economy as a whole, imports and exports by definition should cancel out. For the global capitalist economy or any national capitalist economy that has a trade account that is in rough balance, the “optimal” solution would appear to be keeping wages and taxes low, while solving the “effective demand” problem (also known as the “realization” problem) through high investment. This would maximize the rate of capital accumulation. However, capitalists would make large investments only when they expect high rates of return (the profit rate). But excessively high investment could lead to excess production capacity and higher production costs, leading to lower profit rates. Finally, there are the “second best” options such as household deficits or government deficits. The problem with these less than ideal solutions is that they will inevitably lead to unsustainable household or public debt, likely ending with devastating financial crises. How has capitalism historically managed to maneuver between these different temporary “solutions”? Figure 2 presents the historical trajectory of the profit rate in the US economy, a crucial indicator that represents the degree of “health” of a capitalist economy.³

² This profit rate determination formula was first developed by Polish Marxist economist Michael Kalecki and later adopted by Hyman Minsky (Minsky 2008[1986]: 160-169).

³ The profit rate is defined as the ratio of the broadly defined profit (including corporate profits, interests, and rent) over the

The Great Depression marked the bankruptcy of free market capitalism and demonstrated that modern capitalism could not function without substantial government intervention. After the Second World War, capitalism underwent major institutional restructuring. Government spending now accounted for a substantial portion of the national economic output and Keynesian policies helped to stabilize the capitalist economy. Several factors contributed to comparatively high profit rates in the 1950s and 1960s. U.S. corporations benefited from monopoly over world industry in the early postwar years. On the other hand, in Western Europe and Japan, a large rural surplus labor force kept pressure on wages, thereby keeping labor costs low. All advanced capitalist countries benefited from cheap energy and raw materials imported from the periphery (the “Third World”).

However, by the mid-1960s all of these favourable factors started to fade. Competition between the US, Japan and Western Europe in the world market intensified. After decades of economic expansion, strengthened by welfare state institutions, Western working classes enjoyed a period of rising bargaining power and wages started to grow rapidly. Finally, given the triumph of a good many national liberation movements, and politically strengthened by “cold war” geopolitics, peripheral states started to demand more favourable terms in the world division of labor.⁴ The collapse of the profit rate led to the crisis of the 1970s and early 1980s. In response, the global capitalist classes undertook a counter-offensive in the form of neoliberalism which in effect amounted in a strategy to revive the global profit rate through global redistribution of income and wealth from labor to capital. “Globalization” was a key component of neoliberalism, which had to do with opening up the markets and resources of several large peripheral or former socialist states. The massive increase in the global reserve army of cheap labour turned the global balance of power decisively in the favour of the capitalist class.

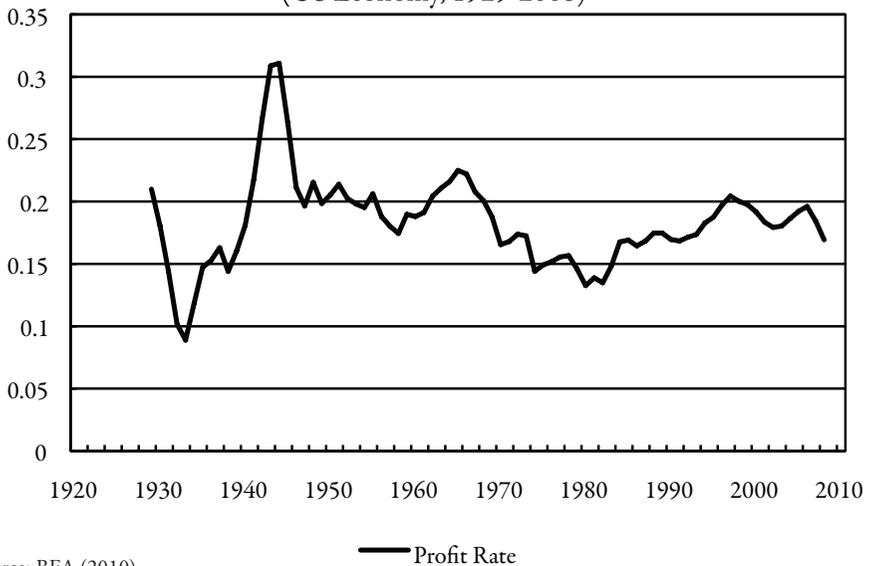
As is presented in Figure 2, neoliberalism did succeed in reviving the profit rate. But by lowering the global wages, neoliberalism necessarily depressed the global mass of consumption. The neoliberal global economy was thus confronted with a serious problem of insufficient global effective demand. In this context, many capitalist economies (China, Japan, other Asian economies, and Germany) attempted to promote capital accumulation through expansion of exports (that is,

net stock of private nonresidential fixed assets. Ideally, if the purpose is to study the overall performance of global capitalist economies, one would like to examine the evidence of the global average profit rate. But reliable data on the subject is not available. Given the leading position of the US in the global economy, one may think about the US profit rate as representative of the profit rate in the global capitalist economy. The profit RATE trajectories of other advanced capitalist economies have been similar to that of the US in the postwar era and until recently the overall performance of the global capitalist economy had been largely determined by the performance of the advanced capitalist economies. For an attempt to study the “world profit rate”, see Li, Xiao, and Zhu (2007).

⁴ For detailed discussions on the rise and fall of the postwar capitalist “social structure of accumulation,” see Gordon, Weiskopf, and Bowles (1987).

through rising NX). However, as mentioned earlier, this meant that some economies would have to run trade surpluses, while others ran trade deficits. Since the 1990s, the US economy has consistently run large trade deficits, absorbing much of the overproduction from the rest of the world. Within the US economy, demand expansion has relied mostly upon debt-financed consumption (that is, through rising C-W). The situation was already unsustainable by the early 2000s. But the US Federal Reserve attempted to prolong the expansion by fueling a massive housing bubble, paving the way for the 2008-2009 economic crisis.⁵

Figure 2. The Profit Rate
(US Economy, 1929-2008)



Source: BEA (2010).

“Exit Strategies” for Capitalism?

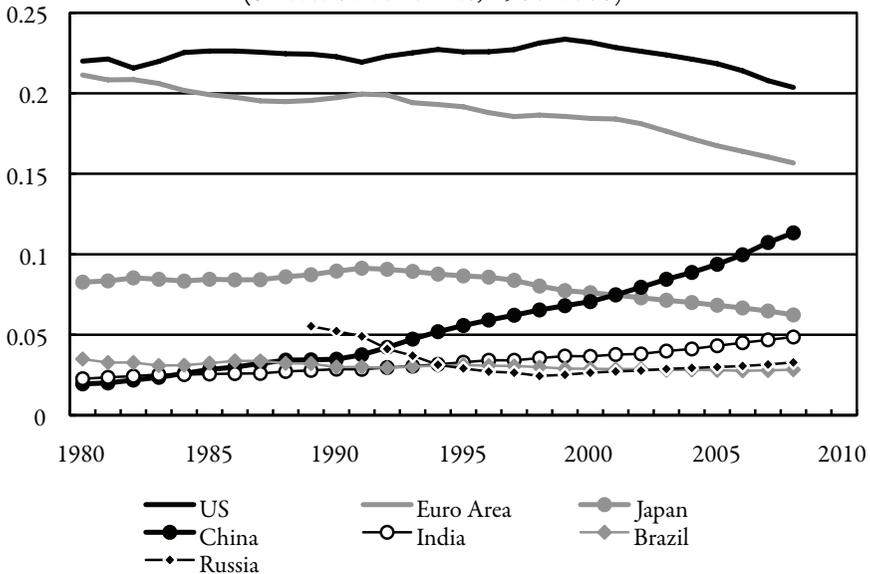
To save global capitalism, all major capitalist governments have responded with massive increases in fiscal deficits. In terms of the profit determination formula discussed above, this amounts to an effort to substitute (G-T) for (C-W) to sustain capitalist profits. The problem is that such a strategy will simply substitute fiscal crises for private debt crises. According to the Bank of International Settlements, by 2011 the general government debt to GDP ratio is expected to approach 100 percent in France, Portugal and the United Kingdom; 130 percent in Greece and Italy; and exceed 200 percent in Japan (Cecchetti, Mohanti, and Zampolli 2010). In fact, several Southern European countries (Greece, Spain, Portugal, and Italy) are

⁵ For detailed discussions on the structural contradictions of neoliberalism, see Crotty (2000) and Li (2009).

now threatened with imminent fiscal bankruptcy. In a few years, major capitalist countries such as the US and UK may have to confront an explosive fiscal crisis.

The current dilemma for Western capitalism, then, is the following. If Western capitalist governments respond to the fiscal crisis by imposing massive fiscal austerity programs (through cutting social spending and increasing taxes on the working classes), it would dramatically reduce global effective demand. This would, at best, result in a period of prolonged stagnation throughout the advanced capitalist world and, at worst, trigger a collapse of the global economy. On the other hand, if Western governments fail to address the fiscal crisis in accordance with the dictates of financial markets, financial capitalists may respond with massive sales of government bonds, leading to surging interest rates and economic collapses. In this context, the so-called “emerging markets” (such as China, India, Russia, Eastern Europe and Latin America and especially China), have emerged as a major pillar of global economic growth. Figure 3 presents the share of world GDP of the world’s major economies. In 2008, the US, Eurozone and Japan combined accounted for 42 percent of the world’s total GDP (and US accounted for 20 percent). The so-called “BRIC” countries (Brazil, Russia, India, and China) combined accounted for 22 percent of world GDP (and China accounted for 11 percent). Can China sustain global economic growth in spite of Western stagnation?

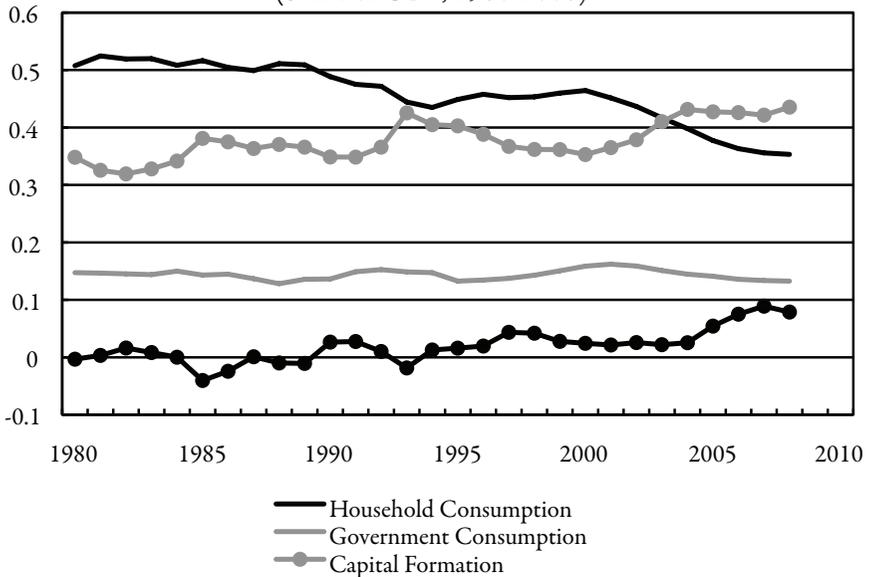
Figure 3. Share of World GDP
(Selected Economies, 1980-2008)



Source: World Bank (2010).

Figure 4 presents China's changing macroeconomic structure. Household consumption as a share of China's GDP declined from about 50 percent in the 1980s to about 35 percent by 2008 (by comparison, in the US household consumption accounts for about 70 percent of GDP). The relative decline of consumption reflects the fact that Chinese working class incomes have fallen behind the growth of GDP. According to the official Chinese General Federation of Labor survey, labour income as a share of China's GDP declined from 57 percent in 1983 to 37 percent in 2005. Further, according to the survey, in an economy with double-digit growth, about a quarter of the labour force has not seen any wage growth over the past five years. About 75 percent of workers believe the current income distribution in China is "unjust" and about 60 percent of workers believe excessively low labour income represents the greatest social injustice (Xin Jing Bao 2010). On the other hand, capital formation (investment) as a share of China's GDP increased from 35 percent in 2000 to 44 percent in 2008, and net exports as a share of China's GDP increased from 2 percent in 2001 to 8 percent in 2008. From 2001 to 2008, China's total merchandise exports (not subtracting imports) increased from 20 percent of GDP to 33 percent of GDP. Thus, before the recent crisis, China's economic growth was led primarily by investment and exports.

Figure 4. China's Macroeconomic Structure
(Share of GDP, 1980-2008)



Source: State Statistical Bureau (2009).

During 2009, in the midst of global economic crisis, Chinese exports decelerated sharply. Total merchandise exports fell by 16 percent from 2008. China's trade surplus fell from \$196 billion in 2008 to \$102 billion in 2009, falling by 48 percent. Investment emerged as China's only remaining engine of economic growth. From 2008 to 2009, China's total fixed investments increased from 17.3 trillion Yuan to 22.5 trillion Yuan (or an increase of 5.2 trillion Yuan). China's nominal GDP increased from 31.4 trillion Yuan to 33.5 trillion Yuan (or an increase of 2.1 trillion Yuan). Increase in total fixed investments thus accounted for 240 percent of China's economic growth in 2009 (that is, the increase in fixed investments more than offset declines in consumption and net exports to have sustained economic growth) (State Statistical Bureau 2010a).

In early 2010, China's economic growth continued to be led by investment. Over the first four months of 2010, total urban fixed investments increased by 26 percent from the same period in 2009 (about twice as fast as overall economic growth). However, excessively high investment has by now built up enormous excess capacity in productive sectors. Unable to profit from productive investment any more, Chinese capitalists are shifting a growing proportion of capital into property and financial speculation. Over the first four months of 2010, about 21 percent of the fixed investments went to real estate development, which increased by 36 percent from the same period in 2009 (State Statistical Bureau 2010b).

Andy Xie, the former chief Asian economist of Morgan Stanley, recently commented that China could face major economic and political instabilities in a few years. It is likely that China will face rising labour, raw materials and environmental costs in the coming years. Also, China's share in the world export market may shrink against the background of Western economic stagnation. As a result, capital accumulation in the productive industries is no longer profitable. In this context, Chinese capitalists and local governments have relied upon real estate development to prolong the economic boom. China is in effect following the same path as Japan, Korea, and Southeast Asian economies once did. These Asian economies relied upon property bubbles to sustain economic growth after the export boom ended. Xie (2010) has argued that in a few years, China's property bubble will likely burst, leaving China with a stagnant economy and threatening China's political stability.

The basic contradiction of the neoliberal global economy is that under neoliberalism, working class incomes and purchasing power tends to be depressed and liberalized capital flows tend to generate financial instability, discouraging productive investment and government social spending. Global effective demand thus tends to be depressed. Many national capitalist economies attempt to overcome this contradiction by promoting export-led growth. But for much of the world to pursue export-led growth, there will have to be economies that are willing to run large

trade deficits. In the deficit countries, either the private sector or the government has to run large deficits, leading to rising private or public debts over time. Sooner or later, the deficit countries will be hit by financial crises as rising debts become unsustainable. During the current “recovery”, this basic contradiction has not in any way been resolved. On the contrary, fiscal deficits in Western countries and China’s real estate bubble are setting up the world for a potentially more devastating crisis. How will the evolving global capitalist crisis affect the conditions of global class struggle? This is the basic political question confronting global working classes.

What Has Happened to the Grave Diggers of Capitalism?

In the *Communist Manifesto*, Marx and Engels famously predicted that capitalist development would inevitably lead to the growth of the proletarianized working class and prepare the necessary conditions for the working class to organize economically and politically. As the organized working classes grow in size and strength, they argued, eventually they will prove themselves the grave diggers of capitalism (Marx and Engels 1978). Nearly one and a half centuries after the *Communist Manifesto*, what has happened? The late 19th and early 20th century saw the rapid growth of working class movements and socialist political parties throughout Europe. However, as Western working class movements gained strength politically, their stake in the existing capitalist system has also increased. Reformist tendencies (known as “revisionism”) gradually became dominant within the European socialist parties (the “Second International” parties). After the Second World War, European socialist parties officially abandoned revolutionary objectives and committed themselves to incremental reforms within the capitalist system.

The Russian Bolshevik Party was the only major party within the “Second International” that remained committed to the revolutionary overthrow of capitalism. During the First World War, Lenin attempted to analyze and understand the phenomenon of “revisionism”. Lenin argued that in the “imperialist” era, Western capitalism benefited from “super profits” exploited from the colonies and semi-colonies. The Western capitalists would then use a portion of the super profits to buy off the working class leaders, or the “labor aristocracies”. Lenin argued that the colonial super profits constituted the material basis of revisionism (Lenin, 1916). After the Second World War, a growing Marxist literature followed the Leninist tradition and further argued that because of “unequal exchanges” and the operations of the “capitalist world system”, Western capitalist wealth had been largely based on the exploitation of the peripheries. The so-called “technological revolutions” had basically been different ways to create world market monopolies that would allow a few “core” capitalist states to extract surplus value from the rest of the world (Emmanuel, 1972; Amin, 1974; Wallerstein, 1979).

However, neither the super profits nor the unequal exchanges had succeeded in maintaining permanent social peace in the West. Through long-term economic and political struggles, the Western working classes had been able to secure important concessions from the capitalist classes, winning a growing range of economic, social, and political rights. By the 1960s, these working class gains had begun to put pressure on capitalist profits, threatening to undermine the basic conditions of capitalist accumulation. Neoliberalism was the global capitalist response to this crisis. Neoliberalism is a significant world historical development. It clearly demonstrates that global capitalism has developed to such a point that it is no longer possible for capitalism to simultaneously meet the basic requirements of capital accumulation while accommodating the historically determined demands of the working classes in the core capitalist states. In other words, the second international reformism (or the social contract) that had secured basic social peace within Western capitalism since the mid-20th century has run into irreconcilable contradictions and is therefore historically bankrupt.

Another major development in the neoliberal era has to do with the changing balance of global economic forces. The relocation of global capital to exploit cheap labour forces in the “emerging markets” has been a major component of the neoliberal project. However this has led to the large formations of working classes in the “semi-periphery” (the geographical zone in the capitalist world system that has a position, in terms of the world division of labour and political strength, between the core and the periphery). Over time, the semi-periphery working classes will demand economic, social and political rights comparable to those enjoyed by the Western working classes. This development, once it happens, will presumably dismantle the global system of unequal exchange (which has been based on the super exploitation of the peripheral working classes) and therefore destroy the material foundation of Western labor aristocracies.

The current intensification of class struggles, such as in Europe, could thus mark the beginning of a new historical era. It is no longer possible for European capitalism to accommodate both the historically established “social contracts” (most importantly pensions and health care commitments) and the requirements of capital accumulation. This contradiction has manifested itself in the form of fiscal crises throughout Europe. The European capitalist classes are now attempting to impose the entire burden of adjustment onto the working classes in order to reestablish favourable conditions for capital accumulation by creating a new regime of cheap labour. The current struggle is therefore a life-and-death question for both the capitalist classes and the working classes. For the working classes, they will have to either fight back or eventually accept the loss of the historic gains made since the 19th century. Indeed, it is quite possible that the European working classes might

lose the impending battle. The basic problem is that after a century of dominance of social democratic reformism, currently no effective revolutionary political force is playing a significant role in European working class politics. As a result, the European working classes have politically failed to break free from the historical limitations of capitalism, in the process coming to terms with capital. If the capitalist classes succeed in depriving the European workers of their historic gains, their "victory" could yet prove to be no more than a pyrrhic one. If the capitalist classes manage to impose massive declines of living standards onto the European working classes, this would dramatically reduce the European-wide effective demand and, in turn, reduce the export demand for "emerging market" economies. The decline of global effective demand could then lead to a global depression. As such, the economic crisis could then evolve into a general social and political crisis.

Under the second possible scenario, some effective revolutionary political forces may emerge in Europe in the next few years, breaking the current political stalemate. Under this scenario, the European working classes would undertake effective, unified struggles to make a decisive break with the existing capitalist order, moving towards the general socialization of the basic means of production and democratization of state power (in other words, establishing the "dictatorship of the proletariat"). The new socialist powers would then redirect the economy towards meeting peoples' basic needs and ecological sustainability. If such a scenario does unfold, Europe could emerge as the center of the 21st century global socialist revolution. The most likely scenario, though, is for Europe to repeat the pattern that has been established in the neoliberal era. The European working classes would wave off defensive struggles against capitalist attacks. As a result, the European working classes would suffer from some declines in living standards but manage to maintain most of their historic gains. The setbacks for the working classes, however, would prove to be inadequate to revive the European capitalism which would sink into an increasingly deeper accumulation crisis. In other words a slow motion, but increasingly deeper, vicious circle.

From a global perspective, under such a scenario, the European working classes would play an important role in weakening but not defeating global capitalism. The decisive battleground of global class struggle will then likely take place in other parts of the world. It is the global semi-periphery (China, India, Russia, and Latin America) that could prove to be the focus of global capitalist contradictions. Over the past two or three decades, capitalist development in the semi-periphery has depended upon (to different degrees) super exploitation of a cheap domestic labour force, intensive exploitation of material resources and the environment, based on exports to Western markets. These factors are no longer possible. In the coming years, the semi-peripheral capitalist economies will probably encounter shrinking

Western markets, rising tides of working class struggle, resource depletion and an increasingly devastating environmental crisis. The combination of these contradictions may lead to the breakdown of the semi-peripheral capitalist regimes and potentially a general revolutionary crisis. The surge of revolutionary struggles in the semi-periphery could decisively change the dynamics of global class struggle.

China: the Key Battleground of Global Class Struggle?

Within the semi-periphery, China may emerge as the key battleground. China is already the world's second largest economy and under the current trend will replace the U.S. to become the world's largest economy within a decade. In the neoliberal era, China has become the centre of global industrial production, playing a central role in the global division of labor. China has become one of the major markets of energy and raw materials for Latin America, the Middle East, Russia, and Africa. China is the main importer of capital goods from Germany, Japan and South Korea. China is also the leading supplier of low and medium-valued manufactured goods to the world market, especially to the U.S. market. In a way, then, the entire global capitalist market now works around China. Likewise, China is also at the very centre of global ecological contradictions. Chinese capitalist development has caused enormous devastation to China's own environment and China has overtaken the U.S. to become the world's largest energy consumer and greenhouse gas emitter. As China now accounts for fully one quarter of the world's total carbon dioxide emissions, it is virtually impossible to resolve the global climate change crisis without China being committed to large absolute emission reductions. How did China turn from a revolutionary socialist state in the 1960s and 1970s into a major pillar of global capitalism today? In short, after the counter-revolutionary coup in 1976 (when radical Maoist leaders were arrested), the emerging bureaucratic capitalist class took over and consolidated political power.

In the 1980s, the state sector working class continued to enjoy many socialist rights and remained strong at the factory level. Instead of organizing a direct, frontal attack on the working class that would be politically costly and might not succeed, the Chinese bureaucratic capitalist class adopted—in line with Mao's revolutionary approach—a strategy of surrounding the cities with the countryside. China's "economic reform" started with the privatization of agriculture. With the dismantling of the collective peoples' communes, hundreds of millions of "surplus workers" in the rural areas were made available for capitalist exploitation. Foreign and domestic capitalist enterprises grew explosively, profiting from China's cheap labor force, low taxes and lack of social and environmental regulations. By the 1990s, the capitalist sector has overtaken the state sector to become the dominant economic force. The Chinese government was ready to push for massive privatization in the cities. Tens

of millions of state workers were laid off. Those who were employed were deprived of any remaining socialist protections. However, the very success of Chinese capitalism may have prepared the conditions for its eventual downfall. First of all, the state sector working class (including the laid off state sector workers) has developed political experience in both the socialist period and the capitalist period. This rich historical experience has contributed to a dramatic increase in class consciousness and organizational capacity among China’s state sector workers. In recent years, the state sector workers have organized many anti-privatization struggles and many are led by activists influenced by Marxist-Leninist-Maoist ideas.⁶

By contrast, the migrant working class (the workers who have their origin in the countryside and work in the new capitalist sector) remains politically inexperienced. In recent years, however, migrant workers have also developed the consciousness to demand more economic and social rights (not yet political rights or socialism). As Chinese capitalist accumulation continues to deplete rural surpluses of labour and a new generation of migrants increasingly considers themselves as “workers” rather than “peasants”, the objective balance of class power could increasingly shift in favour of the working class, encouraging migrant workers to get organized and fight for economic and social rights. In addition, under capitalist development, many among the petty bourgeoisie (or the urban “middle class”) have also suffered from declining living standards. Many cannot afford to buy an apartment in the city. Several college graduates cannot find jobs and have to live in slum-like conditions. The proletarianization of the petty bourgeoisie has contributed to the rise of the intellectual left in China. A growing number of young people have turned into Marxist-Leninist-Maoists. The future of China depends on whether political unity can be developed between state sector workers, migrant workers and the proletarianized petty bourgeoisie. If such a unity does take shape, it may become a political force that the Chinese capitalist class cannot defeat. Is it conceivable that the Chinese capitalist class could undertake certain social reforms to accommodate rising class tensions and redirect Chinese capitalism onto a more “sustainable” path?

Over the past few years, the Hu Jintao-Wen Jiabao administration has been discussing building a so-called “harmonious society” with less inequality. In reality, despite some minor policy adjustments, economic and social inequality has continued to widen. For several reasons, meaningful social reform is unlikely to be achieved. First, much of the Chinese capitalist wealth has its origin in the theft of state and collective assets from the socialist era. The entire ruling class is thoroughly corrupt and, at the local level, political power increasingly rests upon cooperation

⁶ On the class consciousness and anti-privatization struggle of the state sector workers, see Weil (2010).

with local mafias. In this context, the central government has little ability to discipline the ruling class. Even if the central government cares about the long-term sustainability of capitalism, it does not have the ability or will to force any significant capitalist group to make major concessions. Second, despite the rapid growth of the Chinese economy, China has failed to make inroads into the truly high value added segments of global commodity chains. China now relies upon foreign capital for almost all key technological areas in industry. Without access to the monopolistic profits associated with the high value added activities, Chinese capitalism will have to rely upon cheap labour forces to maintain its global “competitive advantage”. In the future, as the Chinese working class gets organized and demands a growing range of rights, Chinese capitalism may no longer be able to maintain social stability without in some way undermining capitalist accumulation.⁷ Third, and potentially the most important, both Chinese capitalist accumulation and global capitalist accumulation have rested upon the relentless exploitation of the environment. As the global ecological system approaches total collapse, any further expansion of capitalism is now in fundamental conflict with the long-term survival of the humanity.

Global Catastrophes or “Exit Strategies” for Humanity?

In *Socialism: Utopian and Scientific*, Engels summarized the basic contradiction of capitalism as one between objective socialization of production and the capitalist system of private appropriation. This contradiction had led to increasingly more violent crises, demonstrating the inherent conflict between capitalist relations of production and the objective development of social productive forces. Such a contradiction could only be resolved through the establishment of a more democratic and egalitarian form of social relations of production, based on social ownership of the means of production and rational economic planning. In other words, socialism (Engels, 1978 [1880]). For classical Marxists, socialism would prove to be a superior social system by developing social productive forces more rationally than capitalism. However, the greatest challenge confronting humanity today is no longer economic crisis but the fact that after centuries of relentless capital accumulation the global ecological system is now on the verge of complete collapse.

Consider the following aspects of the global ecological crisis (Climate Action Tracker 2010; Speth 2010; Wild 2010):

- According to the “Climate Action Tracker,” the climate actions pledged by a good many national governments will commit the world to a warming of 3

⁷ On how China has failed to rise to the technology frontier, see Hart-Landsberg (2010).

degrees Celsius by the end of the 21st century, steering the world onto a path of unprecedented catastrophes.

- According to the United Nations, by 2025 about 1.8 billion people will be living in countries with absolute water scarcity and about two-thirds of the world population could be under conditions of water stress.
- The world is currently losing soil 10 to 20 times faster than it is being replenished, threatening the very foundation of world agriculture.
- A recent Foreign Policy article argued that the world could face peak phosphorus production in the near future. Phosphorus is a key input in the production of fertilizers. The authors warned that "if we fail to meet this challenge, humanity faces a Malthusian trap of widespread famine on a scale that we have not yet experienced."
- About half the world's wetlands and a third of the mangroves are gone. An estimated 90 percent of large predatory fish are gone, and 75 percent of marine fisheries are now over-fished or fished to capacity.
- Twenty percent of ocean corals are gone and another 20 percent are severely threatened. Half the world's temperate and tropical forests no longer exist. Species are disappearing at rates about 1,000 times faster than normal.

How may the rapidly developing global ecological crisis be dealt with? Apologists claim that capitalism may be made "sustainable" or "green" by promoting "green technologies" or "eco-efficiency". This argument may be illustrated by the following "IPAT" formula:

$$I = P * A * T$$

The formula suggests that environmental impacts (T) are determined by population (P), "affluence" (A, that is, GDP per capita), and technology (T, which measures the environmental impact per unit of GDP). According to basic laws of ecology, ecological sustainability requires stable or falling environmental impacts. According to the IPAT formula, unlimited economic growth (that is, capital accumulation) can be made compatible with ecological sustainability if technological progress leads to increasingly higher eco-efficiency, that is, falling T, which presumably falls more rapidly than the growth of GDP. The fundamental problem with the "green capitalist" argument is that it fails to understand, on the one hand, why un-

der capitalism there has been a powerful tendency towards endless accumulation of capital and, on the other hand, the insurmountable physical and political-economic limitations of “eco-efficiency” as a countervailing factor. All human civilizations have been based on the existence of a substantial surplus product (the part of total social product that is above the population’s basic consumption and the means of production required to maintain society’s simple reproduction). In pre-capitalist societies, the surplus product was used by ruling elites primarily for luxury consumption and various wasteful activities (such as war, religious rituals, or grand imperial projects), leaving little for the expansion of production.

Modern capitalism is unique in that it is the only socio-economic system that has ever existed in human history where market relations have become dominant in every aspect of social life. The dominance of market relations leads to universal and unending competition between producers, forcing every producer to use a substantial portion of the surplus-value (profit) to engage in capital accumulation and expand the scale of production. This dynamic, once it is dominant, becomes a self-sustaining economic force reproducing itself on increasingly larger scales. In the world market, world-wide competition forces all national states to pursue as much economic growth as possible. Those nations that fail to compete often suffer economic and political crises or are defeated militarily. Against this powerful tendency towards unlimited capital accumulation (represented by increasingly larger P and A), what has been the counteracting force?

Green capitalist advocates argue that market functions generate the most efficient economic system. For such a view, resource scarcity through rising prices will stimulate innovation leading to resource-saving technologies that can lower T and offset the growth of P and A. This argument, however, was found to be flawed as early as the 19th century by British economist William Stanley Jevons. Jevons argued that any resource-saving technology, by temporarily reducing the consumption of a resource, would lead to lower price, which would then encourage people to consume more of the resource. The perverse phenomenon was known as the “Jevons Paradox”. Jevons’ paradox could explain why in reality, despite improvements in resource efficiency (that is, falling resource consumption per unit of economic output), overall resource consumption keeps growing persistently.⁸ Natural resources are, after all, “priced” in a capitalist economy, however flawed the pricing mechanisms might be. By contrast, generations of material waste from human activities or human pollutants are treated as “free” by capitalist markets. In economic terms, the ecological system is treated as an “externality” that is considered to have zero costs

⁸ For an explanation of Jevons’ Paradox, see Orford (2010).

in a free market system. In a capitalist system, government regulations provide the only countervailing mechanism against externalities. However, as environmental regulations tend to increase the costs associated with accumulation, governments will typically only regulate those pollutants that do not significantly affect business profitability. Thus, even on national scales, government environmental regulations are often inadequate and ineffective.

On a global scale, any national capitalist economy that seriously regulates the environment will increase its own accumulation costs and suffer a competitive disadvantage in the global market. Thus, when the question concerns global environmental problems (such as climate change), few capitalist economies are willing to undertake the necessary actions. International agreements are supposed to help solve this dilemma by sharing the costs among national capitalist states. However, major capitalist powers rarely agree upon how the costs should be shared and few want to contemplate any restrictions on their own accumulation. The recent United Nations conference fiasco on Climate Change at Copenhagen demonstrates this clearly. In addition to the political-economic limits on “T”, there are also fundamental physical-ecological limits. All human economic activities have to do with either physical or chemical transformations of the natural world, and thus necessarily require the consumption of material resources and lead to the generation of material wastes. It is therefore not possible to invent an economic activity with zero environmental impacts. Unlimited economic growth will inevitably lead to unlimited environmental impacts. In the long run, the only way to achieve ecological sustainability is to develop an economy with stable material flows (or a “steady-state” economy) that can meet the world population’s basic needs and are consistent with the normal operations of ecological systems. The capitalist system is taking humanity down the path of global ecological catastrophe, which threatens the destruction of civilization. At this critical threshold of the early 21st century, what will be humanity’s “exit strategy” for survival?

Under capitalism, society’s surplus product is under the control of many big and small capitalists that engage in ruthless competition against one another. This competition generates an enormous, immensely irrational social force that is beyond any individual capitalist’s control, forcing businesses to pursue ruthless exploitation of both nature and humanity. The only way for humanity to escape this ridiculous trap, an enormous irony of alienation (that the very social force created by human beings is now turned against humanity itself), is to establish society’s collective and self-conscious control over the social surplus product—that is to say, over the economy and over the makeup of society itself. As classical Marxism argued, this control would in turn require social ownership of the means of production and the development of democratic, rational economic planning that determines the

size, composition and use of society's surplus product. It is often claimed that the critics of capitalism have failed to provide a viable alternative to capitalism. This shortcoming is allegedly a fatal flaw that invalidates any attempt to move beyond capitalism. Such a claim, however, despite its vacuousness, only remains valid or legitimate so long as the capitalist system remains a viable historical option. Since the continued operation of capitalism is now in fundamental conflict with the survival of the ecosphere and humanity, the terms of debate have been fundamentally transformed.

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