



# CAPITALISM

ITS FLAWS AND POSSIBILITIES

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## CAPITALISM ITS FLAWS AND POSSIBILITIES

David Harvey, *The Enigma of Capital*.

Saskia Sassen, *Expulsions: Brutality and Complexity in the Global Economy*.

Wallerstein, Collins, Mann, Derluguian and Calhoun, *Does Capitalism Have a Future?*

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**D**uring certain moments in history, the performance of different political or economic systems can be questioned. Such moments can come whenever a crisis is taking place or culminate with the collapse of these systems. For many analysts, the economic crises of the 20<sup>th</sup> century are proofs that capitalism as an economic system is no longer viable. The Great Depression as well as the crisis of 2008, among others, made many scholars, politicians and common people, question the viability of capitalism as a system. Nowadays, no one is questioning that capitalism has worked for over two centuries. The big question posed in the 21<sup>st</sup> century is whether this mode of production and organization of society will continue to be viable in the next hundred years or more. There are many positions on this. On the one hand, of course, whomever capitalism is beneficial to can surely expect for the system to continue. On the other hand, the many more persons affected by the inequalities and deprivations caused by capitalism are either severely questioning the inequity of the system or are working for it to radically change.

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For many, capitalism is the best economic system, for others, it is the worst. One cannot deny that through it, many technological advances –in medicine, science, education, etc– have been achieved, which of course have been beneficial to most of human kind –but not “all” human kind. At the same time, the competition that has made the previous advances possible is affecting a huge number of people that are not enjoying these benefits of technology. Even more, they have been damaged by these many advances. But talking not only about technology, the way capitalism has been developing during the last three or more decades has caused many to really question the ethics and fairness of it.

The inequities and damages that capitalism causes are not easy to spot. In our daily lives, many of us won't question whether our role within this system is affecting anyone. Only if we look from a broader position, could we get a glimpse of the whole image. Many scholars have tried to analyze and dictate what is wrong with our current economic system; some of them are not even economists. With these ideas in mind, this essay will review the work of some of the most renowned scholars, within three recent books. First, I will analyze David Harvey's ideas about how capitalism is affecting the entire population but a very few, and how it should not continue to live in his most recent book *The Enigma of Capital*. Then I will explore the arguments by Saskia Sassen developed in *Expulsions: Brutality and Complexity in the Global Economy*. Finally, I will also study the ideas put in the collective work of Wallerstein, Collins, Mann, Derluigian and Calhoun named *Does Capitalism Have a Future?* Taking these books, I will review the many arguments about the conditions in which capitalism is functioning nowadays, why should it continue to exist or not, and what, then, lies ahead of us.

#### THE CRISIS OF 2008

It seems that this latest crisis has made many people question what is wrong with capitalism. Not only has this question emerged, but many others as well. Why haven't we been able to fully recover from it? Why did it affect so many countries and people around the world? Even Queen Elizabeth questioned how come we didn't see

it coming?<sup>1</sup> We have experienced many economic crises in different regions of the world in different times, but the effects of the 2008/2009 crisis were really stark for most of the world. For many decades after World War Two, capitalism had developed in a way that most of the people in the societies were enjoying the fruits of their hard work. However, since the last decades of the 20<sup>th</sup> century, it has not been the case.

Historically, capitalism has suffered many crises, but these have not meant its ultimate collapse. Many moments like Fordism, Keynesianism, New Deal, welfare state, etc., showed that after a crisis –in these cases not only economic– capitalism could adapt in order to continue existing.<sup>2</sup> We can understand this from two very different perspectives. The proneness to crises can be taken from the Marxist point of view. “According to classical Marxist theories, the M-C-M equation<sup>3</sup> contains many inherent contradictions as well as crisis tendencies, such as realizations crisis, eco-environmental crises, and overproduction crises.”<sup>4</sup> For Marx, capitalism had some embedded contradictions, within society –differentiating between classes and their struggle among them– and in its relation with the environment. From another point of view, the adaptability of capitalism can be analyzed from a Gramscian perspective. Described as a passive revolution,<sup>5</sup>

the concept explains the tendency as well as the process in which capitalism (the dominant classes) responds to an organic crisis by implementing political reforms, economic restructuring, as well as social reorganization in order to sustain the dominant mode of production and to reduce the potentials for radical revolutionary changes.<sup>6</sup>

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<sup>1</sup>David Harvey, *The Enigma of Capital*, New York, Oxford University Press, 2010, p. 235.

<sup>2</sup>Li Xing and Jacques Hersh, “Understanding Capitalism: Crises and Passive Revolutions”, in *Competition & Change*, 2002, Vol. 6(2), p. 194.

<sup>3</sup>The formula “M-C-M”, as described by Marx, refers to one of the phases of the movement of money. In this one, the economic agent buys in order to sell, expecting a surplus in the process. In this exchange, money functions as capital. Contrary to this formula is the “C-M-C”. In this one, the economic agent sells in order to buy. The first formula would represent the viewpoint of capital, while the second one would represent the viewpoint of the working class. “Capital 1. Chapter 4: The General Formula For Capital”, *Reading Capital in Sidney*, February, 2010, <https://readingcapitalsydney.wordpress.com/2010/02/16/capital-i-chapter-4/>

<sup>4</sup>Li Xing and Jacques Hersh, *op.cit.*, p.197.

<sup>5</sup>Gramsci A. (1971). In : Hoare, Q. and Smith, G. N. (Eds.), *Selections from the Prison Notebooks*. Lawrence & Wishart, London, en Li Xing and Jacques Hersh, *op.cit.*, p. 194.

<sup>6</sup>*Idem.*

For Marx, also, crises were not only periodic, but represented a chance to change in the process of *creative destruction*.<sup>7</sup> In other words, Marx identifies periodic crises with the mechanisms through which the main long-term tendency works and the subsequent creation of more rationalized forms of organization.<sup>8</sup> Taking these two perspectives, capitalism can be analyzed, understanding its proneness to have crises, but of reinventing itself in order to survive.

For David Harvey, the crisis of 2008 meant the disruption of the system. For him, this was “undoubtedly the mother of all crises.”<sup>9</sup> With this, the many financial crises that had been going on since the 1970’s and 1980’s culminated. He questions, then, if this moment in history means the end of free market neoliberalism. However, understood as an amalgamation of political and social forms of organization, neoliberalism is not dead for him, since there is no evidence of it being questioned. Nevertheless, “at times of crisis, the irrationality of capitalism becomes plain for all to see.”<sup>10</sup> So what then did the crisis of 2008 mean for capitalism? According to Harvey, “crises (...) are the irrational rationalizers of an irrational system”<sup>11</sup> meaning that the moment posed an opportunity of readaptation, and hence, survival.

For Saskia Sassen the crisis of 2008 was the perfect example of how dangerous finance and financial markets can get. The way the bubble exploded was no different than in any other crises but what is alarming, is how people that had nothing to do with it was severely affected. “The power of finance, and what makes it dangerous, is its capacity to build up its own value even as households, economies and governments lose value.”<sup>12</sup> Finance –conceived by her as a capacity– can be one factor responsible of the many expulsions she describes. An enormous amount of people, maybe even twice the population of the Netherlands<sup>13</sup> lost their houses due

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<sup>7</sup>Schumpeter, Joseph. 1976 (1942). *Capitalism, Socialism and Democracy*. London: Allen and Unwin, en Stefano Agnoletto, “Periodic Crises in Capitalism: Pathological or Restorative?”, in *Science & Society*, October 2013, Vol. 77, No. 4, p. 464.

<sup>8</sup>Howard, Michael Charles and John Edward King. 2002. “Crises in Marx’s Analysis of the Market.” *International Journal of Applied Economics and Econometrics* (July-September), 329-330., en *Ibid.*, p. 465.

<sup>9</sup> David Harvey, *op. cit.*, p. 6.

<sup>10</sup>*Ibid.*, p. 215.

<sup>11</sup>*Idem.*

<sup>12</sup>Saskia Sassen, *op. cit.*, p. 118.

<sup>13</sup>Sib Utrecht, *Saskia Sassen: Expulsions: Brutality and Complexity in the Global Economy* (video), 15/04/2014, available on <https://www.youtube.com/watch?v=McTwtpfFaoI&feature=youtu.be>, min. 39:53.

to the household mortgages they could not face to pay. Among others, this is one of the many expulsions Sassen identifies as being part of the behavior of capitalism.

For Immanuel Wallerstein, this crisis was not as hard on the economic system as was the one circa the 1970, which he identifies as the “Structural Crisis.”<sup>14</sup> Since 2008, the world has been experiencing a realignment of political and economic power, where new economies are emerging and the United States is losing its momentum.<sup>15</sup> As for Craig Calhoun, the crisis of 2008 and 2009 reveals how vulnerable capitalism is from within. This is part of what he calls systemic risk, “that is risks embedded in the complex web of internal connections that make up the modern financial system.”<sup>16</sup> For him, this was not a classic crisis of capitalism, in the sense of overproduction and underconsumption. Although it had huge impacts in the “real” economy, it was mostly financial, and this impact can be explained by the growth of global finance during the preceding decades.<sup>17</sup> We could say, then, that many of these authors, although with a different interpretation of the crisis, see it as a disruptive moment in the history of capitalism.

WHAT IS WRONG, THEN, WITH CAPITALISM? AND WHAT IS TO BE DONE ABOUT IT?

Each author, with a different thesis, explains what are the flaws and contradictions within capitalism, the disruptions it causes and what should be done about it. I would study the main arguments in each of the books analyzed, and try to find the similarities and differences among the authors’ points of view with respect to the flaws of capitalism nowadays.

First, for David Harvey, there are many ways of interpreting the current crisis of capitalism, going from the human nature version, to the one blaming the different policies taken recently. But his approach tends to go into a different direction of those centered in the cultural aspects or in institutions within the system. For him, it is quite difficult to put together all the different parts of the puzzle that is capitalism. His geographic point of view and the uncomplicated language in his book

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<sup>14</sup>Immanuel Wallerstein, et al., *Does Capitalism Have a Future?*, New York, Oxford University Press, 2013. p. 21.

<sup>15</sup>*Ibid.*, p. 31.

<sup>16</sup>*Ibid.*, p. 137.

<sup>17</sup>*Idem.*

makes his thesis very understandable. He claims that capitalism is all about growth, but in a finite world, with finite markets and places of expansion, growth should eventually stop. The growth that should be consistent with today's expansion should be around 3% globally. But that eventually would have to end, since most of the regions in the world are by now integrated into the system, making that kind of expansions unsustainable. Besides this broad vision, for him, the disintegration of capitalism began somewhere around the 1970's for many reasons.<sup>18</sup> The abandonment of the gold standard made money and currencies vulnerable to changes outside the economic realm, and therefore some sort of social construction that in the long term has not been beneficial to all people. Also, the new ways of production, like outsourcing and new technologies made the workers less able to fight for their right to a good salary. Wages went down, so demand had to be stimulated. Then the many forms of credit appeared, allowing the upper classes to accumulate wealth while putting most of the people into a situation of indebtedness. Besides this, the role of the state then, as a provider of social goods such as health and education became less and less important. Adding to this, the financial world experienced a great unregulated expansion. This caused the bubbles it had created to explode in such a way that most of the regions of the world and aspects of economy were affected. For him, capitalism must be understood from every of its aspects so that we can do something about it. We should look at the broader picture and try to understand how all is interconnected and not just study certain aspects of it.

Second, Saskia Sassen's thesis tends more to be a challenge to the contemporary ways of understanding capitalism. She argues that we should change the concepts we manage so that new ways of understanding our reality can appear. For her, it is not enough to talk about more inequality or more poverty. It is not enough, either, to refer to certain regions or aspects of capitalism. Her central thesis is that "there are dynamics that cut across older forms of differentiation and thereby can generate expulsions across different worlds."<sup>19</sup> We should embrace new ways of analyzing what is going on in today's economy. She introduces the term "systemic

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<sup>18</sup>The RSA, *The Contradictions of Capitalism* (video), 30/04/2014, available on <https://www.youtube.com/watch?v=f9dLcGJ5N1o>, min. 15:50.

<sup>19</sup>Saskia Sassen, *op. cit.*, p. 221.

edges,” as a new way of referring to the invisible boundaries that differentiate those inside the system from those excluded. With the term “expulsions” she is not referring to social exclusion, but rather to the many people that are not part of capitalism, whose life and work are not functional within the system. With expulsions she also refers to the environmental aspect. Many land is being left aside of the capitalist dynamic, since it might not be useful anymore for so many reasons such as deforestation or contamination. Capitalists tend to grab land in order to produce whatever necessary to continue with capitalist growth. But nature cannot sustain such practices; so many regions are being deforested or left to die if they are not functional for production anymore. Sassen questions herself at the end of her book where all these expelled aspects and individuals are. She says that the spaces in which they are cry out for conceptual recognition. She argues that many of them are invisible to the majority of the people, and so, we should be more attentive to the disruptions that capitalism makes and try to understand why the system works that way.

Last but not least, most of the authors of *Does Capitalism have a Future* center their analyses in the dysfunctionalities of capitalism. Only Georgi Derlugian focuses on the collapse of the Soviet Union as an example of the end of a system – within a Sate which collapsed itself. For Immanuel Wallerstein, capitalism is soon to end. He explains the rationale for predicting this and develops the idea of a world that can no longer absorb and sustain this economic system. For him, capitalism will end when capitalists will have overcrowded global markets and the many damages to the societies and environment have emerged. He argues that the historic moment of capitalism has passed and that the limitations of capitalism will soon emerge. Randal Collins focuses more on the role that technology is to perform in the future of capitalism. For him, the legitimacy of the system will be questioned when the majority of the middle educated classes all around the globe see their jobs displaced and their security vanished, due to the evolution of technology. He states that the former ways of escaping these legitimacy crises are no longer viable. First he mentions the idea that new technology creates new jobs or new job sectors. The second escape he mentions is the geographical expansion of markets, the third is the possibility of looking up to finance for rescue. In the fourth place he mentions the

possibility of the government of absorbing these unemployed, but in a shrinking state, so do the spaces in it shrink. Lastly he mentions the educational inflation, meaning more credentials are required for a certain job. But any of these options are no longer viable, making capitalism a much more questioned system than in the past. Contrary to his colleagues, Craig Calhoun argues that capitalism, although a system with structural contradictions and recurrent crises can be saved, by being reformed. He stresses the idea of capitalism being not only an economic system, but a political one as well. So he argues that some possibilities where the state is more involved exist, considering what can be done about capitalism. In other words, he sees a collapse if the capitalists continue to behave in the same way they have for many years, or a reform of the system, where more intervention is needed. Finally, for Michael Mann the future of capitalism is quite unpredictable, since he tends to take into consideration many other forms of power, like military geopolitics, ideology, and a multiplicity of regions of the world. However, what is actually predictable is a major environmental crisis. In order to be able to face it, individuals and the many institutions governing life would have to experience major changes.

With all these different appreciations of what is wrong with our actual system, some of these authors propose some precise ways of action within society; some others just point out what should change. In his last chapter, Harvey calls for specific ways of expressing discontent with the system, like creating an Anticapitalist Party, in order to displace the ruling classes and make the system a different one. For this, he identifies five specters of social action that can bring about such a change. He identifies the NGOs as an area for action; the second realm lies in the anarchist, autonomist and grassroots organizations (GROs).<sup>20</sup> In the third place he identifies the changes that some left parties have suffered which have opened them for this kind of objective. The fourth is a kind of social movement without ideology or political inclinations, but identified by its pragmatist need of resisting displacement and dispossession. The last movement he sees is the emancipator one that centers on issues of identity –like women, children, gays, racial, ethnic and religious minorities—“all demanding an equal place in the sun.”<sup>21</sup> Taking Sassen’s arguments,

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<sup>20</sup>David Harvey, *op.cit.*, p. 254.

<sup>21</sup>*Idem.*, p. 258.

we cannot see so much of a radical path that dictates what society should do in order to see capitalism reinvented. She only calls for more attention to the alarming power that finance has been obtaining. However, we can see that she calls our attention for changing the ways we understand economics and its results. For her, by understanding the systemic edges and the consequent expulsions, we could see what the real issues and problems are, cutting across boundaries and societies. Starting from there, then, the necessary actions could be taken. From another perspective, on the one hand, Wallerstein and Collins only limit their analyses to state the limitations and possible causes for capitalism to end. They do not have any clear proposition as what is to be done about them. On the other hand, Calhoun and Mann see a future for capitalism, but not the one we know today. They both point out the deficiencies of today's system, politically, socially and environmentally. They both argue that in order for capitalism to continue existing, major changes are needed, principally in the institutions ruling and organizing human life and interactions –social or environmental.

#### FINAL CONSIDERATIONS

By reading these three books, one can get a general idea of what happened in the crisis of 2008, on the one hand, and on the other, one can also see the different perspectives that many scholars and experts have on the future of capitalism.<sup>22</sup> Many critiques made to capitalism can be made also to the system as a whole, taking many other scopes of human life. For example, the role that liberal democracy has in today's societies might also be questioned. In liberal democracy, the role of the people is supposed to be important, but if civil society cannot act against the atrocities of capitalism, then something is not going the way it should. As Xing and Harsh put it

While liberal democracy is universally recognized today as the only legitimate political form after the demise of state socialism, it is being challenged by an all-encompassing globalization process that puts the economic logic in governance over civic participation and converts civil

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<sup>22</sup>Besides these authors, there are more, like Kenneth Rogoff, Li Xing and Jacques Hersh, who dare make a prediction on capitalism's future.

societies and NGOs into supportive instruments for the continuing growth of capitalism.<sup>23</sup>

One could argue that the capitalist system is actually growing beyond the economic space into social and political ones as well. Therefore, if it is to collapse or not, will its future involve these other realms of human action?

Besides this question, many others rose whilst reading the arguments against and in favor of capitalism's future. I will try to address some of them in this final section. The first query that came to my mind after I learnt about the different ways of analyzing the history of capitalism and its behavior, was why hasn't this system changed since its decadence around three or four decades ago, if there is so much inequity, and if it is causing so much damage to a big number of people and to the environment. The best answer I could find was that whoever takes the decisions within the system is fully aware of its deficiencies but does not want to do anything about it. Then came the question of legitimacy. How is the system supposed to last if its legitimacy is being questioned? Perhaps, the answer here is that it has not been questioned enough or by the right people at the right time. With these questions in mind, the general idea I get after reading the books is that they were published for a reason. They are intended to make the reader think about the current global situation. I mean with this that capitalism had never suffered from so much questioning before in its history. Some of the authors are even calling for some radical changes, either in the political and economic realm or in the intellectual one.

My thoughts, overall, are that with these books, one surely can grasp the severity of the legitimacy crisis that capitalism is suffering among the experts and scholars. Also, one can understand what are the dynamics inside the system that makes it work the way it does, and produce the results it does without a huge amount of data and hard numerical interpretations. The three books are intended to speak to a broader audience, not just economists. Therefore their language is meant to be not as formal as some economical analyses. Their appeal lies in that the authors are known to be experts in their fields and so their opinions are valued among their colleagues. Personally I found their reading quite stimulating and made me question

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<sup>23</sup>Li Xing and Jacques Hersh, *op.cit.*, p. 211.

many things of the current system we are living in. I think they can stimulate further debate and more interpretations on this particular issue of the future of capitalism.

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