

**The Shifting of the Epicenter of Capitalist Crisis from Labor to Finance:  
On David Harvey's *The Brief History of Neoliberalism and the Enigma of  
Capital***

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**Introduction**

*In the case of money, it becomes madness; madness, however, as a moment  
of economics and as a determinant of the practical life of peoples. – Karl  
Marx*

*Were Marx to write *Capital* today, or if the writing of *capital* were to pick up  
now where he left off then, the critique of political economy would  
necessarily morph into the domain of finance. – Randy Martin*

This paper attempts to critically analyze the rise of finance in the 1970s under the global neoliberal regime and its systemic confrontation with the global financial crisis in 2007-08 through the analytical work of David Harvey, mainly *The Brief History of Neoliberalism* (2005) and *The Enigma of Capital and the Crisis of Capitalism* (2010). Harvey's comprehensive application of dialectical historical materialism on the one hand and the fresh look he brings into the Marxian analysis of capitalism in '*the age of finance*' on the other inspired me to focus on his work and appreciate them with a critical sense.

The content of the paper consists of the following sections and Harvey's own articulation upon them. Especially, Harvey's fresh gaze upon the Marxian notion of '*capital is not a thing but a flow*' and his application of the concept in order to understand the capitalist crises in 1970s and 2007 is central to the argument constructed in this paper. Then, how well Harvey argues against

the notion of mainstream economics on the philosophical platform of ‘*systemic risks verses internal contradiction of capital*’ is discussed. Attached to that, the main focus of this paper is presented, ‘*shifting the epicenter of the systemic crisis of capitalism from labor to finance*’. Next, the background of Harvey’s argument of ‘*capital as a self-destructive and a destructive force*’ is discussed as amalgamating with the concept ‘*capital’s surplus absorption problem*’, which as Harvey considers is one of the most magnified features in the last two crises and is becoming more and more challenging for the global capitalist elites.

### **Objective**

The objective of this paper is to analyze how the configuration of the crisis of capitalism in the 1970s and the solutions that emerged from that crisis actually dictate the terms of the 2007-08 financial crisis. In other words how effectively capitalism was able to shift its intrinsic crisis nature from ‘*the problem of labor*’ to ‘*the problem of finance*’.

### **Methodology**

The paper took into account only secondary sources and is developed in the form of a theoretical work of research. Both qualitative and quantitative data instruments are used. The main literature of the paper consists of David Harvey’s *The Condition of Postmodernity* (1989), *The Brief History of Neoliberalism* (2005), *The Enigma of Capital and the Crisis of Capitalism* (2010), *Marx, Capital and the Madness of Economic Reason* (2017).

### **Results and Discussion**

*Capital is not a thing but a flow: Securing the motion of capital from 1970s to 2007:* Harvey pointed out the inadequacy of the conventional version of the Marxian theory of crisis formation laid out in *Capital*, in order to understand the “nature and epicenters” of contemporary crises. Therefore, he insists on looking at the wider crisis-framework Marx laid out as a rough piece of work in *The Grundrisse*, according to Harvey, where Marx argues that the circulation and accumulation of capital cannot abide limits. If we try to understand capital as a thing, something solid and containing dead-labor,

Harvey's position is, it would not be an accurate understanding and should not be a solid foundation in order to analyze capitalism and further, it will ultimately form an anti-dialectical version of Marxian analysis. According to Harvey, this focuses our attention upon those points in the circulation of capital where potential limits, blockages and barriers might arise, since these can produce crises of one sort or another (Harvey, 2010). In that sense, we can understand that how well but destructively capitalism in 1970s converted its blockages and submerged emerged social relations of that age by fluidizing social relationships, or in Harvey's terms, by *financing everything* (Harvey, 2005). In *The Enigma*, Harvey further elaborates the validity of this claim by highlighting how capital, in its strategy, *financing everything*, successfully combined different spheres of the society, traditionally viewed as unrelated, separated and "non-financial". "Capital cannot circulate or accumulate without touching upon each and all of these activity spheres in some way" (p.124). "Each sphere", Harvey argues, "evolves on its own account but always in dynamic interaction with the others" (p.123). These spheres are: technologies and organizational forms; social relations; institutional and administrative arrangements; production and labor processes; relations to nature; the reproduction of daily life and of the species; and "mental conceptions of the world" (p.123) (Harvey, 2010). In Harvey's account in both recent crises of capitalism two main things occur. Firstly, the flow or the motion of capital is stopped due to its self-contradictory nature and secondly, capitalism successfully constitutes solutions in order to re-channel and secure the fluidity of capital at a global scale at a massive human and interestingly, at a massive financial cost.

*Systemic Risk verses Internal Contradictions of Capital:* Harvey basically raises the question, from where these so called 'systemic risks' that are falsely explained by the neoclassical economics actually come from. Obviously, the answer Harvey articulated is that they are embedded within the very nature of capital itself. In that sense, the financial crisis took place not due to the mismanagement of systemic risks but due to the very embodiment of capitalism. Further, if there was mismanagement appearing globally, it was not due to an unintended policy choice but due to an intended one, which consisted of the deregulation of finance, absolutely in order to encourage the motion of so called '*financing everything*'. Monetarism, according to Harvey, was a sufficient factor but not the necessary factor in order to assemble the global force of neoliberalism and

restore class power against poor and working class all around the world. The Enigma of Capital vigorously attacked two things, capitalism and the understanding of capitalism in mainstream neoclassical economics.<sup>19</sup> Harvey pointed out that while there are many possible realistic ways to explain the crisis which began in 2007, mainstream economists, specially sheltered in the London School of Economics, attempted mystify the real causes of the crisis by saying it occurred due to “systemic risks”. Harvey denies the legitimacy of the claim and the existence of “systemic risks” that are yet to be known and hard to avoid according to mainstream economics and proposed the Marxian conception ‘*contradictions of capital*’.

*The shift of the epicenter of crisis from labor to finance:* Harvey points out that during the crisis of 2007 nobody accused labor or unions for being greedy and causing the ongoing crisis. *Nobody even mentioned the relevance of labor in order to understand the present crisis*, Harvey mentioned in one of his lectures in 2008. At the epicenter of the problem was the mountain of ‘*toxic*’ mortgage-backed securities held by banks or marketed to unsuspecting investors all around the world (Harvey, 2010). But the role of labor is important in order to understand the present crisis because it is dominated by capital (or financial capital systematically) and submerged under the ‘*necessary fluidity*’ for capital to cherish. The central thesis of The Brief History and The Enigma is that the solutions of the crisis of the 1970s fundamentally constituted the necessary causes of the global financial crisis. In other words, financialization, which became the slogan of profitability and the globally extended deregulation mechanism which was hailed as ‘*allowing the market to emancipate the humankind*’, systematically shifted the cause of capitalist crisis from labor to finance.

*Capital as a self-destructive force and a destructive force:* In both The Brief History and The Enigma Harvey identifies capital not only as a self-destructive force but also as a destructive force. In other words it restructures itself not only at its cost but also at the cost of others, human beings and nature. As previously mentioned, in order to contain the compounding

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<sup>19</sup> According to Shaikh, the historical contribution of mainstream economics is legitimizing capitalism against its odds and destructions through a process of “ideological cleansing”.

growth rate and reinvest in profitable means capital has to destroy a certain proportion of its '*expired wealth*' and destroy the old and slow spatiotemporal dimensions to alter them with newer and faster ones. This process of destruction is involved with science and technology, engineering, art and craft, law and the military, etc. Self-destruction of capital takes place, according to Joseph Schumpeter, through the practices of "invention and innovation" under capitalism. Nevertheless, according to Harvey, this process was never a peaceful one. It was a violent and forceful process that was fundamentally driven by the class interests of the bourgeoisie.

In *The Brief History of Neoliberalism* Harvey provides a comprehensive account in order to depict the "necessary violence" that had to be unleashed in order to "unite the world" under the neoliberal order. His account consisted of the violent history of Chile during the military dictatorship under Augusto Pinochet, Thatcher's brutal attack on the miners and pioneering the long stretch of privatization in UK and Regan's attack on aviation unions in the USA. This violence is not necessarily depicted by the number of political killings or imprisonments but in terms of the social control it systematically planted through the channels of economic means and respective power position in the process of production. The figure demonstrates the attack on labor by global elites in 1970s. The growing gap between productivity and real wages became "an economic norm" and never even identified as a fundamental issue embedded within the logic of capitalism. According to Harvey, this process was absolutely intended and legitimized by the top 1% of the US population, "a non-violent strategy" to keep labor under pressure.

*The Surplus absorption problem of Capital: From stagflation to global financial crisis:* The surplus absorption problem of capitalism was highly magnified and further aggravated during the financial crisis. Harvey pointed out that any capitalist economy must expand at a rate of about 3% per annum, which means more and more surplus must be absorbed by the system and there should be a mechanism to provide room for this ever-growing mechanism in-built within the capitalist growth logic. Harvey calls this necessary rate of surplus absorption "the compound growth rate". If we are to return to 3 per cent compound growth today, \$1.6 trillion in surplus capital would need to be profitably invested. If sustained growth returns, the

world economy will need to absorb some \$3 trillion in surplus capital by 2030 (Harvey, 2010, 26-27). The key point that should be highlighted here is that even though capitalism has generated more means to invest, to reproduce, to consume and to exploit; keeping up with this ever-expanding and socially limiting compounding growth rate is becoming problematic to capitalism. The stoppage of this compounding growth rate in 1930s was treated with Keynesian demand stimulations, then in the 1970s with destructive neoliberal policies and then in 2008 with a massive state bail-out and financial stimulation packages. The main question Harvey raises is that, where does the system go? And what would be the solution for the next compounding growth rate stoppage (the next crisis), within a space where the possible solutions are getting limited and socially questioned? According to Harvey, the financial system is subjected to too many experiments and society as a whole is too exhausted. The crisis erupted in 2007 brought a wider picture about these human realities on one hand and on the other it brought the underlying capital surplus absorption problem to the surface, which became a global phenomenon under neoliberal globalization.

## Conclusion

David Harvey's analysis that developed through, specifically, *The Brief History of Neoliberalism* and *The Enigma of Capital and the End of Capitalism* is vital in order to understand the systemic crisis of capitalism and different epochal epicenters of the same crisis. Harvey's main argument that can be desterilized through the above literature is that the necessary elemental motions (reasons or causes) of the global financial crisis of 2007 were embedded in the solutions constituted; not only to get away from the crisis of 1970 but also to make neoliberalism the hegemonic order. In other word, the repercussions of the elitists' political project in the 70s, vicious attack on labor and subordinating the social position and class power of labor as positioning finance as the center of the economic reality, counterattacked as a '*dialectical historical material reality*' in the next capitalist crisis. In Marxian terms, this entire process can be identified as a process of attacking, undermining and delaying the embedded internal contradictions of capitalism. As *Anwar Shaikh* demonstrated in his work with close attention, this is the fundamental nature of the existing economic order that '*disorder becomes the order*'. For Harvey this disorder continuously creates and

corrects the appropriate time and space sequences of capital, as he asserts, which is the “*lifeblood that flows through the body politics*”.

These epicenters of two crises, as Harvey stresses, subjected to shifting, in a highly politically and theoretically sophisticated manner, can be simply illustrated by shifting the epicenter of the crisis of the 1970s from Labor to finance in 2007-08. Harvey convincingly ascertained that capital never solves its crisis tendencies but it merely shuffles them around. Further, through the aspect of self-destructive nature of capital, Harvey demonstrated how destructive and irrational capital can be to humans and nature while ‘*correcting*’ the irrationalities of capitalism. This shift of the epicenter of crises proves that this irrational logic can typically lead the world to new configurations, solutions, advanced development and financial models, spheres of surplus to be accumulated and new forms of class power. Nevertheless, those will merely do nothing except deepening and further politicizing the existing crisis of global capitalism.

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