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Toxic Capitalism

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REVIEW FORUM

Toxic Capitalism

NEIL SMITH

‘Capitalism is being killed by its achievements.’
Joseph Schumpeter

We are all now familiar with the story of the rise of neoliberalism – Friedrich von Hayek and the Mont Pélèrin Society, Milton Friedman and the Chicago Boys, Pinochet’s Chile – as simultaneously testing ground and template for a whole new phase of capitalism. In intellectual historical terms, neoliberalism marked a return to a Smithean economy based on private property, competition and self-interest, and to a Lockean politics vaunting the expression of self-interest as the best-for-all pinnacle of bourgeois democracy. But it may be Russia nearly two decades later that marks the most emblematic expression of this ruthless kill-and-grab politics. By 1991, the forensic global violence of neoliberalism had been visited on various countries in Latin America, Thatcher’s Britain, Reagan’s America, IMF targets of ‘structural readjustment’ (from the Caribbean to Africa), New York City, Poland. Hundreds of thousands if not millions of lives had already been sacrificed either to direct state violence or war, unemployment or starvation, the want of water or health care. The wars in Iraq, the Balkans, and various locales in central Africa were still to come. Having already won the Nobel Peace Prize a year earlier, Soviet President Mikhail Gorbachev was the toast of the capitalist world for ‘liberalising’ Russia’s social and political institutions, in effect crying ‘uncle’ on the Cold War. Liberalising the economy was next on the agenda, but rather than supporting a process already underway, Western governments put ‘Gorby’ in a vice, requiring the most far-reaching economic ‘reforms’. Fresh from his organised destruction of the Bolivian and Polish economies in the name of market liberalisation, Jeffrey Sachs played henchman economist of Western capital, and the next two or three years turned the Soviet economy into a whole new frontier of capital accumulation and dispossession, looting the state’s coffers and the people’s everyday living. Egged on by Western governments under the vogue sentiment that ‘greed is good’, the new Russia suspended any meaningful democracy, put down a popular revolt

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reclaiming parliament, and to Western capitalist applause placed Boris Yeltsin in virtually dictatorial power. As Naomi Klein observes, the 'rise of Russia's billionaire oligarches proved precisely how profitable the strip mining of an industrialised state could be – and Wall Street wanted more' (p. 242). Meanwhile record unemployment and inflation combined with the decimation of social services made life a misery for most Russians, reminiscent, as many noted bitterly, of the Tsarist period.

In Russia in the 1990s as in Chile two decades earlier, any whim for democracy was laughed aside in the name of class power and profits. The Western press now registered few qualms about this political and economic 'shock therapy', or the social violence it wrought, as long as it could all be justified as a continuing struggle against a long-gone communism. If Russia arguably marked the highpoint of neoliberalism in the 1990s, insofar as a particularly vicious assertion of capitalist principles now conquered the 'evil empire', it also quickly became the low point as this shock therapy brought not only withering poverty but, even in its own terms, crashed dramatically in the quite misnamed 'Asian economic crisis' of 1997–1999, itself very much a product of shock therapy. A decade later Prime Minister Vladimir Putin found himself increasingly vilified in the West for attempting to reign in the oligarches and renationalise parts of the economy, but these squabbles were increasingly marginalised by the post-2007 meltdown of the global economy rooted in the US housing market. In the rubble of this crisis, Russia lost more than half its billionaire oligarches almost overnight; more to the point, the life expectancy of Russians, which actually declined in unison with the ascent of neoliberalism, seems set to decline even further as a result of neoliberalism's failure.

Naomi Klein's *The Shock Doctrine* is at its strongest documenting the Russian debacle and its connections to the global class assault that since the 1970s has masqueraded as neoliberalism. She surpasses most if not all of the available literature on neoliberalism in terms of detail, breadth and history and her political anger is palpable. She is at her best as she makes the connections between the experiences in Bolivia and Russia, China and the US, New Orleans and South Africa, all woven together by the Chicago boys, their progeny, their absolutist ideology, and an economics profession more broadly that panted its way into the breast pockets of ruling classes across the world. She is at her best too when she tracks the practical and intellectual contours of these experiences back to the agenda of global capitalist greed. Her earlier book, *No Logo*, was a bestseller emblem for anti-globalisation as that movement galvanised into a global force at the end of the 1990s. If anti-globalisation politics have since 2001 morphed into various co-sympathetic strands – anti-war and global social justice organising, environmental and anti-capitalist struggles, indigenous and popular democracy movements – Klein too has moved on. Where a certain naivety, especially about circumventing the state, undoubtedly marked the anti-globalisation movement, this is nowhere evident in *The Shock Doctrine*; rather, she has multifold governments – national and international – squarely in her sights.

This book could probably only have been written as neoliberalism matured into middle age and its multidimensional outlines broadened into clearer focus. Indeed it is now apparent that neoliberalism finds itself 'dominant but dead', to purloin

Jürgen Habermas's perspicacious assessment of modernism (Habermas 1985). It is dead insofar as it has ceased to grow, expand or develop new ideas, but it remains dominant insofar as the practices, institutions and ideologies of the neoliberal moment, however challenged or even bankrupt, remain very much in place (Smith 2008).

The deep economic crisis that engulfed the world after 2007 marked the final recognition of the atrophy of neoliberalism. The crisis was clearly looming for several years, emanating not just from within but from concerted opposition spanning anti-globalisation and other struggles, yet the final dramatic implosion came in late summer 2008 as the US subprime housing debacle precipitated a global financial crisis potentially comparable with the Great Depression. (In a desperate Canutean attempt to hold back recognition of the depths of crisis some economists began in late 2008 to refer to the 'Great Recession'.) Quite contrary to the doctrines of a supposedly deregulating neoliberalism (but certainly not contradictory to its class spirit nor its practices insofar as the state was always a focal progenitor of neoliberalism), banks are increasingly nationalised, explicitly or otherwise; irresponsible corporate behaviour is rewarded by multi-billion dollar bailouts, nations, states and towns across the globe face bankruptcy, and national governments have been toppled (Latvia, Iceland). Meanwhile, the poor of the world who live in permanent crisis are already being hit by even more brutal realities as jobs are cut and remittances from North America, the Middle East and Europe dry up.

The language in the late 1990s crisis evinced a fear of 'contagion' – evoking an encroaching epidemiological contamination of the putatively healthy North American and European bastions of capitalism – a metaphor which in its own way expressed the deliberate attempt to contain geographically the massive devaluation of capital. Today the language has changed. With the causes of the present crisis indisputably homegrown – not just in the US mortgage collapse but in the grossly over-leveraged financial sectors of the advanced capitalist world – and with the global extent of social and economic devastation, the new language speaks less of contagion than of 'toxic' debt and 'toxic' assets and an 'economic meltdown'. This new lexical currency for scripting the crisis appeals to environmental and climatic rather than epidemiological metaphors. The result, however, is the same: the language of toxicity especially works to marginalise certain supposedly contaminating practices from an otherwise healthy capitalism and it captures banking crisis practices precisely. In an effort to stem the financial dimensions of the crisis, and in hopes of preventing healthier loans and debts from being 'contaminated', governments and banks began isolating so-called toxic debt and assets that were worth only a fraction of their paper value. Bankers refer to this practice as 'ringfencing'. The larger point, increasingly evident for all to see, of course, is that it is capitalism itself that is toxic, and so the question inevitably arises: how do we ringfence capitalism *tout coeur*?

Klein's answer in *The Shock Doctrine* proposes in effect a new New Deal. There is nothing inherently violent or brutal about market systems, she proposes. Rather, the free market can coexist with free public health care, public schools, nationalised companies, progressive and redistributive tax laws, and 'decent wages' and union rights for workers. 'Keynes proposed exactly that kind of

mixed, regulated economy after the Great Depression, a revolution in public policy that created the New Deal and transformations like it around the world' (p. 20). Such proposals for a new New Deal have gained considerable traction on the left (Harvey 2003), not least with the campaign to elect Barack Obama to the US presidency, an eventuality that seemed to give some plausibility to the idea. In Klein's case, broad-ranging, incisive and devastating as her critique of neoliberalism is, it nonetheless stops short of a critique of capitalism *per se*.

In many ways, the present crisis fits the picture painted however sporadically and incompletely by Marx, in the volumes of *Capital* as well as in other writings, and whatever the various obsolescences, gaps and wrong turns, this is an excellent place to start in attempting to grasp the origins of capitalist crisis today. For Marx, crises were an integral product of capital accumulation. Where stunned bankers, confronting the first diabolical signs of economic meltdown in 2008, spluttered that 'this is not how capitalism is supposed to work', Marx had long since demonstrated that it was exactly how capitalism works. Whatever its progressiveness in comparison with prior modes of production, capitalism is by definition toxic.

Some might object that this was not a classic underconsumption/overproduction crisis, that it sprang from the financial rather than industrial sphere, or that the falling rate of profit was of marginal importance, but these observations are not entirely correct and miss the larger issues. A strong argument can be made that the overproduction of housing was a central trigger of the crisis, that Marx's analysis suggests precisely the migration of crises of profitability into the financial sector, both in the short and long term (Arrighi 1994; Harvey 1982) and that just such a falling rate of profit in many sectors was very much in evidence in the last two decades (Brenner 2003). This is not the place for an extended discussion of causes and expressions of the crisis and the interlinking of its various facets, nor for a comparison with previous crises nor an assessment of the uniquenesses of this one. Still, it does seem evident that the very fact that the catalyst for crisis came from the housing market provides considerable support for Lefebvre's (2003) insightful if undeveloped contention nearly four decades ago that urbanisation was increasingly supplanting industrialisation.

In this context, revelatory as Klein's *The Shock Doctrine* is about the social, economic and all too often direct physical violence of neoliberal shock treatment in the last four decades, it misses the embeddedness of this historical moment in the longer history and structure of an evolving capitalism. Toxicity is written into the DNA of capitalism. This is more than a rhetorical or scholastic point but goes to the heart of any political response. It suggests that while even the most successful attempt at a new New Deal would at best have ameliorative effects but would not challenge the fundamental social relations of exploitation which, for Marx, are the root cause of the endemic crises of capitalism. In fact, much as it was touted by Keynes, the original New Deal was actually a political compromise between, on the one side, national ruling classes intent on displacing the pain and suffering of the economic crash onto the working class and, on the other, a radical post-1917 workers' movement, steeled by economic crisis and miserable impoverishment, that threatened the very integument of capitalism. The twentieth-century New Deal in the US was a desperate compromise designed, as Franklin Roosevelt

once put it explicitly, to allow the capitalist class to keep at least half the economic pie while simultaneously deflecting and deflating workers' impulse toward revolution (Smith 2005).

Significantly, therefore, without the political threat posed by the kind of militant working-class organisation that marked the 1920s and 1930s, Barack Obama's 'stimulus plan', bank bailouts and federal budget of early 2009 posed a very watered down version of anything remotely comparable to the New Deal. By the same token, the original New Deal was not, as it is widely portrayed, the unqualified saviour of workers' lives. Certainly it ushered in unemployment and other welfare payments for many of the poor as well as some subsidies for healthcare, education and housing and minimal if highly uneven workers' rights, but these came at the considerable price of increased social control, intensified repression of workers' struggles, and the cooption of independent union organising. To take the example of housing, in the 1930s the newly created Federal Housing Authority (FHA) began insuring mortgages in an effort to encourage and expand home ownership. But these subsidies went almost entirely to suburban neighbourhoods, thus stimulating the disinvestment and redlining of central urban areas, the remedies to which would decades later be perversely deployed as a pretext for subprime mortgaging. FHA mortgage insurance went even more disproportionately to whites (Checkoway 1980). The New Deal may have worked for many better-off workers, but poorer workers and African-American workers were just as often excluded. The class, race and gender segmentation of the post-war city owed much to the New Deal.

The New Deal, then, is not simply explained as a piece of liberal beneficence. On the one hand, the most innovative aspects of the New Deal regarding social and welfare policies would never have come about without the threat of working-class uprising and revolt, and, on the other hand, this was accompanied by massive and often brutal repression of strikers, hobos, immigrant workers, blacks and workers bent on unionisation. Today, while many on the left consider a new New Deal as a minimum for victory in the wake of crisis, in historical perspective this aspiration seems increasingly unambitious, indeed unrealistic. A response to crisis that limits itself to this demand will inevitably come up well short, especially given the weakness of labour organising in many (but not all) parts of the world. There is obviously no one-to-one mapping of economic crisis and revolt, far from it, and such economistic assumptions have surely failed miserably in the past, but such crises do bare the brutality of class interest that underpins capitalism, the inability of the capitalist class ultimately to control economic chaos of its own making, and the possibilities for radical social, economic and political change. Even if the official media tends to see only the mildest of reforms or finds safely liberal mouths for slightly more radical proposals, nonetheless the evident failure of capitalism to provide the daily necessities for more and more people is ubiquitously understood, and this fertilises the demand for more radical alternatives.

The thoroughly ideological closure of the political imagination, specifically the foreclosure of alternatives to capitalism, was equally a casualty of neoliberal political violence. In the West, for example, revolutionary change has not seriously been on the agenda since the 1970s, even though no less a figure than Michel

Foucault, often treated in English-language academia as the consummate anti-Marx, once declared the impulse to revolution to be 'irreducible'. 'People do revolt; that is a fact, and that is how subjectivity . . . is brought into history, breathing life into it' (Foucault 2002: 452). Or there is Slavoj Žižek lamenting the ideological damage wrought by neoliberalism: today, he observes, 'it seems easier to imagine the 'end of the world' [wrought by a humanly induced 'break-down of nature'] than a far more modest change in the mode of production' – the overthrow of capitalism (Žižek 1995: 1).

Just as with the original New Deal, it is likely that the state response to the current crisis will mix the carrot of some ameliorative social programs with the big stick of repression. The entire social, military and technological architecture of neoliberal surveillance, repression and warfare, much of it assayed in this book, remains largely in place and available for redeployment. The precise mix of social carrot and repressive stick is not predictable and will in any case differ from place to place. As a new round of anti-neoliberal resistance emerges, from Bolivia to Iceland, Greece to Latvia, it is difficult not to conclude that toxic capitalism has successfully 'ringfenced' itself from the inside out. Our job is to shrink the fence toward a mere point while developing whole new modes of social being.

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