

ALEX  
CALLINICOS

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BONFIRE  
OF  
ILLUSIONS

The Twin Crises of the Liberal World





# **Bonfire of Illusions**



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**of Illusions**

The Twin Crises of  
the Liberal World

— Alex Callinicos —

polity

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## **In Memoriam**

Peter Gowan  
(1946–2009)

Chris Harman  
(1942–2009)

**'One must always try to be as radical as reality itself.'**

**V. I. Lenin**

# Contents

<i>Preface and Acknowledgements</i>	ix
<b>Introduction: How the World Changed in 2008</b>	1
<b>1 Finance Humbled</b>	20
What is financialization?	23
Three perspectives on financial crises	34
More than just a financial crisis	50
Dilemmas of recovery	83
<b>2 Empire Confined</b>	95
The state roars back	95
Collision of empires	106
Orchestrating disharmony	121

<b>Conclusion: Regime Change or System Change?</b>	127
The end of neoliberalism?	127
State, market and planning	134
<i>Notes</i>	144
<i>Index</i>	169

# Preface and Acknowledgements

I must confess to having had some second thoughts about the title of this book. The illusions that I had in mind were those forming the dominant ideology in the era since the end of the Cold War, and crucially the belief – most famously articulated by Francis Fukuyama when he announced the End of History in 1989 – that liberal capitalism offered the only basis on which humankind could hope to enjoy peace, prosperity and freedom. The starting point of this book is that this belief was exposed as illusory in the late summer and autumn of 2008, with the geopolitical setback suffered by the United States in the war between Russia and Georgia and the economic earthquake unleashed by the collapse of Lehman Brothers on 15 September 2008.

I still think that this is right, and indeed in this book I develop an extensive analysis in support based in particular on the long-term crisis of overaccumulation and profitability from which the advanced capitalist economies have been suffering for several decades. But I forgot the point that Marx made when he pointed out the limits of any purely intellectual critique of the religious beliefs people have: ‘To call them to give up their illusions about their

condition is to *call on them to give up a condition that requires illusions.*'

Thus, despite the enormous material and symbolic blows that it has suffered, liberal capitalism attempts to steam ahead as if nothing happened. According to a study by the Bank of England published in November 2009, the state bailouts of the financial system have cost \$14 trillion in the US, Britain and the euro-zone, nearly a quarter of global output. Yet governments still seek to propitiate the financial markets whose continued survival depends on their own efforts. Public services are butchered in the drive to return to neoliberal 'normality'. Most absurdly, market solutions are proposed to the enormous problem of global warming.

And so the illusions have survived the bonfire. This is an exercise in collective deception and self-deception, but it indicates that we are dealing with illusions sustained by material interests. They are, in other words, a symptom of 'a condition that requires illusions'. This makes ending that condition all the more urgent. The shambles of the Copenhagen climate summit in December 2009, which was torpedoed by cynical manoeuvres between the major powers, underlines how important it is to rid the world of an economic system driven by blind competition among firms and states.

In writing this book I have, of course, depended on others. At Polity I benefited from the support and assistance of Clare Ansell, Susan Beer, David Held and Sarah Lambert. Sam Ashman, Joseph Choonara and Chris Harman all read the book in draft and made very valuable comments. Lorenzo Fusaro helped me see the importance of David Harvey's *The Limits to Capital* in integrating different partial perspectives on capitalism. I would like to thank them all for the help they have given me though naturally they are not responsible for the use I have made of it.

The year 2009 took a terrible cull of Marxist intellectuals of the 1960s generation. We saw the passing, for

example, of Giovanni Arrighi and Jerry Cohen. *Bonfire of Illusions* is dedicated to two others. In the past decade, Peter Gowan developed a critical political economy of the contemporary world that is both original and stimulating. Before that Peter had, among many other things, headed a sustained effort to promote the development of anti-Stalinist socialism in what was still the Soviet Union and Eastern Europe. I learned a great deal from reading and talking to Peter. He was a splendid human being and his death in June 2009 was a great loss.

But then, suddenly and unexpectedly, Chris Harman died in November 2009. This is a source of grief that I still find it hard to express. Chris had been both a friend and a pervasive intellectual influence for more than thirty-five years. While he developed Marxist thought in many different areas, his work in political economy was particularly important and helped very much to shape my own views on the subject. It is especially sad that Chris should have died at a time when his writing on Marxist political economy was so productive, as is evident in what proved to be his last book, *Zombie Capitalism*. I read and commented on it in draft, as he did for both this book and its predecessor, *Imperialism and Global Political Economy*. It seems quite impossible that our long dialogue is over and I must continue without him.



# Introduction: How the World Changed in 2008

The proclamation of some event or date as marking a historic turning point – a great end or beginning – has a distinguished ancestry. It starts, perhaps, with Goethe, after the French revolutionary forces had overwhelmed the armies of the old regime at Valmy in September 1792, announcing: ‘From this place and from this place forth commences a new era in the world’s history.’ But the practice has degenerated into the dullest of journalistic cliché, as the latest turn in fashion or in the political cycle is energetically spun as marking a profound discontinuity in historical time. No doubt at play here is one manifestation of the ideology of endless novelty that is an important aspect of how contemporary capitalism presents itself to the world.

All the same, just because this debasement has taken place doesn’t mean that events of a genuinely epochal character never take place.<sup>1</sup> In my view, the late summer and early autumn of 2008 marked just such an event. Its nature is indicated by two episodes in particular; first, the brief war between Russia and Georgia in early August, and then, the collapse on Lehman Brothers on 15 September, which promptly precipitated the biggest global financial

crash since the Great Depression of the 1930s. What event do these episodes – themselves of unequal significance, the second of greater import than the first – help to mark?

A first approximation would be to say that they indicate the end of the post-Cold War era. This goes against the common view that it was the terrorist attacks on New York and Washington on 11 September 2001 that brought this period to a close. But, when one thinks about it, this standard account isn't really right. For the reunification of Europe on Western terms and the collapse of the Soviet Union opened a period of unprecedented supremacy by the United States in the interstate system. The ideological accompaniment of this American primacy – most influentially articulated by Francis Fukuyama in his theory of 'The End of History' – could be summed up in two propositions: that liberal capitalism was the only rationally acceptable socio-economic framework for a modern society and that a widening circle of liberal democracies could offer the world benign global governance. There were variations in how these propositions were articulated and pursued, but they constituted a common sense shared by the leaderships of the main Western states.<sup>2</sup>

A particular kind of challenge to this ideological and political constellation was dramatized by the 9/11 attacks, but they didn't disperse it. On the contrary, in its response to the attacks, the administration of George W. Bush sought strenuously to reaffirm and reinforce US hegemony – and, indeed, the apparently speedy victories it initially won in both Afghanistan and Iraq led many to believe that it was succeeding in this enterprise. Moreover, the US under the younger Bush reasserted the neoliberal triumphalism that had been the consensual view of the Western ruling classes since 1989. The administration's notorious *National Security Strategy*, published in the interlude between the evictions of the Taliban and that of Saddam Hussein, began by affirming the outcome of the Cold War had left 'a single sustainable model for national success:

freedom, democracy, and free enterprise'.<sup>3</sup> Other Western states might jibe at the Bush administration's unilateralism, and, in some cases, defend somewhat different models of liberal capitalism from the free-market version the US was widely seen as embodying. But the commitment that the European Union showed to the Doha round of trade liberalization negotiations, launched by the World Trade Organization in November 2001 in part as a riposte to 9/11, indicated that the disagreements at the level of principle were comparatively slight (though the conflicts of interest dividing it from the US were, as the endlessly stalemated talks showed, quite another matter).

So why did 2008 mark a break from this pattern? Let's consider the war between Russia and Georgia first. On the face of it, this was a territorial conflict of a rather traditional kind between a Russian state that regards itself as the residuary legatee of the Tsarist and Soviet empires and a Georgian government eager to reclaim the Moscow-backed separatist enclaves of South Ossetia and Abkhazia. But the Georgian President, Mikheil Saakashvili, had, ever since the 'Rose Revolution' of November 2003 that brought him to power, presented his regime as what the *Financial Times* calls 'an outpost of Euro-Atlanticism' in the Caucasus, campaigning for admission to the North Atlantic Treaty Organization (NATO) and training and equipping his army with the assistance of the US and Israel. It seems probable that, in attacking the South Ossetian capital of Tskhinvali on 7 August 2008, Saakashvili blundered into 'a well laid Russian trap', as the *Financial Times* put it. In other words, the Russian President, Dimitri Medvedev, and his over-mighty Prime Minister, Vladimir Putin, used the war to inflict a crushing military defeat on Georgia and thereby to demonstrate their determination to resist Washington's efforts to expand NATO eastwards till it encircled Russia.<sup>4</sup>

So the Russia–Georgia war was about more than an obscure territorial dispute in Moscow's near-abroad. The intelligence consultant George Friedman interprets a speech

made by Medvedev in the immediate aftermath of the war as expressing the broadest geopolitical objectives:

Medvedev is saying that Russia is engaged in a general redefinition of the regional and global system. Locally, it would not be correct to say that Russia is trying to resurrect the Soviet Union or the Russian empire. It would be correct to say that Russia is creating a new structure of relations in the geography of its predecessors, with a new institutional structure with Moscow at its centre.

Globally, the Russians want to use this new regional power – and substantial Russian nuclear assets – to be part of a global system in which the United States loses its primacy.<sup>5</sup>

Friedman argues that this Russian strategy depended on exploiting the fact that the US is so heavily committed in Iraq and Afghanistan that it lacks the military capabilities to deal with crises in other regions:

the United States had created a massive window of opportunity for the Russians: For the foreseeable future, the United States had no significant forces to spare to deploy elsewhere in the world, nor the ability to sustain them in extended combat. Moreover, the United States was relying on Russian cooperation both against Iran and potentially in Afghanistan, where Moscow's influence with some factions remains substantial.

The United States needed the Russians and couldn't block the Russians.<sup>6</sup>

In other words, the war between Russia and Georgia made visible what is now widely believed to be the major long-term consequence of the Iraq war – namely that, far from affirming and entrenching US primacy, the seizure of Iraq at once exposed and magnified American weakness. The late Giovanni Arrighi argued particularly forcefully that the administration of the younger Bush marked 'the terminal crisis of US hegemony'.<sup>7</sup> According to Oksana Antonenko, senior fellow for Russia and Eurasia at the International

Institute of Strategic Studies in London, a similar view informed the attitude of the Medvedev–Putin partnership towards the US under the presidency of Barack Obama: ‘there is an overwhelming view in Moscow now that the Americans are in decline and will be forced to negotiate with Russia from a position of weakness’.<sup>8</sup>

Moscow’s new assertiveness, bolstered as it was by the vast foreign currency reserves it had accumulated thanks to the buoyancy of world prices for the oil and natural gas that were Russia’s most important exports, encouraged speculation about the rise of ‘authoritarian capitalisms’ challenging both American hegemony and the neoliberal economic model it championed. After all, the prodigious Chinese boom so central to the world economy during the 2000s showed no sign of undermining the dominance of the Communist Party or weakening the reigning alliances between state managers, local entrepreneurs and transnational corporations.

But the apparent weakening or even demise of US hegemony is as intimately connected with the second episode as it is with the first. In September 2008, after the global financial crash precipitated by the collapse of Lehman’s, leading European politicians were quick to argue that both neoliberalism and American primacy had been drastically weakened. The French President, Nicolas Sarkozy, declared: ‘Laissez faire is finished. The all-powerful market which is always right is finished.’ Peer Steinbrück, the German Finance Minister, was even blunter, telling the Bundestag: ‘The US will lose its status as the superpower of the world financial system.’<sup>9</sup> But the belief – more accurately in this case, the fear – that the world economic crisis would weaken the US was shared on the other side of the Atlantic. Consider, for example, the reaction of Roger Altman, Deputy Treasury Secretary under Bill Clinton (though he seeks to associate the EU in the general wreck):

The financial and economic crash of 2008, the worst in over 75 years, is a major geopolitical setback for the United

States and Europe. Over the medium term, Washington and European governments will have neither the resources nor the economic credibility to play the role in global affairs they otherwise would have played. These weaknesses will eventually be repaired, but in the interim, they will accelerate trends that are shifting the world's centre of gravity away from the United States.<sup>10</sup>

But, of course, the crash is significant for far more than its geopolitical consequences. Indeed, while the Russian–Georgian war was simply one step in a much longer term geopolitical process of declining US power, the Lehman's collapse and its aftermath marked a much more dramatic turning point. What began as the bursting of a speculative bubble in the US housing market in 2006–7 – the so-called subprime crisis – and the credit crunch that followed it have developed into a full-scale global economic and financial crisis marked by the first fall in global output since the Second World War. Even if it may not prove as deep or protracted as the Great Depression of the 1930s, the present crisis invites comparison with the latter. The scale of the catastrophe is all the more striking because it so closely follows an era of capitalist triumphalism fuelled by the credit boom of the mid-2000s. In his final budget in March 2007, Gordon Brown, then British Chancellor of the Exchequer and soon to become Prime Minister, boasted of the strength of the economy and of public finances, and declaimed: 'And we will never return to the old boom and bust.'<sup>11</sup> In October of the same year, several months after the outbreak of the subprime crisis, the International Monetary Fund compared the boom favourably with the Golden Age of postwar capitalism during the Long Boom of the 1950s and 1960s:

In recent years, output growth has been much more rapid than observed at any time since the oil shocks of the 1970s. Compared with the 1960s, however, neither the strength nor the length of the current expansion appears exceptional. That said, rapid growth has been shared across