Book Review: The State of Capitalism by Costas Lapavitsas and the EReNSEP Writing Collective

By Anna Pick*

The State of Capitalism: Economy, Society, and Hegemony by Costas Lapavitsas and the EReNSEP Writing Collective, 2023, Verso, 534pp.

In 1930, against the backdrop of the Great Depression and the rise of European fascism, Gramsci jotted down in the third of his *Prison Notebooks* the now canonical phrase: "the old is dying and the new cannot be born; in this interregnum a great variety of morbid symptoms ['*fenomeni morbosi*] appear" (1971, 276). In the last decade, the Gramscian interregnum has been invoked in all sorts of contexts, to characterize the perceived "death" of key pillars of socio-political organization, including the bourgeois family (O'Brien, 2022), and the sovereign nation-state. Even the waning of the post-9/11 "War on Terror" was described in the *New York Times* as ushering in a "dangerous interregnum" (Cohen, 2013). In this tradition, *The State of Capitalism: Economy, Society and Hegemony* (2023), opens by positing the period since the 2008 financial crisis as a "historical interregnum in the well-known Gramscian sense" (1-2).

Adam Tooze (2024) has convincingly described the proliferation of the descriptor "interregnum" as, paradoxically, a source of comfort in chaotic times, in that it "combines a declaration of crisis with a reassurance of knowledge that denies the dissolving effect of the crisis." It assumes that the old and morbid must give way to the new and healthy, and that history—a process of cyclical death and rebirth—requires us, eventually, to make this distinction. Tooze points out that implicit in Gramsci's "womb of history" is some version of a Marxist historical dialectic. In the explicitly Marxian-informed *State of Capitalism*, therefore, it may not be misplaced after all, and at least doesn't threaten internal incoherence. The "old" that may already be dying, in this case, is the neoliberal economic order, and alongside it, unbridled U.S. hegemony. The authors argue that the roots of this interregnum lie in a crisis of capitalist accumulation, with its symptoms including health and environmental emergencies, as well as new hegemonic struggles and trade wars.

The State of Capitalism is wide reaching by design: unusually, it was jointly written by the "European Research Network on Social and Economic Policy" (known as EReNSEP). The book aims to amalgamate regional and theoretical expertise to provide a coherent, Marxian-informed, and interdisciplinary assessment of the post-pandemic economic condition. Costas Lapavitsas, the group's convenor, will be known to many as an expert on money and finance, as well as an outspoken decrier of the austerity regime imposed on Greece following the European sovereign debt crisis of the early 2010s. Described in *Jacobin* as the "anti-Varoufakis" for advocating the abandonment of the euro and return of the Greek *drachma*, he is a Professor of Economics at the School of Oriental and African Studies in London (Budgen, 2015). The remaining ten contributors are Nicolás Aguila, Carla Coburger, Sergi Cutillas, Juan J. Duque, Matteo Giordano, Spyros Marchetos, Thanos Moraitis, Marie Hyllested, Yuning Shi and Aylin Soydan. The group spans multiple countries and diverse specialisms, from Chinese State-Owned Enterprises to Far Right populism, although most also share Lapavitsas' interest in the dynamics of financialization. While some sections might be relatively easily attributed to particular interlocutors, the collective insists on taking joint "responsibility for the final product as a matter of methodological and political choice" (2023, 6). Lapavitsas (2023b) freely admits that the writing process was at times "like herding cats".

After a brief introductory chapter on the pandemic economy, Part II of *The State of Capitalism* turns, at length, to exposing the dynamics of the contemporary financial system. Here, Lapavitsas draws from his major contributions to the resurgence of Marxist theorizations of money and finance over the last thirty years. A memorable back-and-forth with the sociologist Geoffrey Ingham in the pages of *Economy and Society* in the early 2000s helped crystallize some key differences between Marxian and

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Post-Keynesian monetary theory. Lapavitsas takes issue with the Chartalist notion that the accounting function of money takes primacy over its ability to store value or settle payments, with monetary value guaranteed by an extra-market institution (usually the state). Moving away from what he regards as "the vague supposition that the machinery of ancient states somehow devised a coherent system of values" (2005, 399), Lapavitsas traces money's emergence to exchange between commodity owners, in which it eventually monopolizes buying ability. Money, in Marxian terms, is an expression of labor value and thus of social relations, rather than an abstract "promise to pay".

A defining feature of neoliberalism for Lapavitsas has always been the growing dominance of the financial sector, as well as the proliferation of financial logics and incentives as organizing forces across the rest of the economy. This trend, ErENSEP argues, can be observed in multinational conglomerates that increasingly pool and use idle funds of their own for financial purposes, workers-made-debtors through mortgage and consumption lending, and a banking sector transformed by the new "shadow" finance – the system of non-bank institutions such as hedge funds, insurers, and pension funds involved in open equity and debt markets. Shadow banking is one of the book's core concerns; despite accounting for more than half of global assets (Bank of England, 2021), it remains under-theorized and under-regulated. Chapter 5, "The Travails of Financialisation", aims to simplify the extremely complex webs of assets and liabilities held by shadow banks through stylized balance sheets (2023, 84-5). This exercise highlights that, in comparison to commercial banks, shadow banks are characterized by the absence of three things: traditional loans, deposits, and access to public resources (including central bank reserves) in times of crisis. It also underlines the need for new kinds of time-critical liquidity, the drying-up of which can (and has) led to novel forms of instability.

Arguably, some of the most interesting and complex features of shadow bank innovations cannot in fact be captured by balance sheet comparison. For instance, as Daniela Gabor and other critical macro-finance theorists have noted, shadow banks *entangle* assets and liabilities through collateral structures: they "finance securities positions by creating repo deposits that are collateralized by those very securities" (Gabor, 2020, 49). However, ErENSEP's representation does help illuminate some important features of the evolution of financial profit-making. Traditional bank profits consist of the difference between interest earned on securities and loans and interest paid on deposits and open market borrowing, plus fees and commissions for other financial transactions. For shadow banks, profits take the form of dividends on shares, interests on bonds, and capital gains on securities, which are in turn distributed as dividends to shareholders of the shadow bank itself, who may be pension funds, insurance companies or individual investors (2023, 84-87). The writing collective clearly explain the new and complex ownership regimes implied by this shift. Shareholders obtain property rights over the shadow institution, but indirectly also in the enterprises in which it invests. Thus "[t]he owner of a pension plan... might have a highly mediated and remote claim to some productive resources through a shadow bank" (ibid., 86).

Throughout, the authors return to a central thesis of Marxist political economy: "[t]he side of production is ultimately the determining factor in the overall performance of capitalist accumulation", the strength of which is reflected in the average rate of profit, particularly of non-financial enterprises (2023, 53). They set out the determinants of the average rate of profit, distinguishing between the interaction of real wages and productivity (the "internal mechanism") and the importing of cheap labor and goods (the "external mechanism") (ibid., 58). Evidence of declining productivity across large swathes of the "core" and stagnant real wages in some areas (notably the UK and Japan) is presented to explain weak profitability, including the existence of unprofitable "zombie" firms (ibid., 61).

For ErENSEP, the "spectre" of inflation, discussed in chapter 7, provides further evidence that the economic weakness of the "core" lies on the supply side. They make the case that pandemic-related fiscal stimulus (which also signaled, at least temporarily, the abandonment of austerity in some countries), revealed the "deeper" reality that supply was not able to respond to restored demand. Somewhat cursory references are made to other explanatory factors, such as the energy and food price shocks brought about by the Russian invasion of Ukraine, as well as to the "disturbance of production networks" – known in the mainstream literature as supply chain disruptions – brought about by government policies to contain the spread of Covid-19. A notable absence here is any discussion of "sellers' inflation", a term popularized by Isabella Weber to describe the microeconomic phenomenon of large firms hiking prices during emergencies when they expect their competitors to do the same (Weber and Wasner, 2023).

The third and final part of the book turns to the international realm. In chapter 9 on "Changing

Forms of Imperialism", the argumentative flow is occasionally interrupted by detours into excessively long chronological overviews, for instance, of classical Marxist theorists of imperialism, as well as the structuralists, Latin American Marxists, and dependency theorists. Nevertheless, the unifying thread that the contribution of classical and later Marxisms to the theorization of imperialism has been to structurally link the "form and content of imperialism to the underlying economic interests of capital" (2023, 160), is clearly articulated. While, as the authors stress, particular technologies and mechanisms of empire are not reducible to economic dynamics, and involve complex interactions of political, institutional and ideological factors, capitalist imperialism emerges in the nineteenth century as a distinct form, driven by enforced integration of the colonies into a global economy designed to serve the rapidly industrializing "core".

According to *The State of Capitalism*, whereas previous eras of imperialism had been characterized by the global integration of trade and finance, US hegemony has brought about an unprecedented internationalization of production itself, driven by an aggressive pair of capitals: productive and financial. Unlike the "finance capital" of Hilferding, which theorized a fusion of bank and industrial capital, these are not reducible to each other but nevertheless tightly entwined. This transformation of production has complicated ownership arrangements of productive circuits; for instance, foreign direct investment internationalizes circuits of output in which ownership is retained by the corporation, whereas outsourcing integrates the productive circuits of separate enterprises (2023, 218). The colossal multinationals at the centre of this process simultaneously produce, coordinate and control these intricate networks, and draw "peripheral" regions into global circuits of both capitals.

According to the authors, the conditions of this new imperialism are twofold: an institutional framework favorable to accumulation on the terms of the American hegemon and its capitalist conglomerates, and the dollar as an entrenched form of world money (ibid., 353). Chapter 14, "The Chinese Hegemonic Challenge", sets out China's efforts to counter American control of the former condition, including a variety of trade agreements and other economic "partnerships" with countries in both core and periphery, international infrastructural investments, and direct "aid provision to the Global South (279-80). EReNSEP notes that China's monumental advances in trade and manufacturing have not thus far made a meaningful dent in US control of the latter condition, namely, command over global financial networks and the supremacy of the dollar (273).

The book is pitched as a treatise on the state of capitalism after Covid-19, a health emergency that also drew to the surface latent but severe symptoms of economic malaise. It was tempting, prematurely, to herald the pandemic – with its exposing of our deep, vital interdependence, the deadliness of inequality, and the possibility of rapidly departures from previously sacrosanct economic "truths" – as a fundamental realignment of values that might finally privilege care, equality, and respect for human life. The almost dreamlike return to pre-pandemic "business as usual", and in particular the consolidation and windfall gains of Big Tech, Big Pharma, and the fossil fuel giants, has dispelled many of those hopes, particularly in regard to the escalating ecological crisis.

In this context, a clear and accessible analysis of the current stage of capitalism is urgently necessary. With this aim presumably in mind, EReNSEP nevertheless occasionally falls back on overly technical language and sweeping or under-evidenced claims. For instance, the opening chapter, which provides a powerful critique of the biomedical industry, claims almost as a side note that the Enlightenment, (which is undefined except as "the historical legitimation of capitalist power"), took a "major blow" during the pandemic due to the lack of scientific rationale for Covid-related health policy (ibid., 14). In similarly sweeping terms, the authors claim that the Cold War was "military, political, and ideological, but not *economic*", whereas hegemonic struggle since 1991 has been "purely about power and economic advantage within the existing capitalist relations" (2023, 190-1). Despite their commitment to interdisciplinarity in the spirit of Wallerstein's (1996) *Open the Social Sciences*, the authors appear to write off entire intellectual traditions without explanation, stating, for example, that "[u]nfortunately, the… ascendancy of Michel Foucault, with his focus on biopolitics and governmentality, in practice hindered the development of Marxist analyses of the state precisely as neoliberalism took sway" (ibid., 180). It is not clear why the collective, who are in many instances alert to the dangers of economic reductionism, would want to posit such a clean distinction between the economic and the political, or to discount forms of critical theory whose starting point is precisely the generative potential of combining Marxist analysis with Foucauldian insights about the technologies of contemporary state power (cf Keucheyan, 2016). As

Marco d'Eramo commented in *New Left Review* in early 2020, "domination is not one-dimensional"; it involves *both* "control *and* surveillance" and "exploitation *and* extraction", and these may be analyzed under one lens.

The argument is strongest where the authors demonstrate the specific contributions of Marxian analysis and draw attention to what is politically at stake in continuing to adhere to a neoclassical or orthodox position. Genuinely heterodox writing encourages the reader to consider what is clarified, but also what is obscured or de-emphasized by opposing theoretical paradigms. For example, when ErENSEP argues against the common macroeconomic explanation of the 2008 crisis as partially caused by current account imbalances – or more specifically, a "glut" of savings in the East that fueled financial instability in the West, they alert us to the fact that it locates the problem outside the capitalist "core", potentially diverting attention from the weakness of accumulation and crisis of indebtedness within the US domestic economy (2023, 43). Whether we are staring into the temporary void of a Gramscian "interregnum" or facing an unknowable future characterized by crisis, *The State of Capitalism* makes a powerful case for placing patterns of accumulation and exploitation at the centre of economic analysis.

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