Neoliberalism lays the groundwork for the Rise of Neofascism.

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I have titled my talk, "Neoliberalism Lays the Groundwork for the Rise of Neofascism." Now, I don't really need to explain what neoliberalism is all about, since we have been experiencing it for the last 40 years. You're all familiar with it. It involves income deflation through fiscal and monetary contraction, a rise in unemployment, periodic bubbles that burst, creating asset deflation, and, of course, we have also seen a tremendous rise in income inequality. There's also been a rise in poverty, which I will talk about towards the end, and which is not generally recognized. Now, all this has been basically the result of the dominance of finance over industry. Finance capital has always shown a kind of obsession with controlling inflation with no attention at all to the human costs involved. Theoretically, there are two ways in which inflation can be controlled in an economy: for a given level of aggregate demand, if output rises, then inflation will fall if there is inflation already, or the potent way is that for a given level of output, aggregate demand itself is contracted. For some reason, finance capital has always chosen the second path, the inhumane path of contraction of aggregate demand for a given level of output. The policies that have been followed under the general rubric of neoliberalism over the last 30 to 40 years, and followed globally, bear an uncanny resemblance to the "sound finance" policies which were followed a century ago and which had led the entire capitalist world into depression.

I think it would be useful to go back in history for a short while and then return to present developments. The dominance of finance over industry becomes very clear particularly from the last quarter of the 19th century, and even though it is not recognized in the literature, I would argue that this is primarily because of the enormous liquidity that was released into the capitalist system by colonial exploitation. Metropolitan countries, particularly the world capitalist leader at that time, Britain, acquired complete control over the vast gold and foreign exchange earnings of their colonies of conquest and therefore became more or less awash with liquidity. Rates of interest for financiers and capitalists in the metropolitan countries reached an all-time low. The analysis of finance capital is closely tied up with the rise of monopoly, and as we know, Rudolf Hilferding's pioneering work, "Finance Capital," specifically stresses the rise of monopoly and its connection with the dominance of finance over industry. This analysis has played a very important role in Marxist theory and it also informed Lenin's analysis of imperialism, particularly in his book on imperialism.

Now, this obsession of finance with controlling inflation and controlling inflation through mass income deflation—what explains it? Why does finance behave in this particular way? Nobody has found a very convincing answer yet, to my mind; certainly, the economists have not. But perhaps going back to Marx's own circuits of capital in Volume One of "Capital" might help us to reach an answer, where Marx distinguishes between two very different types of circuits of capital. One is the circuit of productive capital, which involves capitalists who actually use money in order to produce commodities for sale on the market. This circuit of capital, as you know, is briefly summarized as M - C - C' - M', that is, the capitalist starts with a certain sum of money capital, then purchases raw materials and the means of production, and purchases labour power with that. You remember that wages are always part of capital within a capitalist system that the capitalist advances. So M is converted into C. Now, in the labour process, in the process of production, that generates surplus value, and the commodities which are then sold after the production process is over are denoted as C', and the sale for a sum of money M' which is greater than the M with which the whole process started, and the difference between M' and M is the capitalist profit.

Clearly, in this kind of a circuit of capital, the capitalist producer would want to sell his commodities, so he has an interest in expanding the market for commodities. He has an interest in seeing that the mass market for the commodities in which he's dealing actually grows. But this is very different in the case of the other circuit of capital that Marx discusses, which is finance capital. In this case, the capitalist is a financier, and unlike a capitalist who makes his profit from actually engaging and organizing production, the financier engages in no production at all; that is, the financier is pure and simple. In this circuit of capital, the financier starts with a sum of money and ends up with the sum of money M', which is greater than M, and there is no intermediation by way of production at all. So, in the first case, money is used for producing commodities for sale and for appropriating profit; in the second case, money is used for making more money. The two circuits of capital are completely different, and this, I think, might give us a clue as to why finance capitalists are not bothered about what has happened to production at all. We in developing countries are very familiar with this, with the operation of our indigenous moneylenders, or what we call "sokars," who traditionally have not shown any interest in production or improving the condition of producers but who are simply interested in getting the maximum money out of producers, even at the cost of deteriorating their conditions of life and production, even at the cost of completely impoverishing them.

Now, I think capital, money capital, finance capital on a global scale operates in much the same manner. There is not much difference, except that we are here talking about trillions of dollars or trillions of marks as opposed to, you know, hundreds of rupees as in the case of a developing country. Now, this dominance of finance over industry has meant that financiers who lend money to others and make their money simply as a return on capital have an obsessive fear of inflation because inflation would erode the real value of their income, and their income is interest; it is not profit, but really interest on the money they then lend. Inflation would also erode the real value of their assets, so they are completely focused on what nowadays is called inflation targeting. Their obsessive fear is so great that whenever international financiers lend to governments, they insist on governments following austerity; they insist on governments deflating

mass incomes through wages and incomes policies and through contractionary fiscal and monetary policies.

If we take two historical examples, that is, Germany, and Japan in the interwar period. In the case of Germany, as we all know, after the defeat in the First World War, Germany was forced to pay reparations to the victors and thereby became very heavily indebted. The Weimar Republic was always quite fragile, and even though the unemployed were numerous, the rate of unemployment in the 1920s in Germany was already quite high. Germany's international creditors insisted on what, in fact, imposed as many as five rounds of wage cuts and public expenditure cuts, perhaps to satisfy international creditors that Germany remained creditworthy. This, of course, led to a phenomenal increase in distress within the population of Germany, particularly the working population. Unemployment, according to some recent estimates carried out in 2022 and 2024, doubled; that is, the numbers unemployed doubled to about six million by the end of 1932, and the GDP of Germany fell in a single year by almost 5%, that is, in 1932.

This kind of pervasive distress of the working classes and of the masses naturally arouses enormous anger, and this is what provides fertile ground for the rise of far-right political parties. There is actually a polarization in society; on the one hand, you have an increasing hold of the left parties, and on the other hand, the rise of the fascist movements, which in the case of Germany, of course, meant that there was a meteoric rise of Hitler to power, from being really a very small party to being an extremely important one, just in the course of about 18 months or so. I don't want to go into the contentious problems of to what extent Hitler's rise was preventable, to what extent it was really the result of the failure of the Social Democrats and the communists to come together. After all, Germany had the strongest and most powerful communist movement in the whole of the capitalist world, and if they had come together to recognize the danger of fascism and if they had actually opposed the rise of Hitler, the history of the world, of Europe, certainly would have been very different.

What the fascist parties typically do, and this is the way they rise to power, is to turn the anger of the people in the wrong direction. Instead of identifying the cause of their distress—which is the insistence of finance capital on deflating mass incomes—they instead point to minorities within society and say that these are the people who are taking away your jobs; they are the villains; they are responsible. In the case of Germany, as we know, it was the Jews, it was the gypsies, and later on, when the fascist party comes to power, it tries to overcome the economic crisis through violent external expansionism at the expense of the sovereignty of other countries and at the expense of crushing the labor movement in neighbouring countries as well.

Now, you have a very similar picture unfolding in Japan, where Finance Minister Inoue, in order to show that the Japanese economy was sound and creditworthy, imposed deflationary policies on the very eve of the 1929 Great Crash, which presaged the industrial depression. The agricultural depression had started even earlier, so when he imposed deflation, this led to a rise in unemployment and enormous distress within the Japanese working classes. Of course, this again provided a fertile ground for a transition from—in any case, Japanese democracy was very shaky, as was Germany—but it provided a very fertile ground for a transition to Japanese militarism. From the

beginning, Japanese fascism took the form of militarism and expansionism against neighbouring countries. When Finance Minister Takahashi came in in 1931, he started reflationary policies. Some of these reflationary policies have been hailed by Ben Bernanke as presaging Keynesianism before Keynes, and it is true that Takahashi did undertake public expenditure expansion. From 1931 onwards, there was quite a lot of money allocated to things like irrigation and public works and so on for generating employment within Japan. But simultaneously, the Japanese economy also launched on very aggressive expansionism vis-a-vis Manchuria. Northern China in 1931 was occupied, and between 1931 and 1937, it was turned into a puppet state, the state of Manchukuo, which provided the base for Japan's subsequent aggression against China in 1937. For East Asia, the war started not in 1939 but in 1937.

So, you have a very similar denouement when Takahashi, in 1936, wanted to call a halt to further militarization because by then the depression had been overcome, and it had been overcome in Japan by these means, in fact, several years before it was overcome in Britain or in the United States. But the military elements in Japan, the military forces in Japan by then had tasted power to such an extent that they were not to be stopped, and they got Takahashi assassinated. As we know, the year after Takahashi's last budget, the new budget allocated almost 90% of Japanese revenues to further expansion of the Japanese military.

The point is that history gives us ample warning of what happens when governments follow income-deflating policies which reduce mass purchasing power and which raise unemployment. As you all know, after the war, there was a Keynesian interregnum when countries were recovering from the destruction of the war, and on the whole, expansionary public policies were followed. But it didn't last very long, from 1945 to the very early 1970s, until the oil shock, to be more precise. From the oil shock—and I won't go into the interregnum period very much; you are all familiar with it—but I will proceed immediately to the question of the oil shock and to the modern period of the dominance of finance capital, which starts from the early 1970s, when all previous Keynesian reflationary policies were completely reversed.

You have a new feature: the international financial institutions, particularly the International Monetary Fund and the World Bank, which together are referred to as the Bretton Woods institutions, started instituting deflationary economic policies. By the end of the 1980s, from the International Monetary Fund reports itself, we see that over 90 countries worldwide had to follow austerity programs. Many of them, particularly in Africa, had to follow austerity programs several times—not just once; the first austerity program was followed by another moderate austerity program, and then you had intensive austerity programs, where there was a third austerity program in the same country. Such a centralized institutional intervention by international financial institutions was completely unique in the modern world; it had never been seen before, and it was, of course, highly successful from the point of view of finance capital. We have seen the untrammelled sway, the hubris of global finance capital now for the last at least 45, almost 50 years, and it has had the predictable consequences.

Let me say here that in the beginning, this was not called so much neoliberal deflationism as globalization. Now, globalization sounded very good, and I think to

some extent the left parties and left movements were taken in by the whole rhetoric of globalization. I think that they failed to see that neoliberalism was nothing but an expression of the renewed domination of finance capital; the renewed recreation within the advanced capitalist world itself of the same kind of conditions which had given rise to fascism a century earlier. It was a renewal of new imperialism as well.

Now, neoliberalism was an enormous distress to the working class in the advanced capitalist countries, and this is something I think that the left movement did not recognize sufficiently. I think many people were taken in; they failed to see, in my view, that finance-led globalization is a very different thing from people-led globalization. They thought globalization per se was a good thing. I know very many far-left friends of mine who were very positive about globalization; they failed to see its negative aspects completely. And, of course, the impact on the global south of neoliberal policies, which involved this kind of fiscal and monetary austerity, which involved control over mass purchasing power expanding too fast, which, in their case, involved devaluation of their currency—all this led to an enormous rise in mass distress and loss of mass purchasing power, which is actually not recognized in the literature at all. The World Bank, every single government in the world, whether advanced country or developing country, has been putting forward false estimates of poverty decline. They have been claiming that the period of neoliberalism has been one in which millions of people have been lifted out of poverty. This is not true at all; in fact, it is a complete falsehood.

These calculations of poverty decline by the World Bank and by individual country governments, including our government in India and the government in China, are based on a simple logical mistake. They involve a wrong statistical procedure in which the quantities and items of consumption groups that people consumed 50 years ago are compared with current consumption levels.

The actual poverty levels in every country in the global south are extremely high if we actually apply the original definition of the poverty line. So in fact, it is a great—an enormous rise in poverty, not just in rising inequality, but also absolute immiseration of the mass of the people.

Now, as a consequence, we see exactly the same design unfolding here in country after country. The anger of the people has been turned in the wrong direction, whether it is in Europe and the global north or in the countries of the global south. We see the rise, in country after country, of the forces of fascism, which, of course, we call neo-fascism because it does not take exactly the same form as it did a century ago but naturally is affected by the concrete circumstances of every country. Whether it is in Argentina, Hungary, Turkey, Italy, or India, or above all, Trump in the U.S.

Really, we see the same phenomenon of the new fascist forces turning the anger of the people in the wrong direction. In the case of India, the rise of Modi—in fact, I had kind of predicted in an article—not Modi in particular, but I said in an article written in 2013 that the mass income-deflating and unemployment-raising policies that were being followed in India were dangerous because they were reminiscent of the kind of policies that Japan had followed and that Germany had followed a century earlier, which had led them into fascism. It would have sounded very far-fetched to my colleagues at that

time, but the very next year, 2014, in fact, the new fascist party came to power in India using, in this case, its rhetoric against our minorities. It had started with rhetoric against the Christians, but then it went on to rhetoric against the Muslims, blaming them for the distress faced by the masses. We all know the development after that; it has gone from strength to strength.

So, I will end by saying that the situation today is extremely grave. For a unity and bringing together of all anti-fascist forces, regardless of all differences that we might have, we have to forget those differences and unite to face the enormous dangers that the world finds itself in today. It is not yet too late, but we have to be aware of the immensity of this danger. Thank you very much for your patience.