The economics of the New Depression

Through what stage are we passing? Martin Thomas sketches an answer.

SINCE 1983 a new pattern has emerged in the world economy, different both from the "golden age" of the 1950s and '60s and from the up-and-down seventies. It is a pattern of high profits and rapid technological advance, yet low growth and high unemployment.

The facts in the accompanying table show that the new pattern challenges not only orthodox academic economic theory (one prominent British economic forecaster, Paul Ormerod, was recently moved to write a book entitled *The Death of Economics*), but also Marxist theories.

Geographical expansion of the world market: many Marxists, including Marx and Engels themselves in many passing remarks, have argued that geographical extensions of the capitalist world market are central to periods of capitalist upswing. They have deduced that the exhaustion of that geographical expansion (through the natural limits of the globe) or its reversal (through revolutions taking territories out of the world market) will push capitalism into crisis. These arguments are derived from the basic idea of capital's inbuilt, insatiable drive to expand into fresh fields. Nevertheless the evidence is that to identify expansion with geographical expansion is radically misleading. During the "golden age" vast areas were withdrawn from the capitalist world market by Stalinist or nationalist-autarkic revolutions, yet capitalism boomed. Since the 1980s, the capitalist world market has been greatly expanded, geographically, by the collapse of Stalinism in Eastern Europe and the USSR, and by the opening-up of China. China, Taiwan and Hong Kong now take 6% of all the world's imports, and make 7.1% of all the world's manufacturing exports, making China, overall, a bigger factor in world trade than any other country except the US, Japan and Germany. Yet overall capitalist growth has been slow.

"Long waves" and technological advance: some Marxists have seen capitalism as moving in "long waves" of

expansion (with sizeable booms and small slumps) and depression (with smaller booms and bigger slumps), with technological revolution as one of the key elements for a "long wave" of expansion. The archetype was Britain's railway boom in the 19th century. Since the 1980s there has been a far-reaching technological revolution based on microelectronics, modifying almost every industrial production process, changing some completely, drastically transforming office work, and creating a wide range of new mass consumer durables. The "golden age" was much more a period of widening the use of already-existing technologies (production lines, artificial textiles, plastics, car production, television production...). Arguably its most important technical innovation was putting things in boxes ("containerisation", which helped reduce freight costs). In short, the evidence is that there is no necessary correlation between technological revolution and capitalist prosperity.

The (non-Marxist) mirror-image view — that technological revolution necessarily generates, not capitalist prosperity, but mass unemployment — is not supported by the evidence, either. Detailed studies in countries like Britain have found relatively few job losses directly attributable to new technology, and even if they had found more, the question would still remain, why, over the medium term, those losses were not counterbalanced by new jobs generated by expansion. In general, the more technologically advanced a capitalist country's economy, the lower its unemployment rate tends to be.

P*ROTECTIONISM:* From the early 1970s, almost all Marxists (including me) repeatedly predicted resurgent protectionism. Countries would impose stricter controls and higher taxes on imports. But on the whole, slowly and erratically, trade has become freer. The European Union, the North American Free Trade Area, and the trading network round Japan in Asia are not closed-off trade blocs in the manner of the first half of this century. They might become such in the event of a cataclysmic disruption of world finance, but at present they are moves to create wider "home markets" within a relatively free-trade world. They are linked together by a strong network of trade agreements and by very high levels of cross-trade (across the Pacific and the Atlantic, for example), much of that cross-trade being trade within multinational companies, from one unit of such a company to another unit within the same company.

Some Marxists have swung over to seeing capitalism today as so "globalised" that the main actors are transnational companies, international banks, and so on. States play only bit-parts, and the rebuilding of high economic barriers between countries is pretty much inconceivable — see, for example, the book *Postimperialism*, by David Becker and others. Yet almost all transnational companies, and certainly all banks, have a definite national home base. The state of every capitalist country still organises or regulates a very big part of its economic activity (see further David M Gordon, "The Global Economy", in *New Left Review* no.168).

That free trade has continued and increased does not mean that protectionist pressures are so weak as to be irrelevant, or that "globalist" capitalist interests are all-powerful. It does mean that those "globalist" interests have dominated so far.

The falling rate of profit, and "waiting for the crisis": In the 1950s and '60s, almost all Marxist perspectives were oriented around looking forward to "the crisis". A justified denial of the consensus view that capitalism had found the key to steady, solid, balanced growth was conflated, in different ways and in different degrees, with a vision of "the crisis" as the moment of truth for capitalism, stripping away all compromises and cover-ups — and sometimes also with irrational or crazy claims about the crisis being just round the corner or already under way.

In the 1970s, a series of studies, starting with Andrew Glyn and Bob Sutcliffe's *British Capitalism, Workers and the Profit Squeeze*, showed that the high profit rates of the 1960s had begun to dip before the 1969-71 downturn, and were continuing to decline in the 1970s. A straightforward scenario followed. "The crisis" was due to falling profits. Profits would continue to fall, and the crisis would worsen, until a huge confrontation between labour and capital produced either socialist revolution or a big increase in exploitation, allowing revived profits and a revived capitalist boom. Several different explanations were suggested for the falling profit rates (wages pressure, exhaustion of the productive potential of "Fordism", increased proportions of capitalistically unproductive labour, and the classic Marxian argument about increased organic composition of capital), but the scenario was more or less common.

The outcome has been more complex. Revived profits have produced no restoration of the capitalist "golden age". A pro-capitalist ideologue like Australia's former Labor prime minister, Paul Keating, says of the current slow growth, increasing inequality, and mass unemployment that "this is as good as it gets" in today's world system, while Marxists are more likely to look to an upturn which will boost workers' confidence and drain the pool of jobless despair than to hope for further slumps. The last twenty years have confirmed Leon Trotsky's partly-forgotten ideas about the complexity of the relations between economic crisis and class struggle: "After a period of big battles and defeats, a crisis has the effect of depressing rather than arousing the working class. It undermines the workers' confidence in their powers and demoralises them politically. Under such conditions, only an industrial revival can close the ranks of the proletariat, pour fresh blood into its veins, restore its confidence in itself and make it capable of further struggle" (*My Life*, p.223).

A CAREFUL recent study of *Marx's Theory of Crisis* by Simon Clarke reinforces this point by demonstrating that after Marx had systematically studied capitalism, his focus was no longer on "the crisis as catastrophic event... the ultimate truth of capitalism". "The theory of crises plays a rapidly diminishing role in Marx's work after 1862, to be replaced by an emphasis on the secular [long-term] tendencies of capitalist accumulation, just as the conception of revolution as the culmination of struggles unleashed by economic crisis is replaced by a conception of revolution as the outcome of an extended period of class development... [This is the] theoretical reflection of [Marx's] return to a more active involvement in working-class politics".

Clarke also shows that the "tendency of the rate of profit to fall" was not for Marx, and could not be for any rational analyst, central to crises (on this, see also the pamphlet *The Tendencies of Capital and Profit*, published by *Workers' Liberty*).

"Finance capital": Marxists in the period before the First World War argued that capitalism was then shifting to a pattern of dominance of "finance capital", notably banks, rather than of industrial capital. The idea was first developed by Karl Kautsky, picking up on comments by Engels in his later years, extended by Rudolf Hilferding, who argued in his book *Finance Capital* that "taking possession of six large Berlin banks would mean taking possession of the most important spheres of large-scale industry", and repeated by Lenin in his pamphlet on imperialism. When, after Lenin's death, a dogmatic system of "Leninism" was constructed, it became an article of faith for many Marxists that all modern capitalism was dominated by finance capital. In fact the "golden age" saw a shifting of the initiative away from banks to great manufacturing multinationals and to the state.

Today, however, we have a new epoch of finance capital. The Michael Milken, Robert Maxwell, Barings and Sumitomo scandals illustrate the vast role of money-juggling, as distinct from production, in capitalism today. Privatisations hand the initiative to the money-jugglers in areas which used to belong to the state, and international money-juggling becomes almost as important a part of the manufacturing multinationals' business as making and selling things. The long-term flows of capital across national borders today are large but not unprecedented — the speed and size of short-term flows is unprecedented.

The pre-1914 epoch of finance capital was tied up with the growth of cartels, colonial empires economically geared mainly to acquisition of raw materials, increased tariffs, and an increased economic role of the state. Today's new epoch of finance capital brings different trends, showing that the pattern of capitalism, and the genesis of boom and slump, "golden age" and depression, cannot be deduced from changes in the "shape" of capital in the leading countries alone, but only from the entire regime of the world economy, which has a structure of its own, more anarchic and complex than the structure of any national capitalist economy.

A thorough analysis of the new regime in the world economy has not yet been written, and is beyond the ambitions of this article, but the evidence suggests that the new dominance of finance capital is a big factor, at least, in maintaining stagnation. It creates a bias towards "short-termism" — going for whatever business yields most short-term profit, maybe at the expense of long-term investment — and puts pressure on each national government to keep interest rates and dividends high and to restrain any productive investment boom which might worry the balance of payments by pulling in imports. Under today's conditions, the "flight of capital" which punishes any breach of those rules can be much faster and more drastic than in previous decades.

Even the stagnation is not stable. The whole "casino economy" still depends on the US as world banker, yet the productive superiority of the US continues to decline. The US has been running a big current account deficit since 1983. It was $153 billion in 1995. The US depends on inflows of often very footloose capital to balance that deficit. If those inflows stop, and if international financiers move wealth out of dollars on a large scale, the US's official reserves could be overwhelmed, and the world trade system wrecked, within days. That is a constant possibility.

	The "golden age": 1945 to ca. 1970	The seventies, to about 1983	The new depression, 1983 to date
JOBS	Unemployment low, at about 3%, in advanced capitalist countries (ACCs), and lower in Stalinist states. Increases to maybe 25 to 30% in Third World cities, as people move from the country to the cities. Big shift everywhere from peasant farming to wage labour.	Unemployment in ACCs rises to 8.4% in 1983; remains high in Third World.	Unemployment in ACCs steadily averages 6% to 8%, including, from about 1990, in previously low-unemployment countries like Sweden, Austria and Norway. Japan is the only major exception bringing the average down, with its unemployment rate about 3.5% (though even that is much higher than the 1960s). Unemployment remains high in the Third World, and especially high in the 1980s during the debt crisis; it balloons in the ex-Stalinist states (after 1989-91) and in China.
GROWTH	Much faster than ever before, not only in ACCs but also in Third World and Stalinist states. An average of about 5 or 6 per cent a year.	Lower — average 2.5 per cent a year.	Even lower — average 2 per cent a year.
PROFITS	High and fairly stable.	Sharp decline, from circa late 1960s to circa 1982.	Sharp increase, though not yet to 1960s levels.
TECHNOLOGY	Expansion of production-line technology, notably in consumer durables (cars, televisions, white goods). Technical improvements make trade cheaper: 70% fall in ocean freight charges (to 1960); 85% fall in air transport costs (to 1980).		Tremendous new industrial revolution through microelectronics and cheaper telecommunications.
BOOM AND SLUMP	Synchronised upturn in ACCs in Korean war boom (1950-53). Downturns mostly shallow and not synchronised.	Big synchronised downturns in ACCs: 1969-71, 1974-5, and 1979-83. The 1979-83 downturn is the first real world-wide slump, drawing in both Stalinist and Third World states. Some Third World economies, like South Korea, however, maintain an almost continuous boom; others, notably in sub-Saharan Africa, permanent depression.	1979-83 downturn followed by a very slow and hesitant upturn in the ACCs. A new (shallow) downturn in 1990-2.
THE STATE	Much increased role in the economy everywhere. Liberalism in ACCs; many Stalinist and/or nationalist dictatorships elsewhere. End of old colonial empires (outside Eastern Europe).	Attempts to continue same regulating role dogged by uncontrollable inflation and, in Third World and Eastern Europe, big foreign debts which lead to "debt crisis" from 1982.	Drive for privatisation and welfare cuts everywhere, though the state remains very important economically. Collapse of Stalinism outside China, and collapse or easing of several Third World dictatorships.
WORLD TRADE	Grows faster than output, and especially between ACCs. Fixed exchange-rate system with US as banker. Dollars flood the world, especially during the Vietnam war. Third World countries lose out as primary-product prices and trade decline relatively, but from about 1960 manufacturing for export begins to grow in Third World countries.	Fixed exchange-rate system with US as "banker" breaks down. Exchange rates "float" erratically. Flood of dollars multiplies. World trade continues to expand, but more slowly (1974-84). Eastern Europe pulled in. Big flow of oil surpluses after OPEC price rise speeds growth of manufacturing in the Third World. The Third World share of manufacturing exports rises from 4% in 1960 to 5% in 1970 and 9% in 1980.	Very rapid growth of trade from 1990 especially. Many Third World countries cut imports drastically after debt crisis, but their imports increase again from about 1990. Third World manufacturing exports increase from 9% of world total in 1980 to 22.5% in 1994. Manufacturing as a percentage of Third World exports has increased from 20% in 1960 to 60% in 1990.
CAPITAL FLOWS	Big, especially of direct investment between ACCs.	Dominated by flow of oil surpluses via international banks, including to Third World.	Vast increase in short-term flows: foreign exchange deals multiply 25 times from 1980 to 1993, and are now about $1 trillion a day, 100 times as much as world trade flows. Direct investment flows from ACCs to the Third World increase after 1990 (from $20 billion a year in 1981-5 to $91 billion in 1994). Direct investment flows from some non-oil Third World countries become substantial.