# Exploring the Roots of the Crisis

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ON SEVERAL POINTS there is general agreement among most, if not all, radical and revolutionary anti-capitalists and socialists regarding the current economic crisis:

(1) The crisis is not simply the result of the neoliberal deregulation of the financial sector. While there has been plenty of greed, ineptitude and just plain stupidity among corporate executives and government policy makers, the crisis reflects the deeper dynamics of capitalism as an economic system.

(2) The severity of the financial crisis is not primarily the result of simply the result of the default of approximately 2% to 3% of all mortgage holders in the United States — approximately 10%-15% of subprime mortgages, which make up less than 25% of all mortgages. The severity of the financial crisis flows from the fundamental weakness of profitability and accumulation in the “real economy.” Even if a financial collapse is avoided — as seems more and more likely — we should expect a very sharp and prolonged recession in the next eighteen to 36 months.

(3) There is no solution to the crisis that will benefit both capitalists and workers. While some discourse on the left speaks of the health of “the economy,” [1] socialists and anti-capitalists do not believe that pro-worker policies (moratorium on foreclosures/evictions, expansion of social spending, etc.) will promote “the economy” as some abstraction. Any policy that benefits working people will undermine profitability and accumulation; and any policy that promotes profitability and accumulation will come out of the hides of working people. Put simply, any pro-working class reforms will only be won through massive and militant struggle from below — not through reliance on union bureaucrats, social movement functionaries or Democratic politicians.

(4) This crisis comes at a period when the organizations of working and oppressed people in the United States are at their weakest state at any point in historical memory. The weakness of our side of the class war poses the danger a further growth of right-wing ideas among working people (nativism, racism, homophobia, sexism, individualism, etc.)— which we can see in the recent strikes of British oil and power workers against the hiring of foreign workers. The crisis, however, will also provide opportunities for collective struggle that target capital rather than other working people, in particular struggles against evictions and foreclosures, for the extension of unemployment benefits, and against cuts to education and other social services.

(5) The crisis also provides the radical left with an opportunity to engage in anti-capitalist education. The crisis will help create an audience for radical demands like public ownership and national single-payer health insurance. It will also create opportunities for radicals and revolutionaries to present our critique of capitalism as an unstable social system incapable of meeting human need.

This set of agreements is all that radicals and revolutionaries need to agree about to act together. Anti-capitalists and socialists do not need to have a "single" explanation of the crisis — one single crisis theory — to play a collective role in struggles against capital and the state. At the same time, revolutionaries and radicals need to clarify their thinking about the underlying causes of the crisis — of what leads profits to periodic declines in profitability and accumulation in the "real economy."

People we meet in the course of our political activity will be looking for a "big picture" analysis of the economic mess. Each of us needs to be able to give them some explanation that goes beyond a general (and correct) "capitalism sucks!" Anti-capitalists and socialists also need to be able to answer those on the left, in the unions and social movements who argue that there are "win-win" solutions to the crisis. These folks hold to one or another explanation — theory — of the crisis which they use to back up their political arguments.

We need to be able to make arguments to counter claims of a "win-win" solution that can be won through reliance on union officials, social movement functionaries, and Democratic politicians. What follow is a very brief outline (with no claim to be original) [2] of the four main radical and Marxist theories of crisis: profit-squeeze, under-consumptionism, over-competition, and falling rate of profit as a result of increasing mechanization/capitalization of capital. After presenting each theory, I will attempt to evaluate them in terms of their political implications, logical structure, and factual/empirical validity.

It is important to understand that there is no simple correspondence between a crisis theory and a political strategy. While both under-consumptionist and profit-squeeze arguments are associated with reformist/social-democratic politics, revolutionaries have also embraced these theories. However, each theory of the crisis defines a range of possible resolutions of the crisis, the concrete program to be fought for, and the social forces expected to implement that program.

## Profit-Squeeze

During the previous long crisis of profitability of the late 1960s through early 1980s, the notion of a profit-squeeze became the dominant left-wing explanation of the decline of profitability and accumulation across the capitalist world. Today few would claim that the increased strength of workers — who have suffered nearly continuous defeats since the early 1980s — has caused the current crisis. However, in the late 1960s and early 1970s, a number of radical economists argued that the increasing strength of workers, the result of wildcat strikes and other workplace struggles, caused a sharp and general fall in profits in the industrial capitalist societies.

Two revolutionary socialists, Glyn and Sutcliff, [3] were the first to argue that rising workers' wages in the late 1960s led to a decline ('squeeze') in capitalist profitability in the early 1970s. By the 1980s, three left social-democrats, Bowles, Gordon and Weiskopf, [4] took up this argument, claiming that the ability of workers to raise wages, win broad social reforms and block corporate attempts to reorganize the labor process was the primary cause of the crisis. Workers' struggles led to a declining rate of growth of labor productivity, rising costs of maintaining capitalist control over workers in production, and a rising "social wage" (social welfare payments), all of which squeezed corporate profits.

Profit-squeeze theories appealed to many anti-capitalists and socialists because they made class power — the strength of labor — the key determinant of profitability. However, making class struggle the central determinant of profitability easily led to a politics of class cooperation.

Gordon, Bowles and Weiskopf were important proponents of workplace "co-management" and

"labor-management cooperation." Such experiments in "workplace democracy" would raise productivity, allowing both capitalists' profits and workers' living and working conditions to improve simultaneously. Many advocates of the profit squeeze theory believed that "workplace democracy" could be won by an alliance of labor officials and liberal Democrats. Unfortunately, such experiments in labor-management cooperation have been, at best, a cover for the introduction and spread of lean production in unionized workplaces. [5]

Logically and theoretically, declining profits as a result of either rising wages or declining worker effort in production are, at best, temporary and sectoral. Capitalists in a particular industry can respond to rising wages or declining worker effort through either the introduction of new and more productive machinery; or, if this is not immediately possible, by diverting new investment into industries where wages are lower, worker effort more intense and profits are higher. Put simply, neither rising wages nor declining worker effort can lead to a general and prolonged crisis of profitability like that of the late 1960s through the early 1980s.

Data also challenge both versions of the "profit squeeze" arguments. The rate of growth of productivity began to fall in the mid-1960s — well before the upsurge of worker militancy — as the result of falling capital investment. The fall in capital investment was a response to falling profit. Put simply, the slowdown of productivity growth was an effect, not the cause of the onset of the crisis in the mid-1960s. [6]

## Under-Consumption

Before the 1970s — and again today [7] — the historically dominant crisis theory on the social-democratic and liberal left (Communist Party, *Monthly Review*, Democratic Party liberals through the 1980s) is one or another variant of under-consumptionism. At the heart of this theory is the idea that capitalism lacks any internal mechanism to generate total demand sufficient to buy-back a growing total supply. In its simplest form, the fact that workers are paid a wage that is less than the value of what they produce is said to give rise to a gap between demand and supply in a growing system. In its most sophisticated form, it is the periodic paucity of investment opportunities which produces periods of inadequate total demand.

Under-consumptionism, like profit-squeeze arguments, appeals to many on the anti-capitalist left because it places the relationship of class forces —for under-consumptionism, the relative impoverishment of workers — as the cause of capitalist crises. Revolutionary socialists like Rosa Luxemburg argued that the inability to find markets would eventually lead to the collapse of capitalism. [8] However, this theory has usually been associated with proposals for a "regulated capitalism."

Under-consumptionist arguments are often used to support capitalist state income redistribution and investment planning — the "Keynesian" policies which most capitalist states in the global North pursued between the 1930s and 1970s) — which provide the incentives to investment that the market itself fails to provide. Such proposals mar Naomi Klein's insightful analysis of the role of state repression in ensuring the conditions of profitable accumulation since the 1970s. [9]

Such "win-win" solution to capitalist crisis can be put in place through the actions of a coalition of union officials, social movement leaders, and "progressive" Democratic Party politicians. Put simply, the under-consumption argument generally leads to the reformist conclusion that capitalist crises can be avoided if the state, as a "neutral arbiter," can successfully balance the interests of capital and labor — balance supply and demand.

Under-consumptionist theories rest on a fundamentally false assumption about capitalism — that all capitalists produce only consumer goods, and the only "market" for consumer goods are workers. In reality, however, capitalists produce both consumer and capital goods — machinery, buildings, raw materials and the like. Workers employed in the consumer and capital goods sector can earn enough to buy the output of the consumer good sector, while capitalists in both the consumer and capital goods sector can spend enough to buy the output of the capital goods sector. So long as capitalists in both the capital and consumer goods sectors are investing, supply and demand can be balanced.

Continued investment — capital accumulation — depends upon rising profits. When profits fall, investment slacks, employment drops, and demand for both consumer and capital goods drops, and there is "over-production." Put simply, "overproduction" of goods is the result, not the cause, of falling profits.
There is considerable evidence to challenge the notion that insufficient demand causes falling profitability. Most economists recognize that capitalist firms adjust to fluctuations in demand by adjusting capacity utilization — increasing or reducing the number of workers through the addition or elimination of work shifts. Shaikh [10] has developed a statistical method to adjust profit rate data for capacity utilization. The result is that profits, even when adjusted for capacity utilization — fluctuations in demand — still fall.

Robert Brenner, a revolutionary socialist and editor of *Against the Current*, has recently made a contribution to crisis theory. [11] According to Brenner, increased competition in the late 1960s and early 1970s — between relatively new capitals in Japan and Western Germany and the relatively older capitals in the United States — led to a generalized and prolonged decline of profitability across the industrial capitalist world.

## Overcompetition

Brenner's explanation of the crisis shares a number of assumptions with the falling rate of profit argument we will discuss below. In both theories, competition forces capitalists to constantly find new and more efficient methods of production. Newer capitals (like Japan and West Germany after World War II), with little or no previous fixed capital investment are in the best position to introduce the latest methods of production. They are able to lower costs and prices and raise their profits in comparison to older capitals, who cannot abandon older investments in fixed capital until they are "used up" economically.

Brenner rejects, however, the idea that an increasing mechanization of production causes falling profits for all capitals. Instead, he argues that capitalists choose new techniques in order to simultaneously lower unit cost and raise profits. According to Brenner, faced with declining prices set by the newer and more efficient capitals, only older capitals experience lower profits and over-capacity. Falling profits and overcapacity becomes generalized across the capitalist world economy in periods of intensified international competition, like the late 1960s and early 1970s, producing a long-period of economic stagnation.

Brenner claims that whatever recovery of profits have occurred since the early 1970s have been short-term and anemic because there has not been, in his estimate, a sufficient devalorization of older, less efficient capitals through massive bankruptcies.

Politically, Brenner draws revolutionary political conclusions from his analysis of the crisis. Only a massive attack on working class living standards combined with a massive destruction of older and inefficient capitals can raise profits. There are no "win-win" solutions to the crisis. As with the falling rate of profit thesis, the notion of a "regulated capitalism" where the state can prevent crises is

utopian.

Logical and factual problems have been identified in Brenner's theory of over-competition. [12] Theoretically, Brenner's argument suffers from similar problems as the "profit-squeeze" arguments he correctly rejects. Just as rising wages and declining worker effort must lead capitalists in a given economic sector to replace labor with capital or divert new investment to arenas with higher profits, so must sharpened and generalized competition lead older capitalists to adapt the latest techniques of production, reduce capacity, or shift investment to new branches of production.

Clearly, the realities of capitalist competition through fixed capital investment prevent capitalists from quickly junking old investments, but over the course of nearly four decades this was clearly possible.

In addition, Brenner's notion that capitalists are free to choose techniques that both lower their unit costs (improve their competitive position) and raise profits on their investments is problematic. This claim runs counter to the reality of capitalist competition, which forces each and every capitalist to "choose" the technique that allows the lowest unit costs, even if it raises the total capital investment and induces a decline in the overall rate of profit.

Factually, there are a number of problems with Brenner's theory. First, the sharpening of international competition in the early 1970s cannot explain the decline of profits in the United States and other industrialized countries throughout the post-WW II period. Second, there is no clear indication of a sharp increase in international competition before total profits begin to stagnate and accumulation stagnated in the United States during the mid-1960s. In fact, evidence indicates that sharpened international (and domestic) competition is the result, not the cause of falling investment after the mid-1960s.

Third, rates of profit declined more quickly in the late 1960s and early 1970s in Japan — the location of the newer and more efficient capitals — than in the United States, the location of older and less efficient firms. Finally, there is ample evidence of a secular recovery in profit rates in the 1980s and 1990s, which Brenner's account denies. (See attached Graph "U.S. Corporate Profit Rates, 1948-2007.")

## Mechanization and Falling Rate of Profit

At the center of the theory of the falling rate of profit are the most fundamental dynamics of capitalism. [13] Capitalist competition forces capitalists to seek out and introduce new and more advanced methods of production in order to cut per unit costs. The result is an increasing capitalization of production — what Marx called the "rising organic composition of capital." As capitalists replace workers with machines — replace living with dead labor — the rate of profit falls.

The rate of profit — total profits divided by total capital invested and total wages — falls in both long periods of capitalist growth and long periods of stagnation. Profit rates decline during long waves of growth because the capital intensity of production — total capital divided by total wages — increases. As profit rates decline, the rate of increase of investment falls as well.

During the long-boom, the rate of increase of total investment falls at a slower rate than the decline in profit rates. The result is that total profits — the mass of profit — continue to grow. Growing total profits translate into positive (although declining) rates of profit on the newest investments capitalists make. So long as profits on new investments are positive, capitalists will continue to accumulate. Put simply, a rising mass of profit allows capital to experience a long wave of expansion

with relatively short and shallow recessions, even though the rate of profit continues to fall.

At some point, however, the falling rate of profit leads to an accelerating fall in the rate of growth of investment. When the rate of decline in investment growth is greater than the decline of profit rates, the mass of profit stagnates. When total profits stop growing, the rate of profit on new investments will become negative and capitalists stop investing. As a result, the long wave of expansion turns into a long wave of stagnation with relatively longer and deeper recessions. [14]

Unlike the other theories of capitalist crisis, the falling rate of profit does not view conjunctural or accidental factors like a mismatch of supply and demand, rising wages/declining efforts, or increased competition as the cause of falling profits. Instead, falling profits are the result of the necessary dynamics of capitalism.

While capitalism inevitably generates crises of profitability and accumulation, there is no automatic collapse of capitalism. Capitalism can recover from long periods of economic stagnation if there is a sharp increase in the rate of profit. A radical increase in the profit rate occurs only through a radical increase in the rate of exploitation, a massive destruction of inefficient capitalists, and a substantive expansion of the boundaries of the capitalist world economy.
Concretely, this means an employers' offensive to drive down wages and reorganize work; capitalist state cuts in social welfare; a wave of bankruptcies, mergers, and acquisitions; and a geographic expansion of capitalist production. Put simply, the notion that a "regulated capitalism" in which state policies simultaneously raise working class living standards and working conditions and capitalist profits is utopian.

A coming together of these factors led to a revival of profitability across the capitalist world — and especially in the United States — since the early 1980s. The generalization of lean production through industry and services sharply raised labor productivity — the rate of exploitation. Waves of bankruptcies and mergers and acquisitions (the primary source of the growth of the financial sector) led to the junking of the oldest and least efficient operations.

At the same time, productive capacity was reduced in some industries (steel) and investment shifted to new branches of production (U.S. Steel's diversification into oil exploration). The construction of global production chains expanded the boundaries of the world economy, allowing the shift of labor-intensive operations to low-wage regions of the global South.

The consolidation of neoliberal capitalist state economic policies systematically promoted this restructuring of capital. The deregulation of capital and labor markets, combined with a fiscal policy that promoted disinflation, ensured that capitalist firms responded to rising profits with continued investment in new plant and equipment (especially computer machinery and inventory systems) and a continuous reorganization of work along the lines of lean production.
The deregulation of capital promoted the growth of transnational production chains, while the deregulation of labor markets (cuts in social welfare, etc.) increased competition among workers and contributed to the stagnation or fall of real wages. As Naomi Klein makes clear, the victory of neoliberalism was not some peaceful and inevitable process, but required capitalist state repression to "shock and awe" working people in both the global North and South. [15]
The long wave of expansion that began in the mid-1980s was not — and could not be — permanent. As profits rose, capitalist accumulation began anew. The resulting increasing capitalization of production led to declining rates of profit, and eventually a stagnation in the mass of profits in the past few years. The capitalist world has entered a long wave of stagnation — lower profits on new investment in the face of overcapacity, resulting in longer and deeper recessions. It is this new economic context that makes the current financial meltdown so dangerous for capital.

As we have argued elsewhere, [16] financial crises rooted in increased investment in "fictitious capital" — claims on future wealth — are a feature of the top of every business cycle. If the underlying conditions of profitability and accumulation are healthy for capital, then financial crises are relatively mild and lead to a new cycle of strong growth. This was the case with the stock market crash of 1987, the savings and loan crisis of the early 1990s, and the "dot.com bubble" of the early part of this decade.

However, when the underlying conditions of profitability and accumulation are unhealthy for capital — as they are today — financial crises carry with them much greater risks. The recent capitalist state bailout of the financial system — including a partial "nationalization" of the banks — and the Obama "stimulus package" will probably prevent a total collapse of the financial system and a new 1930s style depression, but will not prevent a very sharp and prolonged recession.

High and persistent unemployment and sharp declines in output and investment are likely over the next eighteen to thirty-six months. The economic recovery that follows will likely be anemic. Continued low profits as a result of over-capitalization will result in slow growth. At the same time, the infusion of money into the economy through the bailout and stimulus package will fuel inflation. Put simply, we are likely to see a new period of stagflation similar to that the capitalist world experienced in the late 1960s and 1970s.

Just as in the early 1980s, there will be no solution to this crisis that will benefit both capital and labor. The only way out of a prolonged period of stagnant accumulation is a new wave of bankruptcies/mergers and acquisitions, the deepening of lean production, and deep cuts in the remnants of social services.
This crisis, like all crises, presents both opportunities for new collective working class and popular struggles against capital, and also dangers. Failing such successful struggles, there is a growing danger of different segments of the working class attempting to defend their declining social position against other sections of the working class.

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## P.S.

* From Against the Current, ATC 141, July/August 2009:
http://www.solidarity-us.org/node/2261

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## Footnotes

[1] Bill Fletcher, Jr., "A Legislative Agenda for the First 100 Days." *New Labor Forum*, 17, 3 (Fall 2008).

[2] My arguments are drawn from three essays by Anwar Shaikh: "An Introduction to the History of Crisis Theories" in URPE, *U.S. Capitalism in Crisis* (New York: Union of Radical Political Economists, 1978) _ http://homepage.newschool.edu/ ASha...;
*The Current Economic Crisis: Causes and Implications* (Detroit, MI: Against the Current Pamphlet, 1989) _ http://homepage.newschool.edu/ ASha...;
"Explaining the Global Economic Crisis: A Critique of Brenner," *Historical Materialism*, 5 (1999) _ http://homepage.newschool.edu/ ASha...

[3] Andrew Glyn and Bob Sutcliffe, *British Capitalism, Workers and the Profit Squeeze*. (London: Penguin Books, 1972).

[4] Samuel Bowles, David Gordon and Thomas Weiskopf, *Beyond the Wasteland: A Democratic Alternative to Economic Decline* (Garden City, NY: Doubleday, 1983).

[5] Mike Parker and Jane Slaughter, Working Smart: A Union Guide to Participation Programs and Reengineering (Detroit, MI: Labor Notes Books, 1994); Charlie Post and Jane Slaughter, *Lean Production: Why Work is Worse Than Ever, and What's the Alternative?* (Detroit, MI: Solidarity Working Paper, 2000)
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[6] Shaikh, *The Current Economic Crisis*, 12, 17-18.

[7] Rick Wolf, "Capitalist Crisis, Marx's Shadow" *MRZine* (September 26,2008) _
http://mrzine.monthlyreview.org/wol...;
"Capitalism Hits the Fan" Media Education Foundation (2009)
http://www.mediaed.org/assets/produ...

[8] Rosa Luxemburg, *The Accumulation of Capital* (New York: Monthly Review Press, 1968), Sections One and Two.

[9] Naomi Klein, *The Shock Doctrine: The Rise of Disaster Capitalism*. (New York: Metropolitan Books/Henry Holt and Company, 2007), 443-466.

[10] *The Current Economic Crisis*, 10-11, 13.

[11] Robert Brenner, The Economics of Global Turbulence (London: Verso, 2005); The Boom and the Bubble: The US in the World Economy (London: Verso, 2002). Brenner presents a lucid summary of his theory in: Seongjin Jeong "Interview with Robert Brenner on the Current Crisis." *Hankyoreh* (January 22, 2009)
http://www.hani.co.kr/arti/society/...
Available on ESSF: On the Current World Crisis, the US and East Asia.

[12] Shaikh, "Critique of Brenner.

[13] Shaikh, *The Current Economic Crisis*, 3-10.

[14] For evidence of these trends from 1948-1980, see Shaikh, *The Current Economic Crisis*, 10-16.

[15] Klein, *The Shock Doctrine*, passim.

[16] C. Post, "Their Crisis, Our Consequences: Is This What 1931 Looks Like?" *Solidarity Webzine*.
http://www.solidarity-us.org/crisis).
Available on ESSF website: Their Crisis, Our Consequences: is this what 1931 looks like?