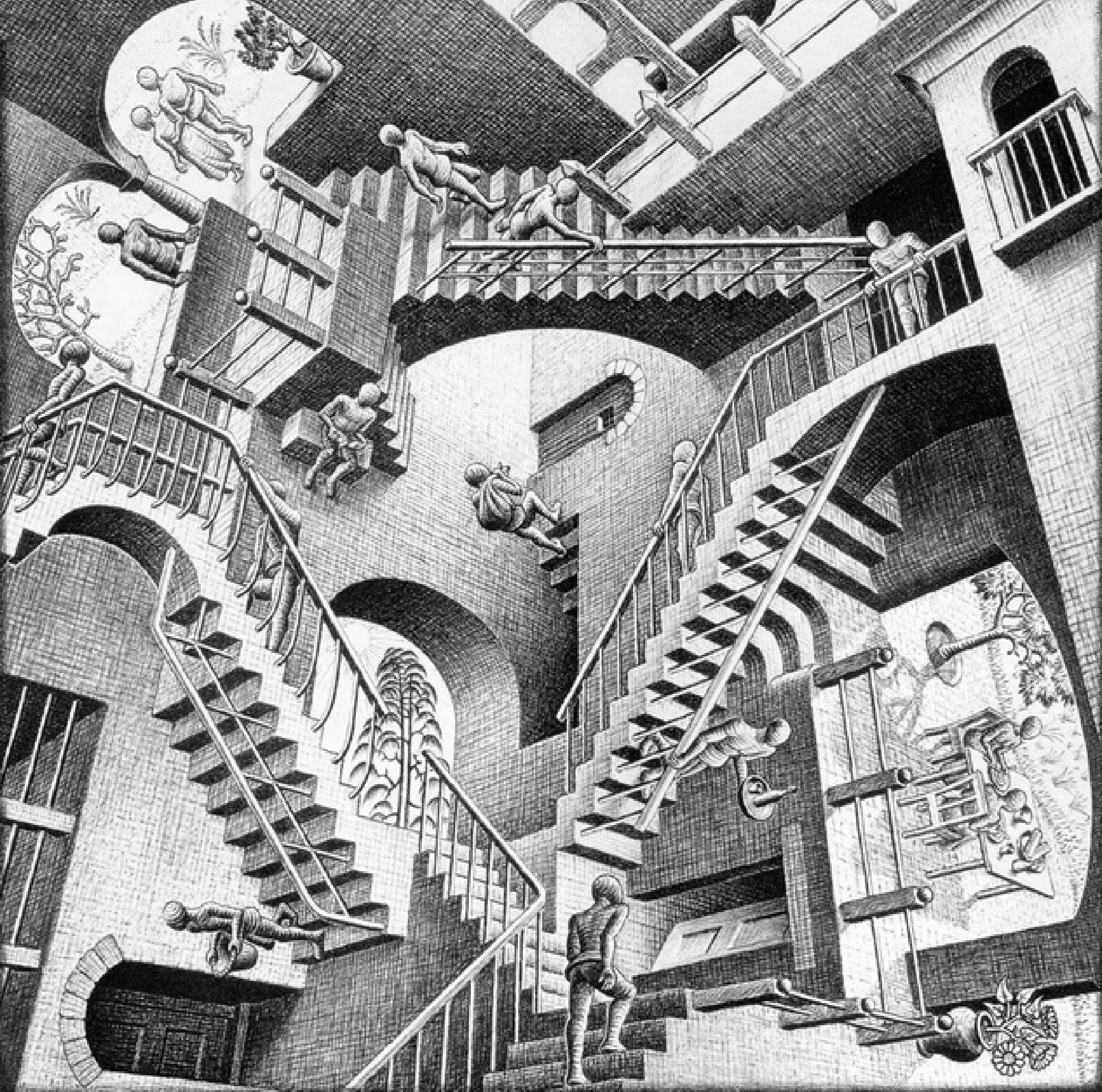

Chris Harman

Where is Capitalism Going?

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(Spring 1993)

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> The beginning of the 1990s has seen the third major international economic crisis in 18 years. By late 1992 what had begun as a slowdown in growth rates of English speaking countries two years earlier had spread to involve most of Europe and Japan. The countries of eastern Europe and the former USSR were also in deep crisis, with slumps in output of 30 or 40 percent. In the whole world there seemed only one little spark of light for defenders of the existing system – the pacific rim Newly Industrialising Countries (NICs [A]) of Taiwan, South Korea, Singapore, Hong Kong, Thailand and, increasingly, south east China.

There could not have been a greater contrast with the situation only five years before. In the summer of 1987 the talk everywhere was of an apparently endless boom – and not only on the Thatcherite right. In Britain **Marxism Today**, the

monthly magazine of the dying Communist Party, enthused about the dynamism of the capitalist system and its boomtime fads and fashions, while the Labour Party rewrote its programme to proclaim that the market was the best way of organising the economy and its leading figures spoke of the need to 'leapfrog over Thatcherism'. [1] Even two years later the fashionable wisdom was that the market had an unlimited capacity to solve humanity's problems. If only state 'interference' was eliminated from the eastern European economies they would flourish as the West European economies had flourished in the 1950s and 1960s. In particular, East Germany was to experience a 'second German economic miracle.'

Yet within 12 months the economies of the US and Britain were in crisis, and this spread like a plague to afflict all the major advanced economies. And there was no sign of the promised miracle in eastern Europe as production and living standards plunged and unemployment and inflation soared. The crisis has varied in its intensity from country to country. In some (Britain [2], Japan) it proved to be more serious than that of the early 1980s. In others (especially the US), the fall in output has been less than ten years before, but persisted much longer. In any case, the crisis has been a serious blow for the world system, not just materially but also ideologically. Supporters of the system had been able to blame the crises of the mid-1970s and the early 1980s on external factors – particularly the success of the OPEC countries in forcing up the price of oil. There has been no such excuse for the crisis of the early 1990s: the surge in the oil price expected at the time of the second Gulf War early in 1991 simply did not take place. Yet the crisis continued to develop. Its source had to be internal to the workings of the advanced capitalist economies themselves – but how?

Capitalism and crisis

> There is a Marxist account of capitalism which sees deepening crises as an intrinsic feature of the system. It is an account which is usually dismissed out of hand by mainstream economists. Typically, someone as critical of 1980s Thatcherite economics as financial journalist William Keegan can reject the Marxist account as based on 'an obsolete economic textbook which was itself written during the early, faltering phase of unreformed capitalism' [3], and quote, with enthusiasm, the denunciation of the Marxist approach by the French economist Marjolin: 'A modicum of experience and some knowledge of history was enough to cast doubt on the [Marxist] theory of an inevitable decline of capitalism owing to a falling rate of profit.' [4]

Even on the socialist left the Marxist account has often been rejected – for instance in the 1970s by Andrew Glynn, Bob Sutcliffe, John Harrison, Paul Sweezy and others. [5] Yet, properly understood, the basic account provided by Marx explains the recurrence of crises in a way in which no other can. [6]

The account rests upon grasping that the dynamic of capitalist accumulation contains within it an irresolvable contradiction. The only source of value and surplus value for the system as a whole is labour. Yet each individual capitalist can increase his own competitiveness (and therefore his share of total surplus value) through increasing the productivity of his workers if he (or occasionally she) expands investment in means of production more rapidly than his workforce. So there is a tendency for the process of capital accumulation to involve a much more rapid expansion of investment in capital than in labour, although this is the source of value – and, therefore, of profit. The outcome will be, inevitably, a growth in the ratio of capital investment to

profit. As a consequence, the ratio of profit to investment – the rate of profit – will fall. Yet this is the driving force behind accumulation.

In other words, the very success of capitalism at accumulating leads to problems for further accumulation. Eventually the competitive drive of capitalists to keep ahead of other capitalists results in a massive scale of new investment which cannot be sustained by the rate of profit. If some capitalists are to make an adequate profit it can only be at the expense of other capitalists who are driven out of business. The drive to accumulate leads inevitably to crises. And the greater the scale of past accumulation, the deeper the crises will be.

This, it should be stressed, is an abstract account of the most general trends in the capitalist system. You cannot draw from it immediate conclusions about the concrete behaviour of the economy at any individual point in space and time. You have first to look at how the general trends interact with a range of other factors. [7] Marx himself was fully aware of this, and built into his account what he called 'countervailing tendencies'. Two were of central importance. Firstly, capital accumulation increased the productivity of labour and so cut the cost of providing workers with a livelihood. Whereas in the past it might have taken three hours of work to produce enough value to sustain the average workers' living standard, now it might take only two. The capitalist could increase the proportion of each individual worker's labour that went into surplus value, even if the worker's living standard was not reduced. Such an increase in *the rate of exploitation* could counteract some of the downward pressures on the rate of profit: the total number of workers might not grow as fast as total investment, but each worker would produce more surplus value.

Secondly, the increase in the productivity of labour meant there was a continual fall in the amount of labour time – and therefore of value – needed to produce each unit of plant, equipment or raw materials. The value of old accumulations of

means of production was reduced as their replacement cost fell, causing the expansion of investment in value terms to be rather slower than the expansion in material terms, so diminishing to some extent the tendency for the value of investment to outstrip the growth in surplus value.

This in itself did not automatically solve the problem capitalists faced with the rate of profit. To survive in business they had to recoup, with a profit, the full cost of their past investments, and if technological advance meant these investments were worth, say, half what they had been previously, they had to pay for writing off that sum out of their gross profits. What they gained on the swings they lost on the roundabouts, with 'depreciation' of capital causing them as big a headache as a straightforward fall in the rate of profit. [8] However, such depreciation could ease the pressure on the capitalist system as a whole, if the burden of paying for it fell on some capitalists, who were driven out of business, but not by those who remained. This is precisely what happened with each crisis.

Different firms are always affected in different ways by the frenetic expansions and contractions of demand that characterise capitalist development. Some, for instance, invest early in a boom – and then incur losses because they find their equipment is not as up to date as their rivals' plant by the high point of the boom; others invest late in the boom, with the most modern equipment, but do not get the chance to put it to profitable use in the face of the recession. Or, again, some manufacturing firms see their raw material costs soar and their profits decline as the boom peaks; others, raw material producers, see their profits rise at precisely this point.

The downward trend in the rate of profit accentuates the trend towards periodic crises. But the crisis in turn, by hitting different firms differently, ensures that some firms are driven out of business while others continue to survive. Those that die bear many of the costs of depreciation for the system as whole, making it possible for those that live on to do so with lower

capital costs and eventually higher rates of profit than would otherwise be the case. Marx held that these factors would mitigate the tendency of the rate of profit to fall in the long term, over many booms and slumps. But he also argued they could not stop it completely.

First there were limitations to the ability of a rising rate of exploitation to offset the declining rate of profit. However great the increase in the amount of surplus value obtained from each worker, Marx pointed out, there was a limit to it: the total length of the working day. But there was no limit to the possibilities for expansion of investment in means of production. A point was bound to be reached at which capitalists could only make marginal gains from further increases in the rate of exploitation. Yet there was nothing to stop the ratio of capital investment to labour continuing its upward trend, and causing downward pressure on the rate of profit. In other words, raising the rate of exploitation could only be a limited, short term option for dealing with falling profit rates.

Second, Marx believed his other 'counter-tendency' – the depreciation and the writing off of capital through crises – could not stop the long term rise in the ratio of capital investment to labour. His own arguments on this were not as clear as those about the limited impact of raising the rate of exploitation. But it is not difficult to fill in the gaps in his argument by looking at the impact of another trend he located within capitalism – the tendency he labelled the 'concentration and centralisation of capital'. Each crisis involves the wiping out of some individual capitals. So over time the system comes to be dominated by an ever smaller number of ever larger capitals – something which is absolutely evident today as a few multinationals dominate each industry within both national and world markets. But if one of these giants goes bust it has a very different impact on the rest of the system to that of the relatively small firms of Marx's time going bust. Each is so big that its collapse has a devastating impact on much more competitive and profitable firms. At a

stroke they lose markets that are profitable for themselves and risk following it into bankruptcy themselves. Instead of the wiping out of uncompetitive firms automatically clearing the ground for profitable expansion by other firms, the crisis can suck them down into a black hole of spreading bankruptcy.

Such considerations can explain, for example, why the crisis of the system which began in 1929 did not automatically rectify itself by 1931 but rather grew deeper, spreading from one section of capital to another, and only finally came to an end when states intervened to override market forces in the interests of militarisation. They can also explain many of the features of the crises of the last 20 years.

In applying Marx's model under conditions of modem capitalism there is another important point to take into account. In his model value created in one round of production feeds back into accumulation in the next round, either as new means and materials of production or by providing for the consumption of value-producing workers. He barely considered the impact on the development of the system of flows of value that did not feed back into accumulation. Yet various such flows have been very important in the history of capitalism over the last century, with the massive growth of non-productive activities like advertising, sales promotion and war.

These all have the effect of using up value that would otherwise have been available for productive accumulation – and which would, in that case, have increased the pressure for investment to grow much more rapidly than the productive labour force and for profit rates to fall. As the German Marxist Henryk Grossman noted of arms expenditure [9] 65 years ago:

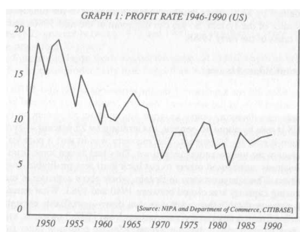
> *Far from being an obstacle to the development of capitalism or a factor which accelerates the breakdown ... the destruction and devaluations of war are a means of warding off imminent collapse, of creating a breathing space for capital accumulation. For example, it cost Britain £23.5 million to suppress the Indian uprising of 1857–8 and another £77.5 million to fight the Crimean*

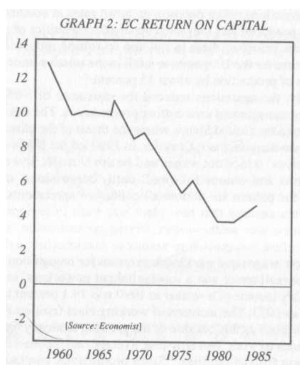
War. These capital losses relieved the overtense situation of British capitalism and opened up new room for her expansion. This is even more true of the capital losses and devaluations to follow in the aftermath of the 1914–18 war …

> *From the standpoint of total capital, militarism is a sphere of unproductive consumption. Instead of being saved, values are pulverised. Far from being a sphere of accumulation, militarism slows down accumulation. By means of indirect taxation a major share of the income of the working classes which might have gone into the hands of the capitalists as surplus value is seized by the state and spent mainly on unproductive purposes.* [10]

This insight was used by W.T. Oakes (T.N. Vance) in the 1940s and 1950s and by Mike Kidron in the 1960s and 1970s to explain how capitalism was able to accumulate without immediately hitting a crisis of profitability in the decades after the outbreak of the Second World War. [11] Arms spending could not put off the crisis indefinitely, however. The burden of the spending fell disproportionately on certain countries (those of the US and the USSR in particular), allowing the capitalists of other countries to invest proportionately more in productive industry and, over time, to out-compete them. And this was bound to force the big arms spenders to cut back their own military budgets in a way that reduced the stability of the world economy as a whole. What is more, once profit rates began to fall, the cost of arms exacerbated the problems individual capitals had in finding the surplus value they needed if any accumulation at all was to take place. From being a boon to the world system, arms spending became an increasing burden.

The analysis was vindicated by developments in the late 1960s and early 1970s. US big business found it could not sustain the burden of paying for the Vietnam War, although even at its peak expenditure on that war was substantially less than on the Korean War 15 years before, causing successive US governments to reduce the share of national output going to the military right through from 1969 to 1979. In the same years there was a fall in profit rates in all the major Western economies, leading the world into two recessions much more severe than any since the 1930s. [12]





But it is not only the world crises of 1974–6 and 1980–1 that can be explained by an analysis based on Marx's account of the fundamental dynamics of the system. So too can the boom of the mid-1980s and the new crisis of the early 1990s.

The unbalanced boom

> The 1980s did see a recovery from the recessions of the mid-1970s and the early 1980s in the advanced Western countries. By the end of the decade manufacturing output in Japan was up about 50 percent on 1980, in US it rose by about 40 percent, in Germany by 25 percent – even in Britain it rose by 10 percent. The recovery was in part a paradoxical product of the two preceding recessions. They had driven some firms out of business and caused others to cut back their less profitable lines of business. This was most clear in Britain, where about a quarter of manufacturing capacity was closed between 1980 and 1983. What remained was more profitable than what was shut down – profitable enough, in fact, for firms to enlarge their operations from 1982–3 onwards, taking on new workers and providing a market for the output of other firms. The capitalist crisis was itself easing the tendency for investment to grow faster than the workforce and for the rate of profit to fall.

The recessions offset pressure on profit rates in another way as well. As firms produced less they used up smaller quantities of raw materials, causing the prices of these to fall and so cutting industrial costs. Thus one estimate for the US points to a fall in the relative price of means and materials of production by about 15 percent. [13]

Finally, the recessions reduced the resistance of workers and their unions to management cost cutting programmes. The most vivid examples were in the United States, where the threat of the closure of the third largest auto manufacturer, Chrysler, in 1980 led the UAW union to agree ’concessions’ which cut wages and

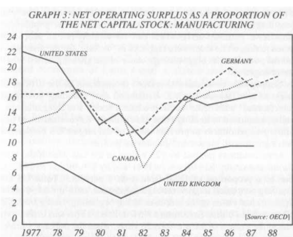
health benefits. It was an example other firms and unions followed, until ‘concessions’ or ‘givebacks’ became the pattern for almost all collective agreements. At the same time, firms ensured that new plant was built in regions where union organisation was weak – either relying on anti-union ‘right to work’ laws to refuse recognition to unions or blackmailing unions into conceding low wages and workloads in return for recognition.

The overall result was a substantial cut in workers’ real wages. The real weekly income of a worker in 1990 was 19.1 percent below the level reached in 1973. The incomes of working class families did not usually shrink as much as this because of the growing tendency for wives as well as husbands to work. Nevertheless, average real incomes declined for all but the top fifth of families. [14] Since productivity continued to rise, the result was an increase share of output going to profits compared with that going to wages – an increase in the rate of exploitation. One calculation suggests that the rate of exploitation in ‘productive’ industry rose by about 25 percent between 1977 and 1987 – considerably more than in the preceding 30 years. [15]

In Europe and Japan there was not the same cut in real wages as in the US. But here too productivity rose faster than wages, and profits grew as the rate of exploitation increased. For the Group of Seven (G7) major industrial economies, the OECD estimates that the ‘share of capital income’ grew from 31.9 percent in 1975–9 to 33.9 percent in 1990. [16]

In Britain, average real disposable income from employment rose in the years 1987–89, by a total of 11.7 percent. But a shrinkage in the total workforce turned this into a rise of only about 0.2 percent a year in total disposable income from wages and salaries, and a fall in their share of Gross National Product of 6.3 percent. [17] In the mid-1980s ‘profits per unit of output grew about 1.5 percent faster than labour costs per unit of output’. [18]

Profitability was able to grow in the 1980s with the slow down in the rate of accumulation and the increase in the rate of exploitation, as Graph 3 shows. [19] By the peak year of 1987 profitability in Europe (including Britain) and the US was reported as the same as in the early 1970s – although it was still lower than a decade before that. [20] In Japan the level was up from that of the late 1970s and early 1980s, but still way below that of the early 1970s and before. For the G7 major economies as a whole, profitability in 1990 was estimated at 15.3 percent – a slight rise on the 1975–9 average of 14.1 percent, but not a radical improvement. [21]



However, the economic recovery was not just, or even mainly, an automatic response to a partial restoration of profitability. It very much depended on government action, particularly in the US. The economic ideology of the Thatcher government that took office in Britain in 1979 and the Reagan government that took office in the US in 1981 was 'monetarism'. Both claimed they would be able to prevent inflation by keeping a tight control on the money supply and government spending. Both embraced the wholesale dismantling of controls over various aspects of business behaviour – abandoning controls on the financial system and the money markets, deregulating industries like airlines in the US and buses in Britain, slashing into minimum wage provisions. Both pushed

through cuts in welfare provision for the poor. Both slashed taxes on the rich and on capital.

But it soon became clear that Reagan's policy and Thatcher's diverged in one important respect. While Thatcher insisted she stood for a balanced budget, Reagan permitted a soaring federal budget deficit – $100 billion dollars in 1982 and rising inexorably through to 1986. Part of the deficit was due to falling tax revenues. Another part was due to the continuing upward pressure of those government benefits which went disproportionately to the better off sections of the population – subsidies to pensions and medical care for wealthy retired people continued to rise, while there were cutbacks in 'welfare' for the unemployed and the poor. But the biggest single cause of the growing deficit was the arms budget.

'Supply side economics' displaced monetarism as the official ideology of the Reagan regime. It claimed that reducing government 'interference' with firms would produce a boom. But Reaganomics, in reality, amounted to nothing other than military Keynesianism, to using military expenditures to provide many of the largest US corporations with a guaranteed market and guaranteed profits.

Arms contracts jumped by $25 billion in the last year of the Carter administration, by $24 billion in 1981 and by $44 billion in 1982, and rose as a proportion of GNP from 5 to 7 percent. [22] Total US arms spending continued to grow through the decade, until it was 50 percent higher in real terms at the end than at the beginning, rising from $206 billion to $314 billion (in constant 1990 dollars). [23] This was in sharp contrast to the pattern of the previous 30 years, when the military's share of national product had shown a secular decline, interrupted only by a brief surge at the height of the Vietnam war between 1965 and 1969.

The military medicine produced a rapid turnabout from recession to growth. After contracting in 1980–1, the economy

grew continuously from 1982 to 1989, the longest non-stop period of expansion since the 1940s. Unemployment (as officially measured) fell from around 10 percent to just under 6 percent, and the total number of jobs rose from around 100 million to just under 120 million. The American boom gave a boost to the economies of the other advanced countries and of the Pacific NICs as it sucked in imports, which grew by close on $100 billion in 1983 alone. Japanese industrial production, which had stagnated through 1980 to 1982, picked up in 1983 and soared in 1984–5; West German industrial production stormed ahead in 1984 and 1985 after staying below its 1980 peak right through to 1983; in Britain, France and Italy economic recovery began in 1982–3 and had taken off by 1984–5.

Yet there were weaknesses in the recovery. The driving force was the US. Yet the US economy suffered from two spectacular deficits – the budget deficit already mentioned, and a growing trade deficit. Whereas in 1980 US non-oil trade showed a surplus by 2 percent of GNP, by 1986 it was in deficit by nearly 3 percent. The US share of world exports fell by about a fifth, until it was below that of West Germany in 1987.

The deficits had to be financed. This meant borrowing – by the government from the banks, and by the US economy as a whole from the rest of the world. So US government debt grew from 19.1 percent of GDP in 1979 to 30.4 percent in 1989 [24] and total US borrowing from the rest of the world from $480,000 million in 1980 to $1,536,040 million in 1987. [25] One immediate effect was to force up real interest rates worldwide to a relatively high level by the beginning of 1983. They stayed high for the rest of the decade. This was especially damaging to the debt burdened economies of Latin America, Africa and Eastern Europe. While North America, Western Europe and the Pacific rim grew, they stagnated or even fell back. For Africa, 'per capita GDP fell from $854 in 1978 to $565 in 1988, external debt rose from $48 billion to $423 billion ... By 1987 between 55 and 60

percent of Africa's poor was considered to be absolutely poor.' [26] For Latin America and the Caribbean, 'the cumulative decline' in regional GDP per head for 1981–90 was 'about 10 percent'. [27]

At the same time, the growth of the US economy was not accompanied by any large rise in productivity. Whereas in the years 1950–73 labour productivity had grown at 2.5 percent a year, in the years 1973–87 it grew at only 1 percent – less than a third of Japan's rate and two fifths of Germany's (although absolute productivity remained higher in the US). [28]

The weaknesses in the boom were shown in the years 1985–6. There was a tailing off of growth in G7 major advanced countries, halving to 2.7 percent in the US and remaining stuck at around 2 percent in Germany and France. [29] G7 investment grew at only a third of 1984's rate in 1986. [30] And industrial output actually fell in both Japan and the US in the spring of 1986. [31] No wonder many commentators argued the world was on the verge of a new recession [32], with the **Economist** reporting, 'America's economists are asking what lies ahead this year, continued growth or slump?'

Such predictions were grossly wrong. The tendencies towards recession were certainly there, but they were more than compensated for by two other factors. First, the arms build up in the US continued, despite the moves towards a disarmament deal between Reagan and the head of the USSR, Gorbachev, at the Reykjavik summit in the autumn of 1986. Second, the governments of the major Western powers all took measures to stimulate the economy. The US went furthest, cutting its interest rates, allowing the international value of the dollar to slide (so cheapening exports), slashing income and company taxes, increasing the budget deficit (despite its avowed commitment to cut it in line with the new Gramm-Rudman bill) and putting pressure on the Japanese and German governments to expand domestic demand. These governments did not fully comply, but made some gestures to appease US pressure. In Britain the Tory

government relaxed its controls on public expenditure and cut taxes in the run up to an election, turning its back on its own avowed monetarism as 'broad money' (M3) grew by 20 percent.

Such action by governments produced a new spurt of growth in 1986–7 – 3.5 percent in the US, 5.3 percent in Japan, 2.5 percent in France, 4.6 percent in Britain, with Germany lagging at under 2 percent. [33] In both Japan and the US (although not in most European countries) industrial output grew much more rapidly than the economy as a whole. The new boom was a real boom, in the sense that it led to the production of a growing mass of tangible commodities. But the boom was much greater in the financial sector of the economy than in material production.

Financial activity became frenetic, with stock and share and property values soaring upwards. Vast amounts of borrowing sustained the growing number of corporate takeover bids and counter-bids. Small companies took over much larger ones through 'leveraged buy-outs', financed by borrowing against high interest 'junk bonds' which had to be paid for by selling off the assets of taken over companies. For a time the speculative boom fed on itself. Financiers outbid each other for property and shares, bringing about the very upward surge in markets they had predicted. The speculative profits they made were in turn poured back into the markets, forcing them still higher. The paper profits so created financed a great burst of luxury consumption – it was then that the term 'yuppie' really came into fashion on both sides of the Atlantic.

The **Economist** could note 'the contrast between frenetic money and sluggish economies' at the end of 1986:

> *Money always talks, of course, but in 1986 the noise was deafening. First the foreign exchanges screeched as the dollar fell another 11 percent. Then came Big Bang in the City of London, part of the world spanning trend of financial innovation and deregulation ... Somewhere in the background was the sound of centra! banks letting their money supplies rip through the roof ...*

By contrast, the 'real economy' was too quiet. [34]

The crash and after

The contrast between the explosive expansion of finance and the slow growth of material production made national authorities worry about inflationary pressures. The American federal reserve responded by trying to restrict credit and raise interest rates. Stockmarkets throughout the world plunged on 'Black Monday', October 1987, with shares losing about a third of their value in Europe and America (although being much less severely hit in Japan).

Once again there were widespread predictions of an imminent slump, with comparisons with the Wall Street Crash of 1929. [35] But once again the slump did not materialise because of governmental action. Governments everywhere did a U-turn, relaxed controls on the money supply, allowed interest rates to fall and poured billions of dollars into the financial system to prevent it collapsing. In this, they had the backing of many monetarist hardliners. Thus Samuel Brittan advised:

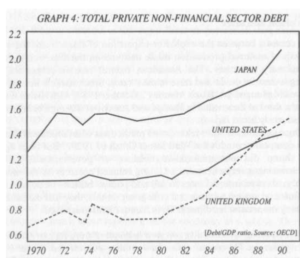
When a slump is threatening, we need helicopters dropping currency notes from the sky. This means easier bank lending policies and, if that is not enough, some mixture of lower taxes and higher government spending. [36]

The **Economist**, at the time a standard bearer of monetarism, was equally forthright: 'The immediate task is a Keynesian one: to support demand at a time when the stock market crash threatens to shrink it.' [37]

Governments forgot all about controlling the boom – and the speculative frenzy was soon at full throttle again. The American and European stock markets remained relatively subdued, but

the junk bond crazes resumed with the biggest attempted leveraged buy out yet, that of RJR Nabisco. [38] Property speculation rose to new heights, and private borrowing reached record levels in the US, Britain, and Japan. By the end of the 1980s bank loans in the US had more than doubled [39] and in Japan they were three times their level at the beginning of the decade. In Britain borrowing by the personal sector soared from under 9 percent of disposable income in 1984 to 16 percent in 1988 [40], while the 'gearing' ratio of company debt to capital stock doubled between 1987 and 1989. [41]

This was the period of what the Japanese later called the 'bubble economy', in which Japanese property values soared and the stock exchange doubled in value – until the net worth of Japanese companies was said to be greater than that of the US companies, although by any real measure the US economy was about twice the size the Japanese one. In Britain these years saw the office building boom in the City of London and docklands, the construction of new shopping malls in every town of any size, the proliferation of out of town hypermarkets, and the finance and real estate sector growing until it accounted for nearly one job in eight (as against one in 14 in 1979) and a fifth of total value added. [42]



> There was real industrial growth, but it was dwarfed by the expansion of the property markets and by various forms of speculative activity.

'General business' investment grew considerably faster than manufacturing investment – in sharp contrast to the 1960s and

early 1970s, when manufacturing grew at the same speed. What is more, the growth of manufacturing investment was about a third lower in the US and Japan, and about two thirds lower in Europe, than in the earlier period.

Average Annual Percentage Growth Capital Stock: Business (manufacturing in brackets) [43]

	1960–73	*1979–89*	*1983*	*1989*
US	*3.7 (4.0)*	*3.5 (2.3)*	*2.8 (1.3)*	*3.5 (2.1)*
Europe	*5.2 (5.1)*	*2.9 (1.3)*	*2.6 (0.8)*	*3.4 (2.0)*
Japan	*12.4 (12.4)*	*7.3 (5.4)*	*6.5 (5.4)*	*9.4 (7.6)*

In Britain, while total investment in the economy rose from about 14 percent of GNP in 1984 to 18 percent in 1989, manufacturing investment rose from only about 3 percent to 4 percent [44] – the increase in industrial output of about 15 percent compared with 1982 was mainly due to greater use of existing plant and machinery, with capacity utilisation rising to close to 100 percent. [45]

At the height of the boom some establishment economists claimed the discrepancy between general business growth and manufacturing growth did not matter, since, they argued, in a modem economy services increasingly replace manufacturing. Now, it is certainly the case that some ‘services’ are every bit as much tradeable goods as are manufactured products. They are commodities which are sold for a profit, and the labour that goes into them is productive [46] – the worker who writes software is no less productive than the one who makes the computers it runs on. But by no means all ‘services’ are productive in this sense. Very many are simply concerned with protecting the already created wealth of the ruling class (for instance the security

industry and the police) or with dividing and redividing that wealth within the ruling class (the financial sector, the sales and advertising industries, most civil law). A growth of such services is a drain on the productive economy, not a boost to it. And there are many indications that it was such services that experienced the greatest growth in the 1980s, while the pattern for genuinely productive services was very similar to that for manufacturing.

A study of the US shows that although some growth of services in the early and mid-1980s was a sign of 'positive developments' – for instance, new jobs as programmers, systems integrators, designers and bioengineers – 'the overwhelming preponderance of service jobs created in the last 15, ten or even five years ... are very traditional: wholesale and retail sales, routine office work, janitorial work, security and so on.' [47]

In Britain investment was not just concentrated in the service sector, but above all in the *non-productive* service sector. It rose by two thirds in distribution and more than trebled in finance. [48] The 'investment boom ... was mainly concentrated in the non-traded sector of the economy: financial services, estate agents, shopping malls etc. ...' [49]

The boom was an unbalanced, flawed boom. It concealed the real weakness in capital accumulation for a number of years. But eventually that weakness would destroy the boom and throw the whole world economy back into overt crisis.

From miracle to mirage

In 1987 and 1988, with elections in Britain, France and the US, it was convenient for governments to play up the successes of the economy – most famously in the case of the British Chancellor of the Exchequer, Nigel Lawson, who spoke of a 'British economic miracle' when 'carried

away' in the course of an after dinner speech, as he now explains. But by 1989 some of the imbalances in the boom could no longer be ignored. Everywhere inflation began to rise. [50] In the US the leveraged buy out and junk bond mania increasingly worried top businessmen, who feared the risk to themselves from speculative predators and the cost to major corporations of exorbitant interest payments on junk bonds. 'The debt binge. Have takeovers gone too far?' asked the **Business Week** cover in November 1988. [51] The worries grew with the sudden crash of the whole Savings and Loans sector (the equivalent of building societies) as a result of unregulated speculation, with the government having to pledge hundreds of billions of dollars to keep it afloat. Finally there was continuing anxiety about the budget deficit.

In Britain the imbalances caused an even bigger headache for the government. The lack of productive investment meant the boom was very much a boom in imported goods. The balance of payments moved from a narrow surplus in 1985 to a £20 billion deficit in 1989, while inflation levels reached 8 percent and more. The **Economist**, ecstatic about the Thatcherite programme only two years before, now noted that:

> *real domestic demand was growing by an astounding 9.4 percent in the second half of 1987, business investments at more than 18 percent in real terms ... The question future economic historians will struggle to answer is how Mr Lawson could have allowed demand to grow at least three times as fast as potential output.* [52]

But most establishment economists continued to hold that the imbalances were not that serious. All that was required was limited government action to prevent the

boom getting out of hand and growth would continue its healthy upward path without inflationary consequences. Typically, the International Monetary Fund's **World Economic Outlook** could argue in the autumn of 1989:

Some slowdown from the rapid growth rates of recent years appears to be taking place in North America and the United Kingdom ... At present there is no clear evidence from balance sheets and profit margins to suggest that sectoral imbalances have built up to an extent that might give rise to an abrupt adjustment by consumers or enterprises ... The current level of corporate leverage is still low by international standards. Similarly, the relatively rapid rise in household gross debt in several countries has been matched to a large extent by the rising value of household assets. [53]

Such arguments led the official orthodoxy to insist that limited measures, mainly pushing up interest rates, would bring about a 'soft landing' and sustainable non-inflationary growth.

This optimism was repeated again and again over the subsequent three years. The IMF and the OECD repeatedly predicted growth when there was to be stagnation or even shrinkage. Thus the OECD asserted in June 1990 that 'economic activity in the industrialised world has settled to a sustainable 3 percent annual growth rate', with prophesies of growth in 1991 of 2.5 percent for the US and 1.9 percent for Britain. Strong exports, it said, would save the UK economy from recession. [54] In fact, the following year saw a fall in output of 0.6 percent in the US and 3.7 percent in Britain. [55] In that year:

The IMF's distinguished team of forecasters largely failed to forecast the Anglo-Saxon move into recession. In this failure it was largely representative of model based forecasters ... The consensus of UK independent forecasters was that the UK economy would grow by 1.8 percent, not decline by as much. [56]

> The orthodox wisdom was, in fact, doubly wrong. More government action than it predicted was needed to bring the boom under control. And that action did precipitate recession.

In the US the federal reserve bank raised interest rates in stages by 3.5 percent, or by more than half, in the year up to April 1989. [57] The British chancellor, Lawson, had doubled them by the time he resigned in the autumn of that year. Yet the boom continued and inflationary pressures grew still greater. On both sides of the Atlantic the very deregulation that had helped drive the speculative boom forward made it more difficult to bring it under control.

But that was only a prelude to what happened in 1990. The expected 'soft' landing turned out to be very hard indeed. Both Britain and the US entered into real recession, not just the 'growth recession' that political and economic leaders had been expecting. And the recession proved more difficult to get out of than any since the Second World War. How did the orthodoxy manage to get it so wrong?

Profit and interest rates

> The establishment optimism of 1988–9 assumed that the boom was a response of business to a genuine and sustainable growth in profits throughout the system. So the IMF saw profits as being easily able to pay for increased bank lending in the US, and the increase in total outstanding loans as easily being compensated for by the increased value of assets. [58] Similarly, in Britain the **Economist** magazine argued in the autumn of 1989 that, while rising interest rates would hit small and medium

sized companies, the relatively high level of big companies' profits would protect them. [59]

The figures seemed to bear out these claims. They showed profit rates as more or less maintaining the level they had risen to after the recession of the early 1980s [60] So they were estimated to be 14 percent in the US in 1989 [61] and to have reached 19.5 percent for the largest British manufacturing companies in 1989. [62] Even when the recession was well under way, the Bank of England could claim profit rates 'at the end of 1990 were close to the average for the last 20 years'. [63] But this raises an important question for any analysis of the economy. If profit rates were as healthy as claimed, why the sudden development of recession?

Part of the answer is that the figures showed profits as recovering to the levels preceding the major recession of 1974–6, rather than to the higher levels that sustained the long boom of the 1950s and 1960s. But there is also considerable evidence that real profitability of industry in 1987–8 was lower than the figures suggest.

Toporowski has pointed out that the British figures do not give an accurate picture of conditions for domestically based competitive production. [64] They include the foreign earnings of British multinationals and the high monopoly profits of recently privatised utilities. He quotes the government publication **Economic Trends 1989** as saying company profits had been 'consistently overstated', and then, using his own economic model, suggests that 'the share of profits in the national income was still, in the first half of 1988, below the share at the end of the 1970s'.

More generally, the merger boom of these years gave an enormous incentive to firms to use creative accounting to overstate their profit levels. This raised their share price, making it cheaper for them buy other firms if they were predators, and easier to ward off hostile takeover bids if they were not – and, in

any case, could provide nice windfall profits for directors who chose to sell off their own shares. A recent book on the Murdoch empire points out:

> *The majority of people who see ... accounts assume they provide an unchallengeable and factual account of what is going on. Columns of neatly laid out*
>
> > *figures of a company's profits have a tempting certainty to their appearance. But as Susan Dev, professor of accounting at the London School of Economics, once said, 'Profits are not facts; they are just opinions'.*
> >
> > *This is one of the great truths of accounting – privately admitted but frequently denied in public by accountants ... When a company draws up its accounts it needs to make a lot of assumptions. This is mainly because at the end of the year there is a lot of unfinished business, which creates uncertainties. For example, there are unpaid debts, and a judgement has to be made about whether these will be paid. There are lots of assets and a judgement has to be made about how long these will last. All these are subjective judgments: one company may decide that all the debts will be paid; another that none will be. The second company will then write off the debt and declare less profit that year. Profit then is a matter of opinion.* [65]

Accountants are meant to abide by accounting standards which attempt to impose some uniformity on the basis for arriving at such opinions. But the standards vary from country to country, and in any case do not necessarily keep up with the new practices firms use in determining their own profit levels. For example, Rupert Murdoch's News International declared after-tax profits for 1989 of A$1,163,626,000, which were nearly three times those of 1987. But this was using Australian accounting standards.

If US standards had been used, the profit level in 1989 would only have been about 3 percent up on 1987. [66]

British accounting standards are said to be more stringent than Australian ones. [67] But in the summer of 1992 the head of research for London stockbrokers UBS Phillips and Drew, Terry Smith, caused a scandal (and lost his job) by publishing a book which listed a number of ways in which British companies could rig their profit figures quite legally and provided a list of very large companies that had done so in the late 1980s. [68] The ability of British based firms to exaggerate their profits was reduced when a new accounting code, FRS3, was introduced in 1992: profits for the giant construction, engineering and shipping conglomerate Trafalgar House, which would have been about £122 million under the old standard, turned into a loss of £38.5 million. [69] Marx noted in **Capital**:

The semblance of a very solvent business with smooth rate of returns can easily persist even long after the returns actually come in at the expense partly of swindled money lenders and partly at the expense of swindled producers. Thus business always appears almost excessively sound right on the eve of a crash ... Business is always thoroughly sound until suddenly the debacle takes place. [70]

The late 1980s provides innumerable instances of such inflated profits, giving a completely distorted picture of the health both of individuals firms and of the capitalist system as whole. The picture of lower than reported real profits is confirmed by a different set of figures: those for interest rates, which remained high throughout the mid and late 1980s.

There is usually an inverse relation between the rate of interest and the rate of profit, one rising when the other falls. [71] This is because the level of interest rates depends on the inter-relation between the flow of funds into the financial system

and the demand for borrowing from it (banks and governments can only manipulate interest rates within parameters which depend on this inter-relation). And most inflow of funds comes from profits generated by industry and lent to the banks. [72] When profits are high, the flow of funds into the financial system grows and the supply exceeds the demand. There is a fall in the cost of borrowing – the rate of interest. On the other hand, when profit rates are low, the flow of funds into the banking system tails off, demand exceeds supply, and the cost of borrowing is forced up. On top of this, low profit rates leave firms which want to invest with no choice but to increase their borrowing, so increasing the demand for funds just as the supply falls and driving interest rates still higher. [73]

The high interest rates of the mid-1980s to late 1980s are thus an anomaly. They show that reported profit rates seriously overstate the real ratio of surplus value to investment throughout the system. This anomalous result was not just a result of the misreporting of firms' profits. It was also a reflection of the changes in the system brought about by the concentration and centralisation of capital.

The recession of the early 1980s had not, in the main, resulted in a large number of outright bankruptcies. Rather, when firms were on the brink of collapse political pressure was applied by banks or governments (or both) to keep them afloat, most famously in the case of Chrysler in the US. But this meant their losses were transmuted into debts to the banking system either directly, by the banks lending them more, or indirectly, by governments bailing them out and then increasing their own borrowing from the banking system. In either case, losses disappeared from the balance sheets of firms to reappear as lending on the balance sheets of banks.

At the same time, governments everywhere did their best to reduce the pressures on the post-tax profitability of companies by cutting business taxes. In the US profit taxes fell from a third of total taxation in 1950 to a sixth in the early 1970s and little

more than a tenth in the late 1980s. This contributed to the budget deficit, and so, again, added to the burden of total borrowing on the system as a whole. [74] In the mid-1980s it was not just individual firms that had to be bailed out by the rest of the system. Major states like Mexico, Brazil and Poland came close to bankruptcy and had to be propped up by co-ordinated action between the world's biggest banks and inter-governmental agencies like the IMF.

As the speculative boom began to come unstuck in the late 1980s, states were once again forced to reach into their own coffers to protect giant firms. Thus the US government poured funds in to cover the losses of the Saving and Loans – and had itself to get those funds by an increased level of borrowing. In this case, upward pressures on the general rate of interest were a direct product of the creative – and often fraudulent – accounting that had made the Savings and Loans seem so profitable. In other cases, the greed of the banks had led them to lend massive amounts to companies who then used those funds, in one way or another, to bolster their declared profits. Robert Maxwell, head of the world's biggest printing and publishing empire, made fraudulent gains in this way before he drowned himself and his empire sank, and so did the giant Bank of Credit and Commerce International.

The fraud is not the important point, however. What is significant is that the measures that seemed to raise the profitability of the corporate sector of the economy also increased the overall burden of debt and interest on the productive sector of the system, weakening its ability to undertake sustained accumulation. This is shown by the trend of investment. It did not, in most cases, flow into the productive sector as it should have done if profit rates had really been as high as they seemed. As Glyn has noted, 'In the UK, between 1979 and 1989 investment in industry and agriculture stagnated, that in distribution doubled and that in finance more than

trebled. The data suggests a similar, and possibly more exaggerated pattern in the USA.’ [75]

In fact, only at the very end of the boom, in 1988–89, was there a rise in most countries in either general business or manufacturing investment. [76]

Consumption and the crisis

> Another element has to be taken into account besides the level of profits in any turn from boom to slump. This is the level and nature of consumption. There are theories which provide a simple account of recessions in terms of the low level of consumption. Such ‘underconsumptionist theories’ were developed by early political economists like Malthus and Sismondi and taken up by later liberal economists like Hobson and Keynes. Marxist versions of them have also been developed, most notably by Rosa Luxemburg and more recently by Paul Sweezy and Paul Baran. [77] The basic form of the argument is that in a profit based economy there is, by definition, always a gap between what workers produce and what they consume. The bigger this gap is – that is, the greater the profitability of the system – the greater is the likelihood that there will not be enough consumer demand to buy everything the workers produce.

These theories are wrong because the gap between output and demand will be filled if employers use their profits to invest in new plant and equipment – and they will if profitability is high enough. [78] Nevertheless, the theories do focus on an aspect of the instability of capitalism – as Marx recognised when he noted

that, ‘the ultimate reason for all real crises always remains the poverty and restricted consumption of the masses as opposed to the drive of capitalist production to develop the forces of production as though only the absolute consuming power of society constituted their limit.’ [79]

As we have seen, the accumulation of capital involves the means of production growing much faster than the number of workers. The amount of profit can only keep pace with the rise in the total level of investment if more profit is produced per worker – that is, if the share of output going to workers falls as the total output rises. Otherwise there will be a fall in the rate of profit. Therefore, success for the system depends on a continual widening of the gap between total production and working class consumption. But the wider this gap is, the more the stability of the system depends upon investment – which in turn depends upon maintaining the rate of profit by a further widening of the gap.

If anything happens which damages the rate of profit, then investment will suddenly not be sufficient to bridge the gap between output and consumption. Firms will not be able to sell all the goods they produce. They will be forced to hold their prices down. Profits will fall further, investment will be further cut back, more goods will be unsellable, and a general crisis of overproduction will result.

The dynamic of the system itself, the drive to accumulate, has created conditions in which the consumption of the masses is too high to permit the rate of profit required for further accumulation, but too low to absorb the output of industry. Raising the consumption of the masses cannot solve the crisis, because it means further cuts in overall profitability and a further threat to accumulation. Lowering the consumption of the masses cannot bring about an immediate solution to the crisis either, since it lowers the demand for output and prevents firms immediately restoring their profits.

These are precisely the conditions we see operating through the 1980s. The rate of profit was partially restored by reducing the workers' share (in Marxist terms, by increasing the rate of exploitation). But the restoration was not enough to bring investment to its 1950s–1960s level. Total output continued to be greater than investment and workers' consumption combined. Overproduction was an ever present possibility.

However, if this can explain why the system was prone to crisis, it cannot explain why the crisis did not break sooner, say with the little dip of 1985–6 or with the stock exchange crash of 1987. The boom rather than the slump becomes a problem for the analysis.

Unproductive consumption and the crisis

> To come to terms with this problem, something else has to be looked at as well as productive investment and workers' consumption: the range of non-productive expenditures by the capitalist class. The luxury consumption of the capitalists themselves falls into this category. It absorbs the products of the system without creating any fresh ones. So does the consumption of those who provide a range of services for the capitalists – their servants, their lawyers and private doctors, their security guards and, through the state, their military and police establishments.

On top of this, there is also expenditure by capitalists (both individual and corporate) on trying to increase their share of markets and profits at the expense of other capitalists – for instance, through advertising and sales promotion, speculation in property development and on the stock market, the borrowing and lending of money. These 'non-productive' expenditures

always exist. But many of them tend to be overshadowed by productive expenditures when the system is booming. At such times capitalists find it easy to make and realise profits on whatever their plants produce. They are not driven to enormous non-productive expenditures in order to survive.

But the picture changes when the boom begins to falter. Increased advertising and sales expenditures become essential to any capitalist who wants to beat competitors. The lure of speculative profits is all the greater when profits from direct production are under threat. And psychological factors can push up the luxury consumption of the capitalist class. Conspicuous consumption becomes the norm in an 'eat, drink and be merry for tomorrow we die' atmosphere. The same crisis which reduces the level of productive investment can increase non-productive expenditures, and these can provide a boost to the flagging demand for the output of industry.

Grossman noted the relation between the crisis in productive industry and the growth of speculation shortly before the Wall Street Crash in the 1920s:

> *... Over-accumulated capital faces a shortage of investment possibilities ... The superfluous and idle capital can ward off the complete collapse of profitability only through the export of capital or through employment on the stock exchange ... Thus in the depression of 1925–6 money poured into the stock exchange ... The fever of speculation is only a measure of the shortage of productive investment outlets ...* [80]

Writing after the crash and the slump which followed it, Lewis Corey stressed how such unproductive expenditure had succeeded in prolonging the boom during the 'Roaring Twenties', only to make the eventual crash even more severe. [81]

Such unproductive expenditure played a similar role in the 1980s. The decade saw a burgeoning of military, advertising, sales, speculative and luxury expenditures, which reached their

peak in 1987–9. Particularly after the incipient economic downturn of 1985–6, funds poured into property, business services and the stock exchange, looking for profits which could not be obtained through productive investment. At the same time, the British and American governments gave a huge boost to the incomes of the very rich and a smaller boost to the spending of the middle classes through tax cuts, encouragement to firms to pay larger top salaries, deregulation of finance and 'give away' privatisation share prices. 'In 1980s the chief executive officers of the three hundred largest American companies had incomes 29 times higher than that of the average manufacturing worker. Ten years later the incomes of the top executives were 93 times greater.' [82] In Britain the rate of growth of company directors' incomes was 20 percent a year throughout the 1980s [83]; dividend payments of the largest 1,400 companies rose 20.4 percent in 1988, 33.9 percent in 1989 and 20.3 percent in 1990; [84] real manufacturing dividends were 73 percent higher in 1989 than ten years earlier, while 'the total real wage bill was nearly 5 percent lower'. [85]

Unproductive expenditure by companies and huge handouts to the rich did provide markets for productive firms like those making luxury cars or supplying the construction industry. They also created jobs for non-productive employees – market makers, lawyers, estate agents, bank employees, advertising executives, and so on – who in turn increased demand for other industries. Huge amounts of wealth were created in these years, despite the slow tempo of accumulation. But it was a form of wealth creation that could only be self-sustaining up to a point. It was parasitic off the profits generated in productive industry, recycling them in a frenzy of greed and gluttony. And if these profits started to dip seriously, the whole edifice of business speculation and luxury production would come tumbling down.

Accumulation, exploitation, productivity and profits

> Accumulation in productive industry was slow. But some did take place, causing investment per worker slowly to rise. The ratio of means and materials of production to the workforce in US productive industry [86] grew by 2.37 percent a year in 1977–87 – a substantial amount, even if less than the 3.47 percent a year in the previous decade [87]; in Britain 'the working population tends to be static, while the stock of capital grows ... The capital stock was rising at 4 percent a year in 1970, decelerating to 2 percent a year' in the mid-1980s. [88]

In the early 1980s the rise in the rate of exploitation had been sufficient to compensate for this growth in the ratio of investment to workers. But in the late 1980s this was less and less so. The growth in manufacturing productivity remained below the level for the years 1983–4 [89] – for 'all industrial countries' output per man hour grew 5.1 percent in 1983 and 5.4 percent in 1984, but only 3.3 percent in 1987, 4.6 percent in 1988 and 3.6 percent in 1989. What is more, by 1988–9 employers everywhere were finding it difficult to hold back wages as unemployment fell from its previous heights. Statistics show general wage rates and unit labour costs accelerating in most industrial countries in 1987–8 – especially in the US and Britain. [90]

Yet the total investment to be financed out of profits continued to grow. Even after the stock exchange crash of October 1987 the frenzy of investment for non-productive consumption continued. In Britain, for instance, construction of London's biggest office project, Canary Wharf, did not actually start until November 1987, while the assets of one of Britain's biggest property developers, Rosehaugh, rose sharply in both 1988 and 1989. [91]

And Britain was by no means unique: similar phenomena could be witnessed right across the world, with office blocks continuing to spring up in Tokyo, Toronto, New York and even Lahore. What is more, the rise in general business investment was accompanied in the last couple of years of the boom by an upward surge in manufacturing investment in most of the major industrial countries.

Eventually a point was bound to come when businesses discovered the total mass of profits was no longer high enough to maintain profitability on their expanding investments. In the US this turning point came late in 1989. ‘Profits are in for a rough ride. Earnings unexpectedly sank 22 percent in the third quarter’, reported **Business Week** for the US economy late in 1989. [92] It blamed ‘rising wages’, with ‘unit labour costs up 5.5 percent ... double the average increases for the last five years’ and increased interest payments as a result of the merger boom.

In Britain, ‘predictions’ at the beginning of 1990 that profits ‘would march ahead at 10 percent or so’ were replaced in September by the realisation that they would fall. [93] In fact, the pre-tax profits of non-North Sea oil companies fell from just over 10 percent in mid-1988 to just over 6 percent in mid-1990. [94]

The recession

The fall in profits fed a vicious circle. It forced firms to borrow more to finance half finished investments. But it also reduced the flow of the funds into the banking system. Interest rates continued to rise, further cutting into profits and forcing firms to borrow even more: between 1987 and 1991 average bank borrowing by British firms more than doubled. [95] Inevitably some firms

> found they did not have the cash to pay their bills and went bust. Banks could not get the money they had lent back and their balance sheets suffered. Desperate to avoid further losses, they cut back on their lending to other firms. By March 1990 there was already talk in the US of a ‘credit crunch’ which could ‘pose an unanticipated threat to a weak American economy and push the US into recession’. [96]

In fact by late 1990 the recession was well under way in the US and Britain – although the British government still claimed it would be a ‘growth recession’. By the turn of the year there was no hiding the reality. In Britain a series of newspaper headlines hammered home the hard truth. ‘Concern grows in the City and on the High Street that the slump may just be beginning and worse is to come’, said the **Observer**. [97] ‘Investment fall points to deeper recession’, warned the **Financial Times** [98], and later, ‘Hard year for all, painful for many’. [99]

At first the companies which were worst hit by the recession were those most associated with the 1980s boom in non-productive expenditures, particularly property companies. The moment the boom began to slow it became clear that the speculative frenzy had sent the property market to completely unrealistic heights. The **Economist** could warn in October 1989 that there was already 10 percent over-capacity in office space in the City of London, with some 35 million square feet due to come on the market between 1990 and 1992, and that ‘with loans outstanding of nearly £27 billion to developers, bankers are beginning to sweat.’ [100] Yet it could add that, ‘in spite of the gloom, talk of a crash on the scale of the one in 1973–4 is pooh-poohed’. Three years later major property firms like Olympia and York (builder of Canary Wharf), Rosehaugh (co-builder of the Broadgate development and prospective builder of the Kings

Cross development) and Heron had all gone bust, while a big question mark hung over other companies like Stanhope.

In the US the slump in the property market deepened the crisis of those who had lent to it – especially the Savings and Loans and the banks in regions like New England. In Britain the major domestic banks may not have gone bust, but the collapse cost them many hundreds of millions.

The problems of the property market and the banks hit firms in the productive sector of the economy – just as their own investments were paying diminishing returns. Some were tied into the property markets and banking themselves. Many turned to the banks to ease their cash flow problems just as the banks cut back on credit. All lost markets as the crisis of those who catered for the non-productive sector cut the general demand for goods. In Britain a host of firms that had risen to prominence in the Thatcher era went crashing down – Colorol, British and Commonwealth, Polly Peck, Maxwell Communications Corporation, Dan Air. Others survived by the skin of their teeth: Rupert Murdoch's News International, for instance, whose sheer size was enough to scare an international coterie of banks from calling in their loans. In the US giants like Ford squealed, General Motors and IBM made the biggest losses ever known to manufacturing companies, and Pan Am went bust.

Deregulation and crisis

Once the recession was well under way those who had never predicted it hastened to put the blame on the governmental policies of two or three years earlier. If only governments had not put money into the financial system after the stock exchange crash of October 1987, they claimed, the property and lending boom would not have

> got out of hand and there would have been a soft landing in 1988 or 1989. More sophisticated analyses pointed the finger at the wave of financial deregulation in the early and mid-1980s. It was not that government deliberately allowed credit or the money supply to get out of hand. Rather, they had abandoned the mechanisms which once allowed them to control these things even as they espoused monetarist doctrine which gave a central place to such control.

But these arguments forgot – and still forget – two things. Firstly, the boom in speculation, non-productive services and luxury output throughout the 1980s, and the credit to finance it, was the only way the system could compensate for the failure of investment in the productive sector of the economy. Without the credit explosion apologists for the system would not have been able to claim in 1986 and 1988 that it had emerged gloriously from crisis. The period of economic recovery would probably have ended when it was barely three years old, at the time of the industrial downturn of 1984–5. Certainly, recovery would not have continued after the stock exchange crash of 1987.

In other words, the very factor that adds to the crippling overhang on the system now was responsible for the prolongation of the boom so extolled only four or five years ago. Without it the 'new right' would long ago have lost intellectual credibility and millions of words about 'post-Fordism', 'post-Marxism' and 'postmodernism' could hardly have been written. The fault was not with individual acts of government policy, but with a system which could not deliver the profit rates it needed to sustain itself.

Secondly, deregulation was a reflection of a more far reaching change taking place in the system – the internationalisation of production and finance as well as trade. For a long period, from the early 1930s through the early 1970s, governments had been

able to exert a degree of control over the financial system because production was still very much nationally based. But the picture began to change as firms began to co-ordinate research, innovation and production across national frontiers and to scour the world for the means to finance fresh investment. With the crisis of 1974–6 many national governments discovered the hard way that national state intervention was no longer effective. Others tried to delay the reckoning in these years by borrowing internationally to keep their economies expanding, only to come down with an enormous bump with the crisis of the early 1980s. By the late 1980s even the most state regulated economies – those of China, the former USSR and Eastern Europe – were opting to replace controls over the flow of capital by enticements to capital to flow in their direction. And part of the enticement was to promise to regulate the behaviour of individual capitalists as little as possible. [101]

Deregulation and globalisation were a reflection of trends taking place inside capitalism which contradicted the continued dependence of the individual units of the system, capitals, upon nationally based states to protect their interests and police their interactions. The system required regulating if it was not to go completely haywire, but its development had made regulation much more difficult and contradictory than previously.

During the boom the new right economists claimed deregulation was behind new 'economic miracles' – as they still do with China and to a lesser extent India and a handful of Latin American countries. Since the collapse of the boom the remaining Keynesians have blamed deregulation for allowing it to get out of hand. What both fail to see is that changes within the very fabric of the system mean national states can no longer be effective in trying to stop either speculative booms or recessions getting out of hand. Monetarist and Keynesian methods are equally doomed by the system they attempt to keep running.

Delayed recession I: Germany

> By late 1990 recession was already well under way in the US and Britain. But Japan and Germany were still booming, with growth rates of more than 4.5 percent. [102] The contrast between their continuing confident growth and the pessimism in the 'Anglo-Saxon' economies led to a lot of speculation by economic journalists about the superiority of their alleged 'social market' or 'social capitalist' economic models over the free market, 'Thatcherite' model preferred in the US and Britain. [103] But despite the delay in the onset of recession, the factors working towards crisis elsewhere were also present in these economies.

The West German economy was easily the biggest in Europe, producing nearly two fifths of European Community manufacturing output. This often led people to speak of it as a 'superpower' – especially after the fall of the Berlin Wall in 1989 – and to assume it was doing much better than the other European states through the 1980s. But Germany by itself was not in the same league as the US economy, which was four times its size, or even the Japanese, twice its size. And its rate of growth over an 18 year period was actually a little slower than that of the US and the other continental EC states, and much slower than Japan's. [104] Between 1979 and 1986 its share of world non-oil exports was lower than in the early 1970s [105] (while the Japanese share had grown about 50 percent), and its share of European Community manufacturing output was lower in 1985 than in 1970. [106] As William Keegan has noted:

> *The West German economy had not grown noticeably fast in the 1980s. Indeed, in international forums such as the OECD and the G7, the West Germans often came under assault from other countries for apparently being perfectly content with export led*

> *growth and for not going out of their way to stimulate the domestic economy. There were several years in which domestic demand hardly grew at all in West Germany.* [107]
>
> So Germany's real manufacturing market only grew by 9.1 percent between 1970 and 1985, while those of France and Italy grew by 33.7 percent. [108] An excess of exports over imports meant a German balance of payments surplus approaching $50 billion by 1986. This kept the international value of the deutschmark high and, together with relatively low inflation, earnt the admiration of many establishment economic commentators in other countries.

But the slow growth rate also brought about a deepening sense of malaise throughout society. There was a small increase in the level of class struggle (for instance with the metal workers' struggle for a shorter working week in the mid-1980s) and some talk in journalistic quarters of Germany catching 'the British disease' of increasing demands on a relatively stagnant economy. [109]

The German government did take action to boost growth after 1985, with a deficit on government spending of about 2 percent of GNP by 1988. This, combined with the renewed speculative boom in the US and elsewhere, led to a surge in German output, with a growth rate nearly twice that of two years earlier. But by mid-1989 the burst of growth was beginning to exhaust itself, prices were rising (although from a virtually nil inflation rate to 3 percent, which would have been regarded as low anywhere else), labour costs in manufacturing were up by over 4 percent, and the Bundesbank was seeking to 'cool down' the economy by doubling interest rates. But then came the collapse of the East German regime.

Chancellor Kohl pushed first for economic and monetary union and then for full political unification precisely because he saw it as a way out of the growing impasse of economic and

political life in West Germany. In doing so he gave a new lease of life to economic expansion in west Germany. Its firms had no difficulty in taking markets from east German industries, driving the majority out of business. West German economic growth was even higher in 1990 and 1991 than it had been in 1988 and 1989. For the first time for two decades it was the locomotive of Western Europe. It pulled other economies behind it as its boom provided export markets for its neighbours, until in 1991 its large current account balance of payments surplus became a deficit.

But there was a very high price to be paid for this change. The goods which east Germans bought from west German firms had to be paid for – and the collapse of east German industry left the German government paying the bill. After balancing its budget in order to cool down the 1988–9 economic expansion, the German government was now spending much more than it got in tax income: its deficit was expected to reach 6.5 percent in 1992. [110] Authorities which had been worried by a 3 percent inflation rate in 1989 were faced with one of 4.8 percent in March 1992. [111] They reacted desperately: the Bundesbank forced up interest rates and the government imposed a special 'unity tax' aimed at cutting living standards in the west. Eventually the boom began, in mid-1992, to turn into a recession. Industrial output fell 3 percent compared with the year before and unemployment rose by a tenth. [112]

Commentators often blame Germany's current economic problems on Kohl's haste for unity in 1989–90. But this is to forget that an important reason for Kohl's rush was that the first symptoms of crisis were already present then. After slow growth through the 1980s West Germany would have entered a phase of stagnation, if not recession, had Kohl acted otherwise. The German economics minister, Juergen Moellemann, admitted in December 1992 that 'the economy was initially shielded from the downturn throughout Europe by the post-unification boom'. [113]

That boom, in fact, played very much the same role as the speculative booms of the late 1980s in the US and Britain – it postponed the moment of truth for a weakly based phase of economic recovery, only to make the eventual collapse into recession even more severe. And, as in the US and Britain, the root of the weakness lay in the fundamentals of the economy. The rate of profit had never fully recovered after the crises of the mid-1970s and early 1980s, rising slowly to just above the level of 1975–9. [114] This was sufficient to sustain a slow rate of accumulation through the 1980s; the moment faster accumulation was attempted, inflationary pressures and increased borrowing turned the boom into a slump.

Delayed recession II: Japan

> Japan's economy seemed able to resist the global pressures to recession in 1989 and 1990 even more than Germany. It had maintained a momentum of growth, continuing from 1976, with reduced growth rather than a real recession in 1980–1 and an average growth rate of 4.2 percent for 1980–9 (as against 2.7 percent for the US and 1.9 percent for Germany). [115] Then in 1989–90 its growth rate soared, touching an annual rate of 7 percent in the spring of 1990, as the US was going into recession. Even after a fall of the Nikkei stock exchange index by half early in 1990 established opinion was that the economy remained 'buoyant' [116] and the head of the Bank of Japan was more worried about inflation than recession. [117]

The growth, however, hid deep deficiencies. The rate of profit only recovered slowly through the 1980s (from a low of about 14

percent in 1982 to about 16 percent in 1988), so that at the end of the decade it was still considerably lower than in the 1960s and 1970s. [118] And even these relatively low profit rates required a very high rate of exploitation of the workforce. The average Japanese employee worked 200 hours a year more than his or her equivalent in Britain, while the proportion of GNP going to personal consumption, 54 percent, was said to be 'the lowest level among OECD countries' [119] The economy kept expanding because investment continued despite the low profit rate: 'Business investment has been the real motor of the economy – accounting for more than 50 percent of economic growth since the end of 1986'. [120]

The rate of accumulation was down from the figure of the 1960s and early 1970s. But it remained higher than in the other advanced countries – about twice the figure for the US. [121] Part of the explanation for this no doubt lies with the element of conscious intervention by the authorities in the economy which is highlighted by those who talk of 'social capitalism'. The state had played a key role in the reconstruction of Japanese capitalism after the Second World War, with the Ministry of Trade and Industry encouraging certain sections of the economy and discouraging others. By the 1980s this control was less than it used to be, but co-operation, both formal and informal, between the heads of the ministries, the banks and the big industrial conglomerates continued to provide a degree of national guidance to the economy. In particular, this ensured a continual rise in capital investment through these years despite a relatively low rate of profit.

What is more, cross shareholdings and links between big industrial firms and the banks made hostile takeover bids very rare. Firms were more concerned with increasing their long term market share through rapid accumulation and innovation than with short term profit rates or share prices. [122] Providing there was an increasing mass of profit there would be investment, even if the profit rate was low. But what theories of 'social capitalism'

ignore is that it was not just, or even mainly, the high level of investment which kept Japan's economy expanding through the 1980s. Exports, especially exports to the US, played the central role. Japan's trade surplus rose from around zero in 1980–1 to around $80 billion in 1985–7, while the US deficit worsened from $40 billion dollars to around $140 billion.

Effectively, what was happening was that the expansion of the US economy – to a large extent a product of rising arms spending – provided an incentive for Japanese firms to invest heavily at home (and increasingly in the US as well), despite stagnant profitability, in order to increase their competitiveness and profit shares in US markets. But this was bound to lead to enormous problems once the US economy began to falter. The question then was, could Japanese business and the Japanese state create conditions for domestically led growth?

In the mid-1980s there was already American pressure on Japan to do something to reduce its trade surplus – and with it the US deficit – by expanding the domestic economy and importing more. As the **Financial Times** said in 1986, 'Hardly a week goes by without new pressure being put on the government to re-orient the economy towards domestic demand, with a new emphasis on improving the country's poor housing and infrastructure'. [123] The result was that:

> *In an attempt to avoid stagnation by strengthening domestic demand, the state began to relax its fiscal and monetary policy. The tax system was overhauled in order to boost private consumption. The official discount rate went down to 2.5 percent in 1987, stayed at the that level for two years and severely cut the cost of borrowing money.* [124]

This did not do away with the surplus, even if this stabilised in 1988 and fell by about a quarter in 1989. But it did bring about a boom in the stock exchange and in property rather similar to that in the US and Britain. And the Japanese speculative boom was hardly affected by the

stock exchange crash of 1987, continuing right through to the spring of 1990. By this time the Nikkei was more than three times higher than six years before. The speculative boom fed off itself. Rising property and share values allowed the nominal asset value of the banks to rise, which then enabled them to lend more for speculation in the stock exchange and the property markets.

The speculative boom, as in the US and Britain, fed through into the real economy. But it also created a climate in which firms expected to make easy money, even when their own balance sheets should have made them more cautious:

Many companies had recognised in the mid-1980s ... that profits were in long term decline and restructuring was necessary. But the easy money years of the late 1980s inspired unwise expansion of domestic production capacity and a rapid increase in staff ... [125]

As in Britain companies could easily disguise the resulting weakness in real profitability. 'In studying corporate profitability from the mid- 1960s, Wako Research Institute found that in the late 1980s frustrated companies turned to financial engineering.' [126]

In this atmosphere of unrealistic confidence and fake figures, 'business investment' boomed even more, becoming 'the driving force in the economy's growth, having taken over from the public pump priming as recovery gained pace'. At the beginning of 1990 'most forecasters were looking for an 8 or 9 percent rise in corporate capital spending by all industries, after a 19.4 percent surge last year.' [127] Even after the stock market fell sharply a couple of months later, it was still possible for a **Financial Times** writer to conclude, 'Whatever happens, it is difficult to foresee anything taking place that will throw the Japanese economy seriously off course in the near future.' [128]

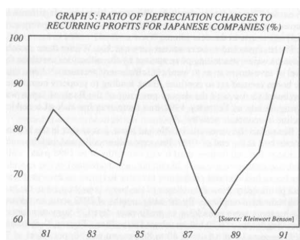
The analysis had to be rewritten very quickly. Within three months the same writer was telling of an attempt by the authorities to reduce the level of investment so as to ward off inflationary pressures. [129] For a time the boom seemed set to continue. Bank lending to property companies continued to rise, and the deputy governor of the Bank of Japan was saying as late as February 1992 that there was 'no risk of a sudden decline in economic activity'. [130]

But in fact the economic bubble had burst, just as that in the US and Britain had at the end of 1989. Property values collapsed and the stock exchange fell still further, until it was two fifths of its 1989 peak, while bank bad debts rose to over Y20,000 billion (£80 billion). [131] The speculative boom had allowed productive industry to ignore its own problems with profitability. Now the collapse of the boom brought these to the fore with redoubled emphasis. By the early months of 1992 some sections of big business were panicking as profit rates dived. [132] Sony announced operating losses of Y20 billion (about £80 million), Fujitsu, Toshiba and NEC expected profit falls of 40 to 80 percent and Nippon Steel of 75 percent. [133] The very high levels of investment of the late 1980s now meant very high levels of depreciation which ate into profits, as graph 5 shows.

The authorities continued to insist everything was basically healthy right into July 1992 [134], but industrial output was already down in May by a massivc 8.7 percent. Inventories of unsold goods continued to rise [135], while sales of electrical goods had sunk 11.6 percent [136] and car sales 6.2 percent by the late summer. [137] By the end of 1992 the average rate of return in manufacturing had fallen to 5 percent, compared with 9 percent three years before, and the biggest firms were slashing investment by 20 to 40 percent [138] – further deepening the crisis for their suppliers.

This was a real recession, not just a growth recession. And it occurred despite the fact that the Japanese economy continued to be export led. For the measures to curb the trade balance had

not worked. The current account surplus was greater by this time than ever before. [139] The 'social capitalist' model was no better at preventing crisis than the 'market capitalist' model of the US and Britain. At most it was a way for Japanese capitalists to concentrate their efforts and to conquer the markets of other countries. So long as the system internationally was expanding, Japanese capitalists were able to undertake relatively high levels of investment and focus them in key industries, without being held back by short term worries about profit rates.



But once the world system began to contract, the low level of the rate of profit hit Japanese industry with a vengeance and forced it into recession. Some industrialists even began to wish they had shared the Western obsession with short-term profits: 'companies which traditionally thought in terms of market share are looking again at the bottom line'. [140] Just as pro-capitalist critics of British and American economic policies often looked at Japan as the model to follow if slump was to be avoided, pro-capitalist critics of Japanese policies often claimed the collapse had occurred because Japan had not followed the British and American road. [141] They all failed to see that the conditions that created the crisis were built into the inner structure of capitalism, regardless of its particular organisational forms.

The character of the crisis

> There is an argument to be heard on both the right and the left that the crisis of the early 1990s has not been that serious, that it has simply been a crisis of 'restructuring' which will lead to a new phase of expansion. This, essentially, is the argument of people like Tory chancellor Lamont and ex-chancellor Lawson. They argue that capitalism always goes through a cycle, and that recession is simply an interruption in growth. One version of this argument is put by Samuel Brittan of the **Financial Times**: 'Nothing that has so far happened is anything like the Great Depression ... Despite all the elements of financial unease, the growth slowdown so far is of the same order as the early 1980s ...' [142]

The argument may be a retreat from the 1960s apologists for capitalism who argued that recessions were a thing of the past, but it still provides leeway for some faith in the system. Similar arguments are to be heard from the reformist left. Crises, they interpret Marx as saying, are the way in which capitalism restructures itself to enter a new phase of accumulation. This may mean that any notion of a crisis-free capitalism is misplaced, but it also means that any thought of the system entering into a phase of long term crisis, let alone collapse, is mistaken. Thus Meghnad Desai, professor of economics at the London School of Economics and adviser to Labour Party leader John Smith, argues:

> *Socialists misunderstood the dynamics of capitalism and went on predicting its imminent demise. But a century after the deaths of Marx and Engels it continues constantly reproducing itself. The old Fordist technology of mass production gets booted out, new flexible methods come in.* [143]

> In the 1980s there could be a ‘resurgence of capitalism’ because it had ‘reconstituted itself through its crisis in the 1970s as a global system.’ [144]

This has created problems for governments which wanted to control the system in the interests of their populations through their nation states: they are ‘no longer able to exercise autonomous control over capital’. [145] But it also rules out any notion of socialist revolution, since this, according to Desai, depends on a theory of the rundown of capitalism and this is not happening. [146]

However, the crises of the mid-1970s and early 1980s did not lead to an automatic resurgence of capital accumulation. As we have seen, the recovery of accumulation depended on the actions of the state – particularly the soaring arms budget in the US. But that is not all. The resulting growth rates were much smaller than those that preceded the crisis of the mid-1970s:

Average Rate of Growth of Real GDP per Person Employed

	1960–68	*1968–73*	*1973–79*	*1979–88*
US	*2.6*	*1.0*	*0.0*	*0.9*
Japan	*8.8*	*7.3*	*2.9*	*3.1*
W. Germany	*4.2*	*4.1*	*2.9*	*1.9*
France	*4.9*	*4.7*	*2.7*	*2.4*
UK	*2.7*	*3.0*	*1.3*	*2.6*
Italy	*6.3*	*4.9*	*1.7*	*1.6*

> In the 1980s all the economies grew at half the rate of the 1960s, apart from Britain (whose 1980s growth rate, boosted by North Sea oil, still did not match that of the other advanced countries in the 1960s). As John Cornwall

> has put it: ‘Following approximately two decades of unprecedented growth of outputs, productivity and world trade, and low rates of unemployment and inflation, the performance of the advanced capitalist economies worsened almost everywhere in the early 1970s.’ [147]

The factual evidence points to one very clear conclusion: the recessions of the mid-1970s and early 1980s did not restructure capitalism in such a way as to restore the system’s previous dynamism. It is not difficult to see why.

Restructuring is not mainly a question of reorganising material production – the rationalising of industries, the closing of some factories and the opening of others, the introduction of new production techniques. Rather it is about a reorganising of the relations between the competing units of capital so as to increase the profits of some at the expense of the others. Then, within a section of the system at least, the rate of profit can rise until it is high enough for new, expanded investment to take place.

So, under the model of classical capitalism as presented by Marx, the recession itself, by forcing some capitals out of business, enabled others to increase their profits – by buying up raw materials and machinery on the cheap, and by forcing workers to accept lower wages. All in all, the fortunate capitalists would see the cost of new investment falling, without, however, suffering a devaluation in their own accumulated stocks of capital. But this depended on the unfortunate capitalists going bust and their capitals being written off.

But, as we saw earlier, present day capitalism differs from Marx’s model in a number of ways. The very process of centralisation and concentration of capital he described has led to the growing domination of the system by a few very large units. If one of these giants goes out of business the effect is not automatically to help other sections of big business. Any gain

through reduced costs of raw materials, machinery and labour can be more than countered by the immediate loss of the markets it provided. For this reason, giant bankruptcies are generally feared by those who dominate the system today. And since the 1930s governments and banks have usually done their best to prop up big firms that are on the verge of going to the wall – as the Carter and Reagan administrations did with Chrysler in the early 1980s, and as the Bush administration did with the Savings and Loans.

Such action does ease the situation for both the individual lossmaking firms and their profitable suppliers. Today, for instance, Chrysler is the most profitable (although also the smallest) of the 'big three' US auto companies. But the costs of such recovery, in being borne by the state, are passed onto the rest of the system. Thus the $300 billion Savings and Loans rescue is contributing mightily to the US budget deficit, and the government can only finance this by taking one of three options that increase the burden on the rest of US capitalism: an increase in taxes, an increase in government borrowing, or the printing of money and the risk of inflation. Meanwhile, precisely because firms have not gone bankrupt, other capitals have not benefited from cheaper machinery, raw materials and labour. By such government action, the scale of the recession is reduced, but so is the extent of the restoration of profitability in the system as whole.

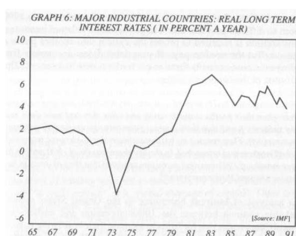
There have been more outright bankruptcies in the early 1990s than there were in the recessions of the mid-1970s or the early 1980s – at least in the US and Britain. [148] The Savings and Loans may have been propped up, but a number of big firms on both sides of the Atlantic have gone to the wall – Pan Am, BCCI, Polly Peck, Maxwell Communications Corporation, and a host of slightly smaller concerns.

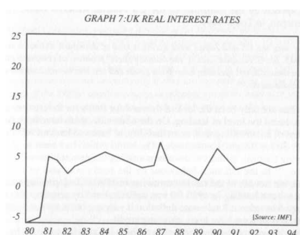
However, that is not the end of the matter. Even outright bankruptcy does not have the positive impact on the rest of the system it once had. There is an interpenetration of finance and

industrial capital, with the bigfinancial institutions holding direct shareholdings in major industrial firms and accepting other equity as colateral for loans. So when one of these major firms goes bust other firms lose out: banks who have ended up picking up the tabs for the collapse of the Maxwell empire, of Olympia and York, and of much of the Japanese property market. When individual shareholders (or, in the Maxwell case, individual pensioners) suffer, this is advantageous to the system as a whole, enabling it to prosper as the shareholders and their capital are written off. But when the giant financial institutions suffer, the situation is very different. The losses incurred are those of functioning capitals, not of wiped out capitals, and so serve to reduce profitability through the system as a whole, intensifying, not alleviating, its tendency towards crisis. The clearest sign of this is the continuing high level of long term interest rates nearly three years after the recession began. As graphs 6 and 7 show, these are generally twice as high as in the 1960s and in the recession of the early 1980s. In Britain the figure of about 4 percent for late 1992 contrasts with the 1980 level of minus 4 percent. It is hardly surprising 'recovery' has been so difficult.

But the problem for capitalists has not only been the cost of credit. It has also been difficult to get credit at all. The effect of the 1990–2 wave of bankruptcies in the US, Britain and Japan was to increase the costs to the banks of a growing amount of non-recoverable debt, of nonperforming (i.e. non-interest paying) debt, and of property now worth much less than the figures listed in the banks' books. The banks responded by being much more careful about making further loans and by putting a tighter squeeze on other, profitable, customers. British banks, for instance, widened the margins between the rates at which they borrowed and the rates at which they lent. Japanese banks called in debts from firms which they knew were able to pay while allowing leeway to those closest to going bust.

Overall, recessions do not succeed nearly as well as they once did in clearing the ground for subsequent expansion. This was true of recessions of the mid-1970s and early 1980s. It has been doubly true of the recession of the early 1990s. For it followed the huge upsurge of credit to finance the property markets, construction, stock exchange speculation and luxury consumption in the mid to late 1980s internationally – in the US, Britain, Japan, Korea, Scandinavia and elsewhere. [149] Now the cost of this upsurge adds considerably to difficulties in restoring profitability throughout the system.





A credit crunch?

The usual account of why recovery from the recession of the early 1990s has been so difficult goes like this: a large expansion either of investment or consumption is required to propel the system into another phase of expansion. But the need to pay off past debts deters consumers from spending more and compels firms to cut

back on new investment. Thus Will Hutton of the **Guardian** writes:

British companies had borrowed to invest, pay dividends and take each other over; when their profits stopped rising and after they had paid their taxes they suddenly found that their interest payments represented 40 percent of what was left. They reacted as business always does – they cut investment, laid off workers and retrenched. In the last three months of 1990 and the first three months of 1991 business managers reported that the fall away in business was beyond their experience. [150]

An analysis of business borrowing in the United States shows a remarkable contrast between the 1990s recession and earlier ones. Previously the pattern was for firms to increase their borrowing in recessions: total bank loans rose by 12.2 percent in 1973, by 3.5 percent in 1980 and 5.4 percent in 1981. But in 1990 total loans *fell* by 3.6 percent. The fall was even greater with 'commercial industrial loans'. [151] A report of a speech by the chairman of the US Federal Reserve Bank, Alan Greenspan, in Tokyo says:

He said the US and Japan were facing a kind of downturn unknown since 1945. Mr Greenspan calls it 'the balance sheet' problem as companies and consumers divert spending away from goods and services to reduce debts and rebuild assets. [152]

It has not only been the lack of demand for funds for investment that has reduced the level of lending. On the other side, there have been indications of an unwillingness, or an inability, of banks to lend on sufficient scale. So for Britain, Hutton says, 'The banks which had been so freely offering finance, withdrew it – compounding the general loss of confidence.' [153] In the

US such behaviour by the banks was said to explain some, but not all, of the fall in borrowing in 1990. [154] In Japan 'up to half of new bank lending in 1985–90 was collateralised by property that has slumped in value ... Real estate deflation is sapping business confidence. Unnerved bankers have been trimming credit ...' [155]

But it is not only domestic lending which is expected to be hit by the Japanese property crash. In the 1980s Japan became one of the major suppliers of finance internationally, using the surplus on its trade to embark on a surge of investments, particularly in East Asia, the US and, to a lesser extent, Britain. In the early 1990s the trend has been the other way, for Japanese banks and industrial companies to cut back on overseas investment:

For the first time since 1980 Japanese investors have reduced their international portfolios. And the flow of Japanese direct investment has been sharply curtailed ... The decline in gross international banking activity last year (in 1991) was fully accounted for by a 9 percent contraction in Japanese banks' balance sheets. [156]

Japan has not been alone in reducing its international lending as the recession has developed. There has been an enormous contraction in the net overseas investment of British firms and banks as they have brought funds home to repair their own balance sheets. Such downward pressures on the level of lending have led to much talk by pro-capitalist commentators of 'a credit crunch', or a 'global shortage of capital'. There are not the funds available, it is said, to restore the world to the condition of the 1980s, let alone the 1950s and 1960s. The cause of this shortage of funds is supposed to be a shortage of savings – particularly in the US and Britain, where under 20

percent of GDP has gone into total savings, as against about 25 percent in France, Germany and Italy, and nearly 35 percent in Japan. [157]

Michael Camdessus, managing director of the International Monetary Fund, warns privately that the 1990s could be a depressed decade ... He pointed to what could be the economic disease of the 1990s – a potentially devastating shortage of savings: industrial countries will have to increase their fixed business investments dramatically if they are to come close to the growth rates of the 1980s; simultaneously, developing countries must also sharply increase their investment rates. On top of this will come the huge needs of east and central Europe and Russia.

> *'Will there be enough saving to finance all this investment? Not unless there is concerted action by industrial countries to rescue fiscal deficits and improve public saving', says Mr Camdessus.* [158]

But this begs the question. In most of the advanced countries (including much of eastern Europe and the former USSR) there is a great shortage of past saving that has been converted into physical investments. In country after country there is 'over-investment' compared with the present level of the market. Car plants, steel mills, refineries, stand idle because no one will buy their goods. There is no physical shortage of the means to produce more wealth. Why cannot empty plant and unemployed workers be put together to provide a massive new output of use values, making possible a new surge of worldwide growth?

The problem is that production today takes place under capitalism, and what concerns capitalists of all sorts – industrial and financial, 'private' and state – is not the possibility of an increased output of use values, but an increase in the level of exchange value flowing to them as profit. If industrialists

thought they were guaranteed a high rate of profit, they would restore production to its old level and then expand it, knowing that they would easily be able to repay any short term loans in the near future. Similarly, if bankers thought industrial profitability was high enough to guarantee repayment of new loans with interest, they would readily make them, even if they increased the banks' ratio of loans to assets. As one banker told the **Financial Times**, 'It is not the availability of money that is the problem but good opportunities to spend it.' [159]

The argument about a 'credit crunch' leads us straight back to the question of the rate of profit. Saving in a capitalist economy is essentially the saving of the capitalist class, their companies, and their hangers-on [160] – something even the Keynesians recognise when they point out that the 'propensity to consume' of the poor is greater than that of the rich. If the rate of profit is low, then the proportion of saving in the national economy will, one year taken with another, be low. Yet, when capitalists invest, it is not the existing level of profitability or savings which determines the scale of those investments but the need to keep up with their rivals. And that means at least matching, and ideally exceeding, the pre-existing scale of investment. There is a contradiction between the high level of investments required by competitive pressures and the low level of extra surplus value to be obtained from that investment. As Marx put it in **Capital**:

> *The contradiction to be put in a very general way, consists in that the capitalist mode of production involves a tendency towards the absolute development of the productive forces, regardless of the value and the surplus value it contains ... while, on the other hand, its aim is to preserve the value of the existing capital and promote its self-expansion to the highest limit.* [161]

In the mid and late 1980s this contradiction worked itself out through an excess of investment over the funds available to sustain it. Even if the increase in productive investment was limited, there was a great pouring of

> investable funds into schemes to boost profits through speculation and grandiose property and other unproductive investments. The result, as we have seen, was an overloading of the whole system. The profit arising from productive investment had to be spread very thinly across the whole mass of productive and unproductive investments. [162]

Eventually a point was bound to be reached where if some investments were to be reasonably profitable others were bound to be unprofitable. Then surplus value from elsewhere in the system was absorbed in simply keeping these afloat. There was a fall not only in the rate of profit, but in the total mass of profit throughout the system.

There was, from a capitalist point of view, both an over-accumulation of old capital in the form of means of production, and a shortage of new capital in the form of liquid funds for a fresh round of accumulation. The 'credit crunch' was because those controlling surplus value were not prepared to lend it while conditions did not guarantee its self expansion. And this was because self expansion was choked off by the very scale of past investment. This is what pro-capitalist commentators are inadvertently recognising when they ponder over the question of savings. As one commentator puts it:

> *Both the US and Britain, according to conventional economic wisdom, have savings problems. But is their shared problem too much or too little saving? The answer, confusingly, is that both statements are true.*
>
> > *Both countries need a fall in household savings to fuel recovery. Yet the medium term economic performance of both countries has been hampered by too little national saving, not too much ... High saving countries have tended to invest a higher share of the national output.* [163]

Replace the 'saving' by the 'surplus value' (from which the great bulk of saving comes) and the issue becomes clear. At a time when the economy is depressed and little investment is taking place, an increase in the amount of surplus value extracted from workers can only further reduce demand and further deepen the recession. But if accumulation is to be resumed, there has to be an increase in the amount of surplus value and the rate of profit.

The whole discussion about the 'credit crunch' is an indication that the system has reached an impasse. It can only function if the forces of production move forward, with a new bout of accumulation. But its own motivating force, the drive to extract increased amounts of surplus value, prevents that occurring. As Henryk Grossman wrote in the late 1920s:

> *The opposition between capitalism and the forces of production is an opposition between value and use value, between the tendency to an unlimited production of use value and the production of values constrained by the limits of valorisation* [the self expansion of capital – *CH*] ...
>
> *The accumulation of use-values (which is simultaneously an accumulation of values) leads to a fall in the rate of profit, which in turn means the valorisation of the advanced capital is no longer possible at the given rate. This means a crisis.. .* [164]

Grossman's account goes on to say the crisis is eventually resolved by its own impact in driving individual capitalists out of business and devaluing their capital. But, as we have seen, this sort of reorganisation or restructuring of the system through crisis has become more difficult as capitalism has got older. Reorganisation takes places, but much of the cost of devaluing individual capitals falls onto the state and the financial system, becoming a burden for

> the whole system and an impediment to further accumulation.

Where is capitalism going?

> It would be wrong to rule out any recovery from crisis. There was some recovery from the crises of the mid-1970s and the early 1980s. There was even a temporary recovery of the American economy from the great slump of the 1930s in 1934–6, with a substantial, though shortlived fall in unemployment in key industries, before renewed recession set in through 1937–40. But any recovery today is likely to be narrowly based and shallow in the key productive sectors of the economy, gaining much of its impetus from short lived speculative surges in non-productive sectors.

The US economy has shown the problems built into any ‘recovery’. Late in 1992 growth suddenly shot up from an annual rate of 1 percent (not enough to make up for the contraction of 1990) to 3 percent. There was a media celebration of ‘the end of the recession’. Yet it was difficult to see how the growth in consumer spending that underlay the recovery could be sustained, for there had not been any substantial increase in jobs or in consumer incomes. As economic journalists noted, ‘for the first time since 1945 the US is experiencing jobless recovery’ [165], while real disposable income was barely any more than 18 months previously. [166]

In fact, the same commentators who enthused over the growth also enthused over a rapid increase in productivity (mostly brought about by computerisation in the ‘service industries’) which held down the rise in jobs and cut labour costs. Ed

McKelvey, senior economist with Goldman Sachs, summed up the dilemma for supporters of the system. ‘Productivity of the existing workforce is better than expected, which is good news for corporation profitability. But without extra workers, the recovery everyone expects in consumer spending is not on a very sound basis’. [167]

To achieve more national capitalist states would have relentlessly to pursue policies which not only involved much more vicious attacks on working class living standards and conditions than any have dared pursue over the last 18 years, but which also devalued or even destroyed the capital holdings of wide sections of the ruling class itself. Only this could allow some capitals to escape from the crisis at the expense of others. Hypothetically, there are two ways for states to try and bring about such changes.

One would be to follow policies designed to drive the recession into a deep 1930s type slump (with, for instance, a third of the population unemployed in major industrial economies, as was the case in Germany and the US in 1932). The state would put its faith in bankruptcy of a considerable number of very large firms clearing the way for others to restore their profitability, while creating conditions in which wages and welfare payments could be lowered massively.

The other option would be consciously to let inflation rip. This would enormously reduce the burden of debt on many firms, wipe out the savings of the middle classes, force down the living standards of those dependent on state benefits and of weakly organised groups of workers. As a result some sections of capital would gain sufficient windfall profits as to feel able to begin a new cycle of accumulation.

These two options are not mutually exclusive. For instance, after the First World War German capitalism followed a policy of inflation for four years, and then used a sharp recession to consolidate the gains it had brought to large capital. Again,

through the 1950s and 1960s, accumulation in Argentina proceeded through the alternation of hyper-inflation and slump, each playing its part in bringing about a long term reduction of about 50 percent in workers' living standards and a very high tempo of accumulation. [168]

However, both options present enormous difficulties for capitalist states in the 1990s. The slump option does not offer any automatic or quick way out of the crisis, for reasons outlined earlier – the sheer size and interdependence of individual of capitals. Even in the 1930s it took 11 years and the world's greatest ever war for American capitalism to fully recover from the crisis. Today, such is the degree of centralisation and concentration of capital, that any government which goes for the unadulterated slump option is risking an unprecedented scale of devastation to the economy. It is entering dangerous, unknown terrain, without even being certain there is a way out.

The inflation option is just as laden with problems. It could only work for a very short period of time if the national economy could be insulated to some degree from the rest of the world. Otherwise it would be likely to lead to a fall in exports and a rise in imports as domestic costs rose more rapidly than those of foreign competitors. And vast sums would move abroad to countries with higher real rates of interest. But the internationalisation of production makes it much more difficult to achieve any such insulation than three or four decades ago. Governments right across the world try to protect the markets of locally based firms by one means or another. [169] The US government repeatedly threatens punitive measures against the alleged dumping of micro-chips from Japan or steel from Europe. The European Community sets a limit on imports of Japanese cars. Japan relies on an array of informal business practices to keep out European and American manufacturing imports. But the interdependence of national economies makes governments afraid to go for full protectionism. World trade has

continued to expand through the three recessions of the last 20 years, while it contracted sharply in the 1930s.

At the same time, the growing internationalisation of the banking system has weakened the ability of governments to manipulate interest rates. Central banks can still influence short term rates. But they have much less influence over real long term rates, which tend to converge internationally: thus in the summer of 1992 US short term rates were six points lower than German ones, but the difference in yields on ten year bonds was only 0.5 percent. [170] To reverse these trends would require a complete reversion to nationally self contained banking systems – something which would cut off the multinationals and the debt owing governments like those of the US and Britain from the international supply of funds they need to finance themselves.

A decade ago some governments did try to get domestic economic expansion while the world economy remained subdued. They soon ran into trouble. The newly elected Mitterrand government in France was forced back into a policy of deflation which kept French growth rates low for the rest of the decade.

The 'military Keynesianism' of the US economy under Reagan seemed more successful at first – the US was still the world's largest single economy, was less dependent than most on foreign trade and so was in a better position than others to have a try at nationally based expansion. Nevertheless, the expansion undermined the competitiveness of nationally based firms and caused the trade deficit to get out of hand. Reagan's government was compelled to hold back the growth of military spending, even before the USSR's withdrawal from Afghanistan, its abandonment of eastern Europe and subsequent collapse. The total figure continued to rise, but not as fast as national output: by 1990 the military's share of GNP had fallen from 7 percent to 5.4 percent, barely above the 1980 level. At the time of the fall of the Berlin Wall there was much talk of a 'peace dividend'. In reality, however, the decline led to a cutback in production,

damaging the economy of California in particular, and helping to lay the ground for the wider recession of the early 1990s. The US could no longer play the role of locomotive to the world economy that it had played in the 1950s without suffering under the strain. And what the US could not achieve through expansionist policies, no one else can either.

Such problems of maintaining the balance of national economies might not arise were there to be, by accident or design, government induced reflation in several of the major economies simultaneously. But this would soon run into other difficulties. Budget deficits everywhere were at a high level in 1992, before any serious recovery from recession had begun: the average for the main OECD countries had risen to 43.6 percent, from 22.7 percent in 1979 [171], and by the end of 1993 all the European Community countries were expected to be outside the Maastricht target for government debt of 3 percent of GDP. [172] Expanding deficits and further debt in order to provide a boost to the economy could easily result in a level of inflation that would get completely out of hand, even if it eased the burden of debt on individual firms. Any recovery in output would be paid for by growing political instability, as workers fought to keep ahead of rising prices, and sections of the middle class reacted against fear of impoverishment.

It was precisely such circumstances that led governments of all the major countries to panic in the mid-1970s, to abandon 'Keynesian' stimuli to economic growth and to embrace deflation. There is little reason to believe things would be any different today. Some governments may end up taking the inflationary path out of fear of being destroyed by an all out slump. But they will find that it too creates enormous economic and social turmoil, that a short lived boom can be as damaging for them in such circumstances as relentless recession.

Both the slump option and the inflation option are politically explosive, for they involve the enrichment of part of the ruling class at the expense of other sections, as well as at the expense of

workers and middle layers. The result can only be the fragmentation of various bourgeois political forces, culminating in political civil war within ruling classes, with each rival section struggling to win the state machine for its solution to the crisis. And in such circumstances political civil war can even spill over into actual civil war, as in the Balkans and the southern reaches of the former USSR.

Political conflict at home is inevitably accompanied by political conflict at the international level. The multinationalisation of the system means that if either deflationary or inflationary policies are pursued in one country they have an immediate effect on others, creating bitter rows in which internal political disputes interact with international economic diplomacy. In 1992 we had a foretaste of what can be involved, with the political conflicts which erupted over the European Exchange-Rate Mechanism, Maastricht, the North American Free Trade Area, the GATT world trade talks – all of these interacting with other arguments over whether and how the major powers should intervene in the Balkans, the Horn of Africa and the Middle East.

None of this means there cannot be spasmodic spells of expansion of one part of the world system or another. Capitalism cannot by its very nature be a static system. There will always be some sectors that expand at the expense of others, even when the general trend is downwards – after all, a catastrophic slump means a lot of business opportunities for pawnbrokers, bailiffs, company liquidators and purveyors of adulterated foodstuffs. The desperate search for profits can lead to sudden outbreaks of speculative fever, generating short term incomes for a bigger or smaller stratum of society (as in 1987–9), even when real profitability is low. And the blind chase for new sources of profit can even lead to bursts of productive investment (as in Japan in the late 1980s), even if these can never earn the expected return and quickly come to grief.

Bourgeois economic commentators are necessarily short sighted. It is therefore not surprising that some of those who were ecstatic about the superficial signs of recovery in the mid-1980s are suicidal in their belief that there can be no recovery of any kind today, with former **Times** editor William Rees Mogg talking of endless slump and the end of civilisation within the next 30 years. It is necessary to reject such a facile perspective, just as it was necessary in the early 1980s to reject the view that 'deindustrialisation' in Britain and the US meant there could never be any expansion at all in the economy or any creation of new jobs. Fundamental features of the system make it very difficult for capitalism to achieve any substantial improvement in long term profit rates, and rule out any return to the conditions of the long post-Second World War boom. But they do not stop some sectors of the world economy growing while others contract, nor do they stop capitalists and governments getting carried away by apparent short term improvements (real or faked) in profit rates, behaving as if a long boom was possible, undertaking once again large scale speculative ventures and much smaller scale productive investments, so creating conditions for a temporary boom before coming down to earth with another bang.

In the period ahead the debt overhang is likely to delay any recovery and ensure it is shallow and shortlived. But we would be forgetting how blind capitalists are to the inbuilt contradictions of their own system if we were to hold they can never delude themselves into believing in another 'economic miracle' and into investing accordingly.

The period ahead is not going to be one in which the economy simply declines down an even gradient. Rather it is going to be one in which the roller-coaster behaviour of the system means abrupt upswings as well as long drawn out downswings, producing absurd short term optimism among the ideologists of the ruling class as well as desperate long term pessimism. And

again and again the long term economic malaise will suddenly find concentrated form in political crisis.

Eleven years ago I concluded my book, **Explaining the Crisis**, by arguing against those who believed simply restructuring would bring about a new period of capitalist peace and prosperity:

> *The present phase of crisis is likely to go on and on until it is resolved either by a plunging of the world into barbarism or by a succession of workers' revolutions ...*
>
> > *This does not mean the world economy is doomed simply to decline. An overall tendency to stagnation can still be accompanied by minor booms, with small but temporary increases in employment. Each of these, however, only aggravates the problems of the system as a whole and results in further stagnation, and extreme devastation to particular parts of the system.* [173]

Since then we have seen what 'devastation to particular parts of the system' means in much of sub-Saharan Africa and in parts of Latin America and of the former USSR. We have also had horrific foretastes of the descent into barbarism with the two Gulf wars, the Afghan war and the civil wars in the Balkans and sub-Saharan Africa. Fortunately, we have also seen the potential for mass revolt against the system, as economic crisis, in tearing apart ruling classes, has disrupted even the most sophisticated apparatuses of political control and ideological domination. We have seen the collapse of Stalinist monoliths in Eastern Europe and the USSR, of military regimes in Brazil and Argentina, of one party states in various parts of Africa, and, on a lesser scale, of

the Thatcherite juggernaut in Britain and the Bush presidency in the US.

Everything indicates that there is much less reason for those who run capitalism to be optimistic in the 1990s than they were even at the beginning of the 1980s. Their room for economic recovery through restructuring is less, as the debt hangover from the wild speculative party of the late 1980s dampens even the most enthusiastic entrepreneurial spirits. They have no chance of a return to the glorious 1960s, and even their attempts to return to the inglorious 1980s will exacerbate their disarray. The next ten years will be harder and nastier than the last ten years – for both them and us – and therefore will punctuated by great explosive struggles.

(To be continued)

Footnote

A. I have attempted to keep initials to a minimum throughout this article. But some I have not been able to avoid:

NICs: New Industrialising Countries

GNP: Gross National Product, a measure of the total output of a country

GDP: Gross Domestic Product, a slightly different measure of total output

G7: the Group of Seven major industrial countries (US, Japan, Canada, Italy, Germany, France, Britain)

OECD: Organisation of all advanced countries (including the likes of Greece and Turkey)

IMF: International Monetary Fund, which co-ordinates the world banking system and advises national governments.

* * *

Notes

The second part of this article, which deals with the economic prospects for China, India, Latin America and the NICS, will appear in **International Socialism 2 : 59**. [It actually appeared in **International Socialism 2 : 60**. – *Note by MIA*]

1. Labour frontbench speaker Bryan Gould at the 1987 Labour Party conference.

2. By the third quarter of 1992 the fall in manufacturing output and industrial output was still less than in 1979–80. Industrial production then fell by about 12 percent; the fall from the beginning of 1990 to the second quarter of 1992 was about 6.6 percent (**OECD Leading Indicators and business cycles 1960–85**, p. 168, and **OECD Outlook**, December 1992). Even after taking into account the much greater effect of the early 1990s recession on services than the early 1980s recession, GDP fell further in 1980–1 than it had by the third quarter of 1992. However, after touching bottom at the end of 1980, industrial production and GDP began to pick up early in 1981. By contrast, neither showed any recovery after second quarter of 1992, and non-North Sea industrial production fell slightly in the second half of 1992.

Finally, compared with the trend rate of economic growth, the downturn in Britain in the early 1990s was considerably greater than in the early 1980s. The OECD estimates the gap between potential and actual economic outlook as being 3.6 percent in the early 1980s, and 6.9 percent by the fourth quarter of 1992 (**OECD Economic Outlook**, December 1992, p. 34). It concludes that, ‘the downturn has been close to the average (for the last three downturns) in the US, but has been much deeper than the average in Canada and the UK’.

3. W. Keegan, **The Spectre of Capitalism** (London 1992), p. 79.

4. **Ibid.**, p. 14.

5. For a full account of the views of these ‘Marxist’ critics of Marx’s account, see my **Explaining the Crisis** (London 1984) pp. 20–30.

6. Marx’s own account is to be found in Karl Marx **Capital** vol. III, part III (Moscow 1962) pp. 207–261. Other expositions of it are to be found in R. Rosdolsky, **The Making of Marx’s *Capital*** (London 1980) pp. 376–383 and pp. 398–413; H. Grossman, **The Law of**

Accumulation and the Breakdown of Capitalism (London 1992); M. Kidron, **Capitalism and Theory** (London 1974), C. Harman, **Explaining the Crisis**, **op. cit.**, ch. 1.

7. A failure to see this led a number of Marxists like Paul Mattick and David Yaffe in the early 1970s to adopt 'fundamentalist' positions which simply insisted on the immediacy of crisis, without in any way explaining the long post-war boom or the difference between the crisis of the 1970s and that of the early 1930s. This, in turn, provided encouragement to those on the left who rejected the Marxist account of crisis completely. The debates between the two mistaken positions are to be found in various issues of **The Bulletin of the Conference of Socialist Economists**.

8. Thus in Japan in 1991 depreciation charges rose until they were nearly 100 percent of recurring company profits. See 'The morning after: Japanese companies count the cost of investment binge', **Far Eastern Economic Review**, 28 January 1993, and graph 6 reproduced later in this article.

9. Arms expenditures are unproductive because they do not go into creating surplus value for the capitalist (or capitalist state) who makes this expenditure. This does not mean that the arms industry is non-productive for the capitalists involved in it: their investments produce arms as commodities that give rise to surplus value for them.

10. H. Grossman, **op. cit.**, p. 158. When Mike Kidron made the same point – in, for instance, **Western Capitalism Since the War** (London 1968) – nearly 40 years after Grossman, he was denounced by would be disciples of Grossman like David Yaffe and Ernest Mandel. Clearly, their reading of Grossman was a very selective one.

11. Various articles by Vance/Oakes are to be found in H. Draper, (*ed.*) **The Permanent War Economy** (Berkeley 1970); Mike Kidron's accounts are to be found in **Western Capitalism Since the War** (London 1968), **Capitalism and Theory** (London 1974), and in early issues of the first series of this journal. There is a two-page summation of Vance/Oakes' theory in, of all places, Norman Mailer's second novel, **Barbary Shore**.

12. This is a much abridged summary of the much more detailed account to be found in my **Explaining the Crisis**, **op. cit.**, chapter 3.

13. F. Moseley, **The Falling Rate of Profit in the post-war US economy** (London 1991) p. 97.

14. The average decline for the fifth, sixth and seventh deciles of families – which would account for the core of the employed manual working class – was about 5 percent. R. Heilbroner, **New York Review of Books**, 24 October 1991.

15. F. Moseley, **op. cit.**, p. 96.

16. **OECD Economic Outlook**, December 1992, table 4.

17. Andrew Glyn, *The macro-anatomy of the Thatcher years*, in F. Green, (*ed.*) **Restructuring the UK Economy** (1989) pp. 67–69.

18. *Beyond the profit squeeze*, **Lloyds Bank Economic Revue**, June 1989.

19. *Net operating surplus as proportion of the net capital stock in manufacturing*, **Bank of England Quarterly Bulletin**, August 1992, p. 300.

20. Figures for 'conventional' rate of profit (i.e. not according to Marx's definition) in F. Moseley, **op. cit.**, p. 121.

21. Estimates from **OECD Economic Outlook**, December 1992, table 4.

22. Figures given in P. Green, **Socialist Review**, November 1983.

23. *Economic report to the president*, February 1991, quoted in J.K. Galbraith, **The Culture of Contentment** (London 1992), p. 126.

24. **OECD Economic Outlook 1992**, table 7.

25. Figures in US Department of Commerce, **Surveys of Current Business**, August 1981 and June 1988.

26. Food and Agricultural Organisation, **The State of Food and Agriculture, 1991**, p. 43.

27. **Ibid.**

28. Figures for GDP per man hour given in A. Maddison, **Dynamic Forces in Capitalist Development, a long run view** (1991), table 3.3.

29. IMF, **World Economic Outlook**, October 1989, table A2.

30. **Ibid.**, table A3.

31. See, for instance, *America prods the slaggards*, **Economist**, 19 July 1986, p. 59.

32. Including those in **Socialist Worker** and **Socialist Worker Review**. See, for example, *Here comes the slump*, **Socialist Worker Review**, July/August 1986, and *How deep can it go?*, **Socialist Worker Review**, September 1986.

33. Figures for GNP/GDP estimated growth in 1987, given in **Economist** in spring of 1988.

34. **Economist**, 20 December 1986.

35. Although, this time, it was an error we did not fall into. The final resolution of the SWP 1987 conference stated, 'The crash has vindicated our analysis. But we have to be careful. A financial crash does not automatically lead to an immediate collapse of the system.'

36. **Financial Times**, 29 October 1987.

37. **Economist**, 31 October 1987.

38. See B. Burrough and J. Helyar, **Barbarians at the Gate, The Fall of RJR Nabisco** (New York 1990).

39. *Financial Retrenchment in the US*, **Bank of England Quarterly**, February 1992.

40. According to G. Davies, **The Independent**, 27 January 1992.

41. See J. Plender, *The can-do tactics come home to roost*, **Financial Times**, 16 October 1990, and **The Bank of England Quarterly Bulletin**, February 1992.

42. IMF, **World Outlook**, October 1992, table 15, p. 61.

43. Figures from Armstrong, Glyn and Harrison, **Capitalism Since 1945** (Oxford 1991), tables A5 and A6.

44. Chart 11, **Bank of England Quarterly Bulletin**, November 1991, p. 150.

45. Chart 4, **National Institute Economic Review**, 92/2, May 1992, p. 12.

46. In Marx's sense.

47. S. Cohen and J. Zysman, **Manufacturing Matters** (New York 1987), p. 10.

48. Figures given by A. Glyn, *The costs of stability: the advanced capitalist countries in the 1980s*, **New Left Review 195**, p. 89.

49. J. Wells, *Britain in the 1990s*, in J. Cornwall (*ed.*) **The Capitalist Economies** (Aldershot 1991), p. 182.

50. From an average level in the major industrial countries of about 2.5 percent at the end of 1987 to about 4 percent a year later. See chart 2, International Monetary Fund, **World Outlook**, October 1989, p. 6.

51. Quoted in B. Burrough and J. Helyar, *Barbarians at the Gate,* **op. cit.** See also **International Business Week**, 7 November 1988.

52. **Economist**, 12 August 1989.

53. IMF, **World Economic Outlook**, October 1989, p. 7.

54. Summary of **OECD Economic Outlook**, no. 47, in **Financial Times**, 29 June 1990.

55. Growth figures from **Economist**, 16 November 1991.

56. **Financial Times**, 5 October 1991.

57. See, for instance. **Economist**, 26 August 1989.

58. IMF, **World Outlook**, October 1989, p. 9.

59. *When the pips start to squeak*, **Economist**, 14 October 1989.

60. For a summation of the evidence, see A. Glyn in **New Left Review 195**, **op. cit.** pp. 85–88.

61. Measure of 'conventional rate of profit' given by F. Moseley, **op. cit.**, pp. 110 and 120.

62. Figures for a sample of the largest 1,400 companies, in **Bank of England Quarterly Bulletin**, November 1991, p. 546. It should be noted that comparisons of profit rates between different countries can be very misleading, since they are often calculated on different bases. See also **Bank of England Quarterly,** February 1992.

63. **Bank of England Quarterly Bulletin**, February 1992.

64. J. Toporowski, *The Financial System and Capital Accumulation in the 1980s*, in F. Green (*ed.*), **op. cit.**, p. 256.

65. R. Belfield, C. Hird and S. Kelly, **Murdoch, the decline of an empire** (London 1991), pp. 232–233.

66. Figures given in **ibid.**, p. 235.

67. Belfield, Hird & Kelly, **ibid.**, say this was why Murdoch chose to issue the accounts for his multinational empire in Australia. Of course, profits can be *understated* using similar techniques. But this will tend to happen when companies fear profits tax rather than takeovers. So understated profits were likely in the 1960s, exaggerated ones in the 1980s. Overall, accounting techniques partially hid the declining profit rate between the two periods.

68. See T. Smith, **Accounting for Growth** (London 1992).

69. **Guardian** and **Financial Times**, 2 December 1992.

70. **Capital**, vol. III (Moscow 1962,) p. 473.

71. The relation varies at different points in the boom-slump cycle, so that not every rise in interest rates corresponds immediately to a fall in interest rates. But the general trend of one is the inverse of the general trend of the other.

72. This is even true of much 'household saving', which comes from the dividend income and high salaries of the capitalist class.

73. All these pressures are intensified in the first stage of a recession. Those who have borrowed too much in the boom then try to borrow more just to cover their losses.

74. See F.P. Cipolla, *Profit rate and public deficit in the USA*, in **Review of Radical Political Economy**, vol. 24, no. 2, 1992, p. 77.

75. A. Glyn, **op. cit.**, **New Left Review 195**, **op. cit.**, p. 89.

76. **Ibid.**, pp. 97–88.

77. R. Luxemburg, **The Accumulation of Capital** (London 1963); R. Luxemburg and N. Bukharin, **Imperialism and the Accumulation of Capital** (London 1972); P. Baran and P. Sweezy, **Monopoly Capital** (London 1973).

78. Neither Rosa Luxemburg nor Baran and Sweezy were so stupid as to ignore the impact of investment. Their argument was that it could not fill the gap more than temporarily. Rosa Luxemburg argued that it was impossible for capitalism to maintain the right proportions between investment and consumption through a succession of production cycles and that, in any case, it was a contradiction in terms for the aim of production to be something other than consumption. Baran and Sweezy argued that capitalist development led to

monopolisation, and that monopolies simply did not have the incentive to invest at the required level.

79. **Capital**, vol. III (Moscow 1962), p. 472.

80. H. Grossman, **op. cit.**, pp. 191–193.

81. L. Corey, **The Decline of American Capitalism** (London 1935), p. 172.

82. J.K. Galbraith, **op. cit.**, p. 55.

83. Research by the London Business School and the Centre for Economic Performance at the LSE, quoted in the **Financial Times**, 28 November 1992.

84. Survey of sample of the 1,400 largest UK companies, **Bank of England Quarterly Bulletin**, November 1991, p. 546.

85. A. Glynn, **op. cit.**, p. 92.

86. What Marx called ‘the technical composition of capital’.

87. The calculation of F. Moseley, **op. cit.**, p. 97.

88. *Beyond the profit squeeze*, **Lloyds Bank Economic Review**, June 1989.

89. International Monetary Fund, **World Economic Outlook**, October 1989, table A10: Hourly earnings, productivity and labour costs in manufacturing.

90. IMF, **World Economic Outlook**, October 1989, chart 8, p. 12, and, for Britain, **Bank of England Quarterly Bulletin**, August 1992, table A, p. 298.

91. See *Receivers move into Rosehaugh’s properties*, **Financial Times**, 1 December 1992.

92. **Business Week**, 13 November 1989, p. 80.

93. A. Brummer, **Guardian**, 14 September 1990.

94. **Bank of England Quarterly Bulletin**, November 1991, chart 4.

95. *Profitability of large companies*, **Bank of England Quarterly Bulletin**, November 1991, p. 547.

96. **Wall Street Journal**, 22 March 1990.

97. **Observer**, 10 February 1991.

98. **Financial Times**, 20 December 1990.

99. **Financial Times**, 22 January 1991.

100. **Economist**, 14 October 1989, p. 138.

101. These arguments are put at much greater length in my articles, *Poland and the Crisis of State Capitalism*, **International Socialism** (first series), **93** and **94**; *The storm breaks*, **International Socialism 2 : 46**; *The state and capital*, **International Socialism 2 : 51**; and in the final chapters of my two books, **Class struggles in Eastern Europe** and **Explaining the Crisis**.

102. Growth rates between fourth quarter of 1989 and fourth quarter of 1990, **Economist**, 20 April 1991.

103. See, for instance, W. Keegan, **op. cit.**

104. Growth of real GNP for industrial countries, Table A2, in IMF, **World Economic Outlook**, October 1989, p. 74.

105. Chart 9, IMF, **World Economic Outlook**, October 1989, p. 14.

106. Figures given in T. Cutler, C. Haslam, J. Williams and K. Williams, **1992: the Struggle for Europe** (New York 1989), p. 13.

107. W. Keegan, **op. cit.**, p. 131.

108. T. Cutler *et al.*, **op. cit.**, p. 27.

109. Such articles appeared in the **Financial Times** in 1988, and are referred to disparagingly by W. Keegan, **op. cit.**, pp. 131–2.

110. Figures in **Financial Times**, 10 April and 17 June 1992.

111. **Financial Times**, 29 September 1992.

112. **Ibid.**

113. Report in the **Guardian**, 4 December 1992.

114. According to the graphs in *International Comparisons of the rate of return to capital*, **Bank of England Quarterly Bulletin**, August 1992, p. 300. **OECD Economic Outlook**, June 1992, gives the rate of return in the business sector as 13.3 percent for 1975–79, 12 percent for 1980–87, 13.7 percent for 1988 and 14.2 percent for 1989.

115. Figures given in C. Kossis, *A miracle without end? Japanese capitalism and the world economy*, **International Socialism 2 : 54**, p. 119.

116. **Financial Times**, 29 September 1990.

117. **Financial Times**, 20 October 1992.

118. For the trend in the 1980s for whole business sectors, see *International comparison of the rate of return to capital*, **Bank of England Quarterly Bulletin**, August 1992, p. 300. For the longer term trend, see A. Glynn, **op. cit.**, p. 87.

119. **Financial Times**, 20 October 1990.

120. **Financial Times**, 27 March 1991.

121. For both general business and manufacturing, see A. Glyn, **op. cit.**, table IX, p. 86.

122. These are the arguments put by W. Keegan, **op. cit.**, pp. 151–153.

123. **Financial Times**, 2 September 1986.

124. C. Kossis, **op. cit.**, p. 119.

125. *Corporate Japan frets about profits*, **Financial Times**, 21 October 1992.

126. **Financial Times**, 21 October 1992.

127. **Financial Times**, 5 June 1990.

128. **Ibid.**

129. **Financial Times**, 24 September 1990.

130. Quoted in *Slow motion but not a standstill*, in **Financial Times**, 21 February 1992.

131. See, for instance, *Shock waves around the globe*, **Financial Times**, 10 April 1992.

132. **Financial Times**, 21 February 1992.

133. **Financial Times**, 21 February 1992, 22 May 1992 and 12 September 1992.

134. See, for instance, Mr Masaru Yoshitomi, of the Economic Planning Agency, quoted in **Financial Times**, 22 July 1992.

135. **Financial Times**, 27 June 1992.

136. **Financial Times**, 23 November 1992.

137. **Financial Times**, 14 August 1992, 17 September 1992, and 22 May 1992.

138. **Far Eastern Economic Review**, 28 January 1993.

139. **Financial Times**, 5 September 1992.

140. *Toyota assembly line halted as recession bites*, **Guardian**, 10 December 1992.

141. See, for instance, the book by the **Economist**'s Japan correspondent, C. Wood, **The Bubble Economy, Japan from Boom to Bust** (London 1992).

142. **Financial Times**, 10 December 1992.

143. **Tribune**, 12 June 1992.

144. **Tribune**, 17 April 1992.

145. **Ibid.**

146. Desai put these arguments forcefully in a public debate with me at the LSE in November 1992.

147. Introduction to J. Cornwall (*ed.*), **The Capitalist Economies** (Aldershot 1991), p. 1.

148. In Britain company insolvencies were equal to about 1.6 percent of all active companies in the second year of the recession of the early 1980s; by contrast they had reached 2.3 percent by the second year of the recession of the early 1990s. The total number of insolvencies was double, according to figures in the **Bank of England Quarterly Bulletin**, August 1992.

149. For Norway, Sweden, and Finland, see *Slippery slopes*, **Financial Times**, 31 October 1991, and *Nordic nightmare*, **Wall Street Journal**, 1 November 1991.

150. *UK economy in the early 1990s*, **British Economic Survey**, vol. 20, no. 2 (Spring 1991).

151. *The credit crunch*, **Brookings Papers on Economic Activity**, 1991 : 2, p. 208.

152. **Financial Times**, 26 October 1992.

153. W. Hutton, in **British Economic Survey**, **op. cit.**.

154. *The Credit Crunch*, **op. cit.**, p. 220.

155. **Far Eastern Economic Review**, 26 November 1992.

156. **Financial Times**, 14 September 1992.

157. Figures from **Financial Times**, 16 November 1992.

158. B. Morris, in **Independent on Sunday**, 22 March 1992.

159. B. Kensall, head of marketing and communications at Barclays, **Financial Times**, 10 April 1992.

160. So 'household savings' can be as much capitalist savings as savings by firms, since the household incomes of the very rich are incomes from capital – even if they take the form of high salaries – not incomes from labour. This reality is concealed by conventional statistics which lump all salaries together with wages to give 'total incomes to labour', 'average manufacturing incomes', and so on.

161. **Capital**, vol. III (Moscow 1959), p. 249.

162. Fred Moseley even estimates that for the US economy the rate of profit for productive industry was higher in the late 1980s than in the 1950s and the early 1970s but that this was offset by the increasing burden of providing, out of surplus value, an average rate of profit to non-productive sectors of the economy. See F. Moseley, **op. cit.**

163. E. Balls, in **Financial Times**, 16 November 1992.

164. H. Grossman, **op. cit.**, p. 123.

165. M. Prowse, **Financial Times**, 5 February 1993.

166. M. Feldstein, **Financial Times**, 5 January 1993.

167. Quoted in the **Observer**, 14 February 1993.

168. See M.A. Garcia, *Argentina: El veintenio desarrollista*, in **Debate** (Rome), no. 2, April–May 1978.

169. Even if these themselves are foreign owned, as with firms like Ford and Vauxhall (General Motors) in Britain.

170. **Financial Times**, 18 May 92. The contrast between what happens to short term rates (real and nominal) and long term rates as between different countries from 1980 to 1992 is shown in **OECD Economic Outlook**, 1992, figs 5 and 6.

171. **Ibid.**, Table 7.

172. **Financial Times**, 27 January 1993.

173. C. Harman, *State capitalism, the arms economy and the crisis today*, in **Explaining the Crisis** (London 1984), p. 121, previously printed in **International Socialism 2 : 16**.