

## The Present Crisis in Historical Perspective

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## The Profit Rate I

- Evolution of the (macroeconomic) rate of profit is the critical summary statistic of the CMP in any place over any time period
  - measures profitability of capital
  - indicates extent to which investment of capital is successful
- Focus is primarily on US economy
  - where US leads, rest of capitalist world tends to follow

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## The Profit Rate II

- Rate of profit is product of
  - share of profits in net output
    - (usually taken to reflect distribution)
 and
  - net output per unit of fixed capital (“capital productivity”)
    - (usually taken to reflect production)

$$r = \frac{\pi}{K} = \frac{\pi Y}{Y K}$$

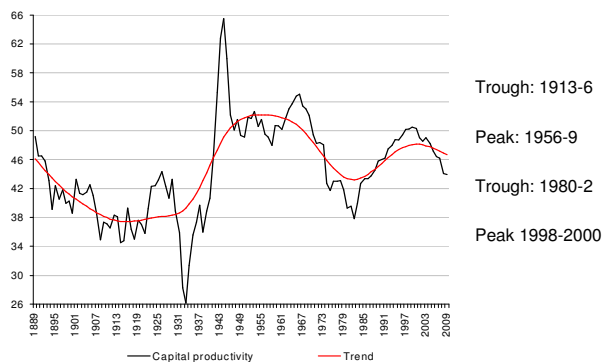
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## Forces and Relations of Production

- Capital productivity expresses dynamism of forces of production
  - interplay of class struggle, invention and innovation in profit-seeking
  - time trend depends on how easy it is to extract productivity increases from increases in capital intensity
- Profit share is purer expression of relations of production
  - expresses current balance of class power
  - time-path determined by balance of productivity increases versus real wage increases
    - class struggle
    - importance of norms and culture

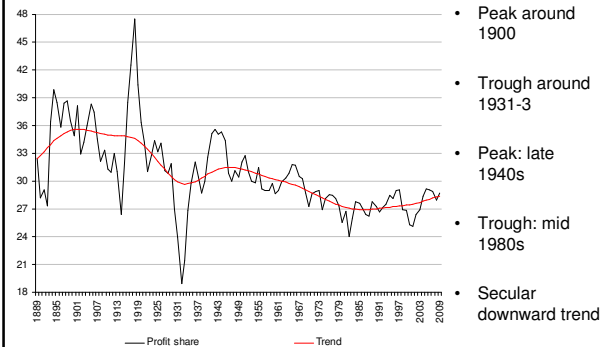
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## Capital Productivity 1889-2009

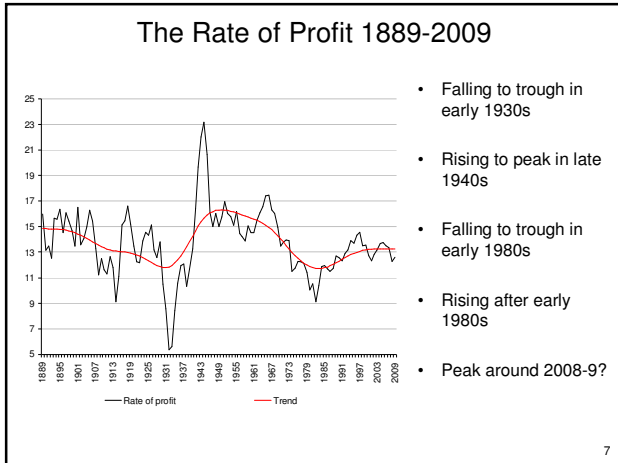


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## The Profit Share 1889-2009



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### The Thesis

- US capitalism characterised by long secular periods of falling profitability and long secular periods of rising profitability
- Crises are associated with major turning points
- Crises are political as well as economic
  - lower turning points and subsequent rise are associated with regime change (within capitalism)
  - upper turning points are not

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### Big Picture

- To 1931-2 (era of deregulation)
  - **falling profitability**, growing income and wealth inequalities, culminating in speculative excess, implosion of money supply and credit, protectionism
- 1931-2 to late 1940s (era of transition; growing regulation)
  - **rising profitability**, New Deal, wartime planning
- Late 1940s to 1980-2 (era of regulation)
  - **falling profitability**; 'golden age' to 1973; stasis 1973-79; neoliberal counter-revolution beginning 1979-82
- 1982 to 2008-9 (growing deregulation)
  - **rising profitability**, growing income and wealth inequalities, deregulation; culminating in speculative excess, implosion of money supply and credit
    - because of the different profitability trends, the parallel to the run up to 1929 might be misleading
- 2008-9 onwards (??)
  - a turning point? how protracted and with what characteristics?
  - an era of falling profitability to come?

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### Falling Profitability I

- Not periods of major innovation, and considerable increases in capital intensity are required to gain increases in labour productivity
  - so falling capital productivity
- Labour productivity increases provide a floor to real wage increases
  - so profit share either level or falling
- Period of sustained falling profitability
- Politically, has been associated with
  - nonregulation (to 1929)
  - regulation (late 1940s-1980)

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### Falling Profitability II

- Falling profitability eventually generates a political revolt against the conditions that brought it about
  - 1930-2 to late-40s
    - very protracted period because of 2 wars
      - for control of Europe and control of the Pacific
    - against the free market
    - use of state apparatus by broad progressive coalition
      - influence of apparent success of Soviet planning
    - supported by nonfinancial capital
  - 1973-82
    - against the 'Golden Age' consensus of regulation
      - stagflation, and policy failures of 'social democrats' (Democrats 1976-80, Labour 1976-79)
      - growing consensus of failures of Soviet planning
      - growing consensus of need for dramatic change
    - much faster period of political change after Autumn 1979

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### Lower Turning Points

- 1931-2 after era of deregulated excess of 'free market'
  - *regime change*
  - ushers in political and economic revolution to control market forces (New Deal, planning etc)
  - painful birthpangs (Depression, fascism, war)
- 1980-82 after era of 'social democratic' regulation
  - *regime change*
  - ushers in political and economic counter-revolution to assert primacy of the market
    - politically: neoliberalism
    - economically: financialisation

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## Rising Profitability

- Periods of major innovation, and small increases in capital intensity are required to gain increases in labour productivity
  - so rising capital productivity
- Politically, a reaction to
  - (1931-46) laissez-faire capitalism, involving
    - employment expansion
    - support for labour unions
    - industrial interventions
    - all culminating in
      - establishment of social protection and welfare state
      - commitments to full employment
      - greater equality
  - (1980 et seq) regulated capitalism, involving
    - state attacks on organised structures of labour movement severely weaken trades unions
    - trades unions also weakened by policy of higher unemployment
    - rolling back of social protection and welfare state
    - greater inequality

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## Upper Turning Points

- Late 40s after working out of innovations (electric power enabling Fordism)
  - *no regime change*
    - continuation and development of what was established in
      - New Deal and WWII (US)
      - WWII (UK)
  - ushers in 'Golden Age' in regulated (national and international) world
- 2008-09 after working out of innovations (microtechnology and computerisation)
  - *no regime change??*
    - no political revolution towards greater regulation
      - some talk (finance, climate change), little action
      - cuts in state expenditure presage a *more* neoliberal world
      - feeble social democratic opposition

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## Summary: Four Eras I

- Falling profitability
  - capital dominant, little regulation, growing inequality
  - to 1931: ends in bubble and its consequences
- Rising profitability
  - class compromise, regulation, greater equality
  - 1931-46: ends in political consolidation of social democracy rising profitability
- Falling profitability
  - class compromise, regulation, greater equality
  - 1946-80: ends in counter-revolution by (finance) capital
- Rising profitability
  - capital dominant, little regulation, growing inequality
  - 1982-2008: ends in bubble and its consequences

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## Summary: Four Eras II

- Capital dominant, little regulation, growing inequality
  - falling profitability
    - to 1931
    - ends in bubble and its consequences
  - rising profitability
    - 1982-2008
    - ends in bubble and its consequences
- Class compromise, regulation, greater equality
  - falling profitability
    - 1946-80
    - ends in counter-revolution by (finance) capital
  - rising profitability
    - 1931-46
    - ends in political consolidation of social democracy

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## Recent Rising Profitability I

- What generates inequality?
  - class power
- Why is growing inequality so important?
  - capitalism requires continual increases in demand to sell output and realise profit
  - requires acquisitive consumers, willing and able to spend
    - willing: importance of advertising and marketing
    - able: importance of increasing real incomes
  - how can increases in aggregate demand be secured if real incomes are not increasing?
    - through the growth of consumer debt

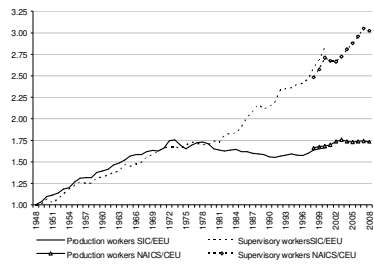
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## Recent Rising Profitability II

- So class power generates inequalities
- Inequalities generate debt
  - ability to service debt in era of pressure on real incomes is problematic
  - reliance on rising asset prices
- Debt generates speculation
  - trading in debt instruments
  - asset price bubbles
- At some point the bubble will burst
  - resolution
    - a crisis which can only be resolved politically by a reversal of the political regime
    - consolidation of the trends that brought about the bubble
  - either way, the rate of profit will start to fall because of falling capital productivity

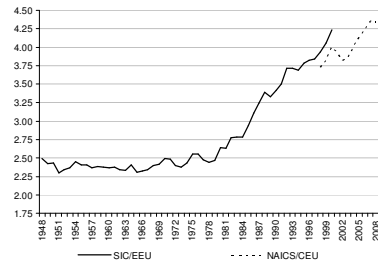
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Mean Employee Compensation, Private Industries, \$2005, 1948-2008



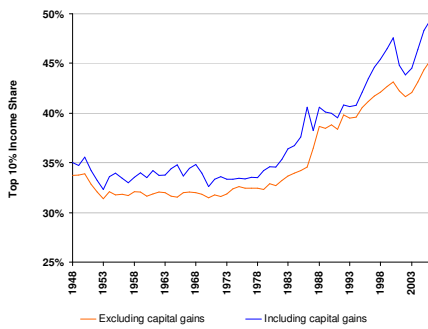
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Ratio of Compensation: Supervisory to Production Worker



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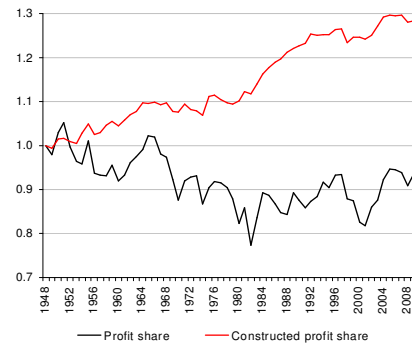
Top Decile Income Share 1948-2006



Using data from Piketty and Saez (tax returns and census data)

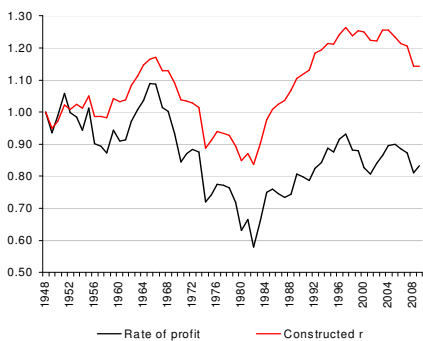
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Profit Shares 1948-2009 (Indexes 1948=1)



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Rates of Profit 1948-2009 (Indexes 1948=1)



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### Rhyme and Reason

- One complete profit rate cycle of regulation
  - upswing: 1929-1950
  - downswing: 1950-1982
- Mark Twain (attrib.)
  - “History may not repeat itself, but it sure does rhyme”
- Profit rate in deregulated era
  - upswing: 1982-?
  - if profit rate has peaked, then a long downswing?
    - certainly few pressures for meaningful regulation
    - politics is about cuts
    - banks are back in full cry (with who knows what assets on their books)
    - difficult at present to be optimistic

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## More General Conclusions

- $r$  driven by capital productivity, whose trend is fluctuating
- The Marxian tradition has a lot to say about the lower turning point (1982 - 'the falling rate of profit'), and almost nothing useful to say about the upper turning point (1946, 2008)
- The Keynesian tradition has a lot to say about crises of 'effective demand', but fails to recognise distinction between upper and lower turning points
  - lower turning points require major restructuring for which boosts to effective demand are not helpful for capital (1982)
    - when such crises characterised by speculative bubbles whose bursting precipitates the crisis (1931), Keynesian expansion will only work if it serves to restructure capital
  - upper turning points might (2008) or might not (1946) be characterised by speculative bubbles whose bursting precipitates the crisis
    - but when they are, Keynesian expansion is crucial
  - hence an ambiguous relevance of Keynesian economics

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