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A Global Approach to the Global Financial Crisis

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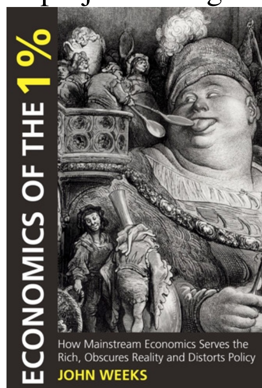

A Global Approach to the Global Financial Crisis

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Analytical framework

Defining "crisis"

Capitalist societies have historically unique relations of production. While some are older than capitalism, money and commodities, for example, they take on new and qualitatively different significance in capitalist society. Price, profit, money, credit, competition, and fixed means of production all acquire specifically capitalist form in their role in the circulation and reproduction of capital. These social forms interact to generate the most concrete manifestation of the historical uniqueness of capitalism, economic crises.

An economic crisis is a disjuncture that prevents complete reproduction of the circuit of capital.[1] The term economic crisis is synonymous with capitalist crisis, or a crisis of capital. The category "economic" presupposes capitalist society and capitalist social relations.[2] The division of social life into the economic and the non-economic reflects the twofold nature of commodities. Labor performed for exchange becomes subject to regulation by monetary costs. In this way, human labor that produces commodities is formally separated from labor performed for other reasons.

This separation remains incomplete until labor power itself is a commodity. Each working person's life becomes institutionally divided between work (the economic) and leisure (the non-economic). From this division emerge the categories of bourgeois society, wages and profit, for example, which are the superficial expressions of capital's domination of social production. The term "economic crisis" presupposes these categories, just as it presupposes the circulation of capital.

One could use the term "economic crisis" to describe disruptions in other odes of production. For example, it could be used to describe the consequences of the Black Death in medieval Europe, because the plague resulted in declines of

production, widespread dislocation of population, and famine. To do so would be a usage so broad that it would rob "economic" of meaning, as well as contradict what is generally understood by identifying a crisis as "economic".

At least since the time of Ricardo,[3] economic crisis referred to the phenomenon of overproduction, a situation in which use values pile up idle, unused and unusable due to relations of ownership. Overproduction necessarily means overproduction of value, in which some commodities cannot be sold. Realization is the necessary condition for their consumption as use values. Overproduction of value implies overproduction of capital, since commodities, the carriers of objectified labor, are commodity capital.

When products do not circulate as commodities and are produced directly for consumption, overproduction is impossible.[4] Interruptions in social reproduction in precapitalist society took the form of underproduction of use values, resulting in famine and social upheavals, and were themselves the result of plagues, warfare, natural disasters, or direct class conflicts that undermined the relation of the exploited to the exploiter. All meaning of the term "economic" would be lost if such crises are categorized with the form of social disruption unique to capitalism, general overproduction of use values.

Any theory of capitalist reproduction with a pretension to be seriously considered must account for economic crises.[5] Marx's mature writings were devoted to explaining economic crises, and his theory of crisis is inseparable from his theory of accumulation. In the process of accumulation, all of the tensions and contradictions of capitalist production and circulation are intensified, and economic crisis is the predictable outcome of the accumulation process (Marx 1971 Chapter XV).

The obvious conclusion that crises of overproduction only occur under capitalism raises at least three important questions: 1) whether all moments of instability are crises, 2) whether crises have a common cause, and 3) whether all crises are systemic. The next section addresses these questions.

Systemic and non-systemic crises

As is the case with all great thinkers, on occasion Marx contradicts himself, or, "seems to" if one is loath to attribute this human failing to him. One would expect apparent and real differences during an intellectual and activist career of over four decades. Few people hold the same views in middle age than they did in their twenties, and the ones that have are not very interesting as a result of that slavish consistency.

Therefore, I quote from Marx with some caution. I do not seek to use this quotation as authority to justify the argument I shall develop. Rather, I use it as a guide to dispel the ambiguities associated with the concept and reality of economic crises. In the second volume ("Part II") of *Theories of Surplus Value*, Marx specifies what creates the possibility of economic crises. He writes,

> The general *possibility* of crisis is given in the process of metamorphosis of capital itself, and in two ways: in so far as money functions as *means of circulation,* [the possibility of crisis lies in] the separation *of purchase and sale;* and in so far as money functions as *means* of payment, it has two different aspects, it acts as *measure* of *value* and as *realization of value.* These two aspects [may] become separated. If *in the interval* between them the value has changed, if the commodity at the moment of its sale is not *worth* what it was *worth* at the moment when money was acting as a measure of value and therefore as a measure of reciprocal obligation, then the obligation cannot be met from the *proceeds of the sale of the commodity.*
>
> ...[I]t is quite clear, that between the starting-point, the prerequisite capital, and the time of its return at the end of one of the periods, great catastrophes must occur and elements of crises must have gathered and developed. [Marx 1968, pp. 513-514. 495, emphasis in original]

In this discussion of crises the words "profit" and "surplus value" do not appear. Their absence makes the passage suggestive and supportive of my analysis of systemic crises as resulting from the inability of capital to realize or recover the full value of fixed means of production. The crisis causality can be summarized as follows. Fixed means of production are put in place and have a useful life time of many circuits of capital (production cycles). Their replacement fund is accumulated in each production period, as the material productivity of the fixed means of production declines, technical change reduces their value productivity.

Marx applied the term "moral depreciation" to this process by which the development of new and better machines undermines the profitability of the old. The companies ("capitals" Marx called them) using the old machinery must match the sales prices of the companies using the new. Since the latter almost always are fewer than the former, the market value of the majority of fixed capital in the industry declines. Most competitors discover that they cannot completely recapture the value of their machinery through the sale of their output. As Marx comments in several places in *Capital* and *Theories of Surplus Value*, the dynamism of capitalism undermines the accumulation process. Productivity growth, not stagnation, is the source of the tensions in capitalism.

Inability to realize the value of fixed means of production implies a fall in profitability for all but the companies using the latest techniques. The fall in profitability is not the result of an increase in what some call "the organic composition of capital". It does not result from an increase in constant capital in the famous formula for the rate of profit,

$$\frac{\textbf{Surplus Value}}{\textbf{[Constant capital + variable capital]}}$$

Technical change has a tendency to make it impossible for many producers to realize the value of their fixed means of production. Since capitalists finance their fixed investments by borrowing, the failure to realize the value of those fixed investment has the potential to manifest itself as a financial crisis. This interpretation is consistent with the characterization of the way in which economic crises manifest themselves,

> In a system of production, where the entire continuity of the reproduction process rests upon credit, a crisis must obviously occur — a tremendous rush for means of payment — when credit suddenly ceases and only cash payments have validity. [Marx 1971, 490]

Crises occur because production and sale are not simultaneous. The separation should not be interpreted in the limited sense as a mere chronological separation. While the separation does refer to two moments in time, it takes no insight to infer that this could result in incomplete sales or shortages, a trivial issue discussed endlessly by mainstream economists as an aspect of the "coordination problem" of market economies. I refer, as Marx did, to the change in commodity value between different moments in the circuit of capital, which I discuss below. In Marx's analysis the "separation" does not

refer to a problem of realizing commodity value. On the contrary, it presumes commodities are realized, but at values that do not match their value when emerging from production.

The crisis manifests itself in a financial collapse. The crisis derives from the fundamental tension ("contradiction") in capitalist society, the two-fold (dual) nature of commodities. As Marx makes clear in the first chapters of *Capital Volume I*, the tension ("contradiction") within the commodity form is the origin of all crises. We have the fundamental tension, production and sale do not coincide, and a specific form it takes, that the replacement of the value of fixed means of production does not coincide with their material replacement.

In what follows I reserve the word crisis for episodes of severe economic contraction. These qualify as economic disruptions caused by systemic tensions that could not be resolved within the existing institutions and regulations of the accumulation process, both public and private. However, especially in the United States severe financial disruptions have occurred without resulting in a systemic crisis. An obvious case is the US stock market crash of 1987, so-called Black Monday when the Dow Jones Index fell by over 20 percent. Though temporarily wiping out billions in asset prices, the crash had no notable effect on production or employment. Almost all other post WWII financial collapses had little impact on the major economies of the world, including the infamous Asian Financial Crisis of 1997 (see Weeks 2014b, chapter 3). The collapse of fictitious capital value is the necessary manifestation of a capitalist crisis, but not all financial collapses signal a capitalist crisis.

Crises national and global: Analytical framework

To what extent does an economic crisis in a national economy result in a global crisis? For several reasons few writers in recent years have directly addressed this question. The most obviously erroneous reason for overlooking this issue has been the frequent practice of implicitly or explicitly treating the United States economy as synonymous with "world capitalism". Below I show empirically that this carried some superficial verisimilitude up to the early 1970s and the first oil price boom, but subsequently was no credibility. After the mid-1980s even the assertion that the US

economy served as the driver of the world economy becomes difficult to verify empirically.

A variation on the "US economy equals the global economy" is the argument that capitalism is an integrated social formation, implying that national boundaries are irrelevant. While this concept of the capitalist mode of production generates important insights at a high level of abstraction, it provides little guide to concrete circumstances.

Interpreting a crisis as "global" might be justified by one or more of several theoretical arguments. First, capitalism contains flaws that can manifest themselves simultaneously in all countries. The clearest example of this line of argument is the overproduction mechanism of Luxemburg (Luxemburg 1913, Chapter 25; Kemp 1967, Chapter IV).[6] Luxemburg argued that inherent in capital accumulation is a tendency for the overproduction of fixed capital, implying that output expands in excess of total domestic consumption. As a result, capitalists seek markets in non-capitalist regions to sell the excess production.

This mechanism clearly implies that crises tend to be international, because the same problem arises in every capitalist country. It suffers from serious theoretical problems, as well as the obvious empirical difficulty that in the twenty-first century non-capitalist regions have declined to insignificance as measured by their economic weight in global markets.

The typical "falling rate of profit" mechanism fails to get out of the starting gate as a candidate for generating cross-country crises, much less global ones. I shall disregard the Okishio critique[7] and pursue the argument that the process of accumulation leads to a "rising organic composition of capital". Should this be the case, the analysis requires some critical value for the "organic composition" that provokes a crisis. This is a necessary element because the alleged rise is monotonic with respect to accumulation; i.e., it starts when accumulation begins. To argue that all or most national capitals would hit this critical value at approximately the same moment hardly carries credibility. If this theoretically suspect argument has relevance for global crises, it must be augmented by some cross-country transfer mechanism.

Whatever might cause a fall in either the rate or the "mass" of surplus value (to use Marx's term), it does not follow that a fall either is or is the cause of a crisis. Lower

surplus value and lower profit are likely to result in a slower rate of accumulation, and this is not a crisis. On the contrary, fluctuations in profit rates and levels commonly occur in capitalist societies. They are neither unusual nor harbingers of disaster.

A plausible argument would be that a crisis in a major capitalist country, whatever the cause, could generate spread effects via either aggregate demand failures due to falls in world trade, or instability in financial asset prices. As I show below, this line of argument appears more plausible during 1950-1985 than before or subsequently. My empirical assessment implies that "capitalist crisis" should be considered a concept relevant to the national, not global level.

Crises national and global: Empirical assessment

The central challenge is to move from the crisis-generating tensions in the abstract to economic crises in the concrete. The Global Financial Crisis that began in 2007 certainly qualifies for Marx's assessment that when a "reproduction process rests upon credit", then "a crisis must obviously occur". To proceed I must consider whether such a crisis can be conjunctural, or must by its nature be systemic.

Inspection of empirical evidence unambiguously demonstrates that all disruptions in the accumulation process are not "crises" in the sense of being systemic or severe. Chart 1 demonstrates this for the United States. For the eighty-five years of consistent GDP statistics, 1929-2013, I calculate each year as the percentage point deviation from the year's trend value. For the entire period the trend is 3.5 percent per annum, which is statistically significant at far below one percent probability.

Inspection of movements in US gross national product suggests that over the nine decades only two episodes qualify for as "crises". These are the Great Depression of the 1930s and the contraction that began in the second half of the 2000s. During 1930-1940 GDP averaged twenty percentage points below its trend, and during 2008-2013 the average almost as low, minus 17 percent. Both manifested themselves in a severe collapse in the value of financial assets. It is important to note that the economic collapse of the late 2000s started several years before. Relative decline began as early as 2001, with stagnation relatively to the long term trend after 1990. This longer view of the current crisis plays an important role in subsequent analysis.

By contrast, during the forty-five years, 1946-1990, in no year did US GDP fall below its trend value. We find three "recessions", in the early 1950s, late 1950s, and early 1980s. Some studies allege that the last of the three represented a crisis. This crisis allegedly derived from a fall in profits and/or profit rates due to a stagnation of labor productivity. If the word "crisis" applies to the early 1980s when GDP did not fall below its trend value, we require another term for 1930-40 and 2008-13 ("catastrophes" perhaps). Whatever words we use, it is obvious that US economy during 1930-40 and 2008-13 suffered outcomes qualitatively different from all other years (Weeks 2010a, Chapter 10 & 11).

The exercise in Chart 1 is repeated in Chart 2 for the United Kingdom, the only other high income country for which the calculations are relevant. All other major capitalist countries during these nine decades, France, Germany, Italy and Japan, suffered catastrophic damage in World War II and underwent profound social and political changes.

Even a glance at the two charts reveals substantial differences in the movement of national production over time. While four decades 1950-1990 involved continuous expansion for the United States economy, the UK economy passed through two substantial and extended recessions or disruptions in accumulation, immediately after the war (1945-1960) and during the first half of the 1980s. In addition, during 1990-2007, when the US economy grew at well below its trend value, the British economy expanded considerably faster than its long term tendency.

Subsequent charts show that of all major economies, the interaction between those of the United States and the United Kingdom is by far the closest for deviations from trend over the long run. Chart 3 provides a scatter diagram of the deviations from trend for the two economies, and it demonstrates that while the link is statistically significant, it is quite weak (correlation coefficient of .07). Inspection of the long term statistics for these two economies suggests that in most years the movements in national output respond to domestic factors.

Comparing more countries requires shortening the time period. Chart 4, which uses statistics from the "Penn World Tables",[8] adds France, Italy and Japan to the analysis and covers six decades, 1950-2013, with trend rates reported in the legend (charts for each country are found in the Annex). Germany is not included because unification in 1990 resulted in a disjuncture in all economic time series statistics. Two observations stand out. First, both the UK and the US economies stick relatively close to their trend values, while the economies of the other three countries have pronounced convexity with respect to the horizontal (time) axis.

The common growth pattern for France and Italy in the chart reflects two extremes, very rapid recovery from the devastation of WWII in the first two decades, and relative or absolute decline after 2000. Output fell well below its trend value for these two countries in the early 2000s, while UK and US output remained above trend. For

France and Italy the drop below the trend coincided with adoption of the euro (Weeks 2014a). This is discussed in the next section.

For Japan the contrast between post-war recovery and subsequent stagnation is considerably greater. As is well documented, the Japanese economy stagnated during the 1990s and 2000s, a deflationary process that began well before what we now call the Global Financial Crisis (Ito & Mushkin 2004). As for the two European countries, the disruption in accumulation for Japanese capital preceded the onset of the financial crisis.

Reducing the coverage by another decade allows for inspection of additional countries using World Bank statistics. Chart 5 compares the United States and two groups, upper and lower middle income countries, for 1960-2013 (trend rates appear in the legend).[9] Inspection of the chart suggests that the growth pattern of these countries was similar to that of the United States until the mid-1980s (noted by the vertical dashed line). Subsequently the two middle income groups appear almost the mirror image of the US pattern. As for the major capitalist countries domestic factors seem to have more impact on national accumulation patterns that international influences. It is clear that in recent decades the influence of the US economy on global growth patterns declined.

Cross-country patterns during 1994-2014

The end of the Soviet Union and the unification of Germany fundamentally transformed Europe and, to a lesser extent, the global economy. This section inspects some consequences of these changes. What is perhaps the most important change for the global economy, the rise of China as a major capitalist power, I discuss in the next section.

Chart 6 compresses the time period into twenty years, 1994-2014, using quarterly date, in order to inspect the both the financial collapse of 2007-2009 and the route to it for six developed capitalist countries, the United States, France, Germany, Italy, Japan and the United Kingdom. Quarter-on-quarter deviations from trend GDP appear in the legend to the chart (the annual equivalent trends are approximately four times the quarterly value). The growth patterns are quite similar with the exception of Japan. The Japanese pattern reflects the long period of stagnation and deflation, only weakly influenced by external economic events.

The economies of all six countries suffered relative then absolute declines, beginning at approximately the same moment, the first quarter of 2008. However, of the countries in the chart the economy of only one, the United Kingdom, collapsed as a direct result of financial "contagion" from the United States. The common pattern for the three continental European countries should be placed in the context of the euro zone rather than as a direct extension of the US crisis.

Until 2007 the contraction or stagnation of the major economies of the euro zone resulted from causes only loosely related to influences emanating from the United States. During the 1990s the German economy suffered from the growth-depressing policies of the Deutsche Bundesbank which maintained high interest rates in the erroneous belief that the reunification in 1990 would provoke inflation.[10] As a result, the German economy stagnated during the 1990s. It did not return to growth until the Social Democratic government of Gerhard Schröder adopted beggar-they-neighbor export policies at the end of the decade. Ideologically opposed to stimulating growth through a fiscal expansion, the Schröder government induced trade union leaders to agree to an indefinite freeze on real wages and a dual labor market allowing for a low-paid segment of the work force. To this was added an export subsidy by changing payroll taxes to value added taxes from which exports were exempt. These measures generated massive German trade surpluses by the mid 2000s, and would result in the euro crisis (Weeks 2014a).

For France and Italy the 1990s brought low growth, though not as low as Germany's, in the successful but ultimately disastrous attempt to "track" the German, which was a condition to join the euro zone at the end of the decade. Indeed, the relatively large Italy debt resulted not from fiscal deficits, but from borrowing to maintain the *lire*-mark exchange rate.[11]

Close inspection of Chart 6 shows quite different growth patterns prior to 2007, though when financial collapse hit the United States in 2008, all six countries when down together. This similarly proved extremely brief. In early 2009 the German economy began to recover and was the first to rise above its trend value, followed by Japan which unlike the former soon sank into a second recession. The fiscal stimulus of 2009 arrested the decline of the US economy, though provoking no sustained recovery. Relative to

their trend growth rates, France and Italy displayed no hint of recovery by early 2014. The absence of recovery for these two countries results directly from the fiscal austerity policies of the governments, slavishly adhering to the ideology of the European commission and the Bundesbank. The recovery claimed by the right-wing Coalition government in the UK should be judged as weak and belated at best.

The decidedly dismal performance of the United States and the European economies stands in striking contrast to the recovery and growth among the major middle income countries. Chart 7 compares the US pattern with those of China, Republic of Korea ("South Korea") and Indonesia.[12] The "Asian financial crisis" caused the severe dips for the last two during 1997-1998. Exchange rate speculation combined with dysfunctional "support" from the International Monetary Fund turned into disasters what would otherwise have been mild recessions (Weeks 2010b).

Of the three, the correlation in US and Korean growth rates is quite high and positive, but for China and Indonesia it is negative with respect to the United States, and strongly positive with respect to each other. These calculations suggest that the long term military and trade links between the United States and Korea have maintained a strong interactive relationship. However, the correlation between Indonesian and Chinese growth may reflect the development of a new sphere of influence.

When we turn to Latin America in Chart 8, changing global economic power becomes even more obvious. Of the three largest Latin American countries only Mexico appears to remain tightly linked to the US economy with almost a one-to-one correspondence in deviations from their trends. In contrast, for Brazil and Argentina the links to the US growth are negative, and strongly positive to China. These statistics are consistent with non-quantitative judgments about the rise of Chinese influence in Latin America.

All six middle income capitalist countries suffered growth declines along with the US economy in 2008, but in two cases, China and Indonesia, these were very small and brief. By far the worse effected were Korea and Mexico, long standing members of the US sphere of economic and political influence.

In the previous section I concluded that economic *crises* are rare and essentially national not global. National crises manifest themselves globally when a country

represents a large share of global output, with financial markets serving as the major transmission mechanism. Severe disruption in the US economy provoked the two great capitalist crises of the last ninety years, in the former case as US capital was emerging as globally dominant, and the latter when that dominance was on the wane.

Decline of the US Economy

As stated previously, two changes determined the nature of the global economy of the first half of the twenty-first century, the dissolution of the Soviet Union and the capitalist transformation of China. These changes resulted in a capitalist global social system. So-called globalization has been the rapid process of capitalist integration, unchecked by any rival social formation. Initially US capital took the lead in establishing the deeply reactionary nature of the post-Soviet capitalist epoch. Over the last decade its lead has been challenged and reduced by two rising capitalist powers, foremost China and to a lesser but substantial extent Germany.

If one accepts the general Marxian principle that production not circulation determines economic power, then the two primary determinants of global economic power are commodity exports and direct investment. The two are closely related, in that a national export surplus determines the growth of foreign investment in productive capital. Chart 9 shows the level of exports in billions of US dollars for the three largest exporting countries, United States, Germany, China, and China plus Hong Kong. From an extremely low base below one hundred billion dollars, mainland China exports rose to over 2.5 trillion by 2013, passing Germany in 2010 and the United States in 2011. When one adds exports of Hong Kong, many of which derive from the mainland, total China exports rise far above the other two, over 3 trillion.

Chart 10 reports the trade balances for the same three largest exporting countries. For Germany and China, the massive level of exports implied in the 2000s the largest trade balances in the world, while the United States claimed the smallest (most negative). The continuous trade surpluses resulted in the Chinese government holding the largest amount of foreign exchange of any country in the world, US$ 4 trillion in mid-2014, Germany far behind in eleventh place with 208 billion and the United States at US$ 143 billion (eighteenth place).[13] Chart 11 shows that the growing foreign exchange reserves

of China and Hong Kong have financed a surge in foreign investment, from below US$50 billion in 1990 to over 200 billion in 2013. This total is far below the US figure of about 350 billion, but easily the second largest amount for any country.

The relative reduction in the global power of US capital began as early as the 1960s when the post-war recovery in Europe and Japan gathered pace. The dissolution of the Soviet Union appeared to reverse this decline, but this was more appearance than substance.. The rise of China and its imminent claim to being the leading capitalist country rendered US global economic dominance a thing of the past. A crisis of US capital is a necessary but no longer sufficient condition for a crisis of capital to manifest itself globally.

Crisis and finance

I have argued that crises result from the inability to recapture the value of fixed capital through the circuit of capital. A necessary implication of this argument is that proposed alternative explanations either confuse cause with form (overproduction and underconsumption), or misidentify a transitory disruption with a systemic crisis. My argument is consistent with the identification of long term trends in capitalist social formations that weaken the resilience of capital to adjust to and recover from crises.

For example, stagnant productivity in sectors producing surplus value can make the circuit of capital more prone to generate a systemic crisis. But the failure of productivity to rise, due to production level class struggle or the increase in unproductive supervisory labor, does not itself generate a crisis or require one to resolve it.

It follows from my argument linking realization of fixed capital to finance that perhaps the most important trend in advanced capitalist societies has been the rise of financial capital. Lenin made this argument one hundred years ago, though the justification of was empirical rather than an analytical discussion of the circuit of capital (Lenin 1963, 226ff). Prescient as it was, Lenin's book did not anticipate perhaps the most fundamental aspect of the rise of finance, the conversion of industrial corporations into financial institutions (Toporowski 2010, 27ff). This process has been most intensive in the United States, less so in Europe, and hardly at all in China, which helps explain the rise of German and Chinese capital relatively to US capital.

Within my analytical framework for understanding crises, the financialization of previously non-financial corporations is by far the most important intra-capital development of the last several decades. If a process of "financialization" has had a transformative effect on contemporary capitalism, this is its most important element.

The "financialization" phenomenon results from the attempt to extract surplus value from the circuit of capital without producing surplus value. Marx, like his contemporaries, argued that surplus value arises in production. He went on to explain that surplus value divided into the "Trinity", profit of enterprise, interest and rent (Marx 1971, Parts IV and V). In the twenty-first century we must expand the meaning of the word "interest" to include profits appropriated through financial transactions, especially financial speculation.

The Great Depression, which was primarily a US financial collapse, resulted from the unregulated rise of financial capital. In 1933 the famous Glass-Steagall Act, formally the Banking Act of 1933, severely restricted financial activities for all private institutions (see Weeks 2014, 39-41).[14] The relentless process of dismantling the protective provisions of the Act from the late 1970s through the 1990s liberated finance to assert its dominance of US capital.

The so-called Global Financial Crisis was the result of the unchecked ascendancy of finance in the US economy, as indicated in Chart 12. At the end of World War II manufacturing generated value added over ten times greater than value added attributed to financial activities. At the end of the 1960s the ratio fluctuated between six and seven. Financial deregulation initiated under President Jimmy Carter brought the ratio down to about four in 1980. Since 2000 it dropped below two in every year but one (2008). The simple correlation between percentage changes in manufacturing and financial value added over the 65 years is not significantly different from minus one.

The absolute rise of financial revenue and the corresponding decline in manufacturing value added encapsulates the decline of the global power of US capital. After decades of dominating global capital, the power of US capital to control international markets is more than on the wane. It is in retreat, and not a willing retreat.

Conclusion

The analytical and empirical elements of this paper point to several conclusions. First and most import, the advanced capitalist countries, the United States, United Kingdom, those in Western Europe and Japan are highly integrated through financial markets. While the United States has the largest economy in this group, it has not determined the economic performance of the others for several decades. Put another way, these economies are integrated through trade and capital flows, but domestic conditions, random events and policies determine their medium term growth performances. For none of them does a major crisis result in a crisis of global capitalism.

Second, over the last one hundred years capitalist countries have suffered many disruptions, most of which did not result in global disruptions. Those that did worked their destruction through financial markets, and these became increasingly frequent after 1980.

Third, at the national level the United States suffered from two disruptions that qualify for the term "crisis", 1929-1940 and 2008 to through the present. The first did not generate crisis-level disruption in the other major capitalist countries, though all to some degree suffered lower rates of accumulation. The second crisis has struck all of the major capitalist countries of Europe, though not those in Latin America or Asia.

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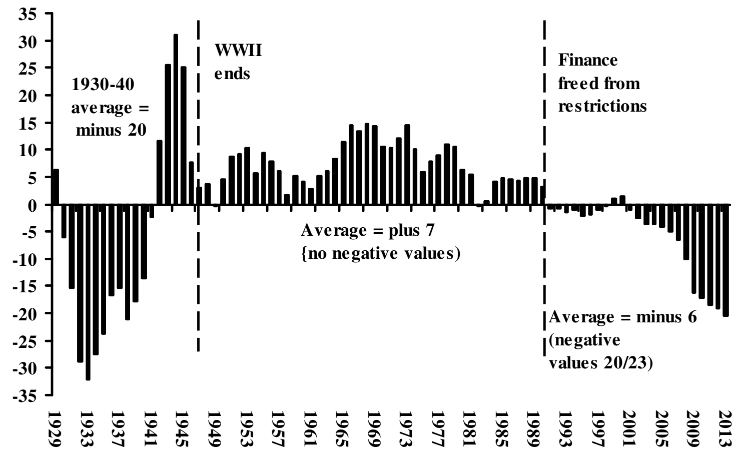
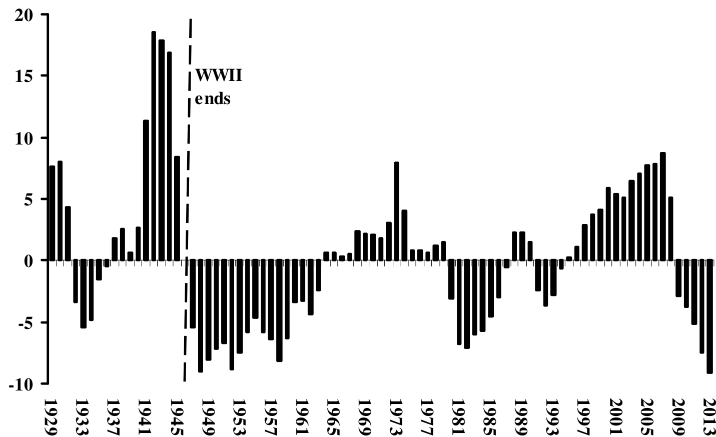
Chart 1 USA: GDP, Constant Price, percentage point deviations from period trend, 1929-2013



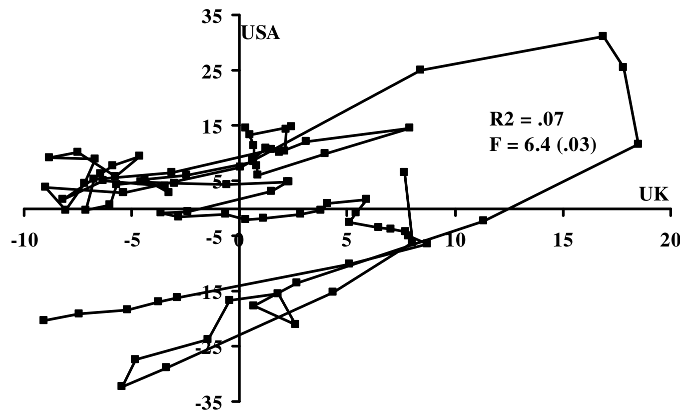
Note: Trend is 3.5% per annum (@ .00).
Source: *Economic Report of the President*, various years**.**

Chart 2 UK: GDP, Constant Price, percentage point deviations from period trend, 1929-2013



Note: Trend is 2.6% per annum (@ .00).
Source: www.bankofengland.co.uk/publications/.../threecenturiesofdata.xls

Chart 3 UK and USA GDP deviations from trend, 1929-2013



Sources: See parts a & b.

Chart 4 USA and 4 high income Countries, Constant Price GDP, percentage point deviations from period trend, 1950-2013

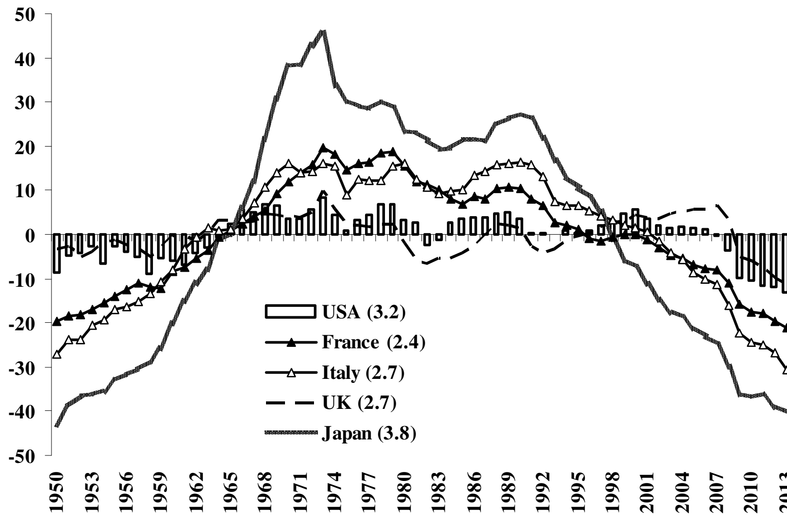


Chart 5 USA and Middle Income Countries, Constant Price GDP, percentage point deviations from period trend, 1960-2013

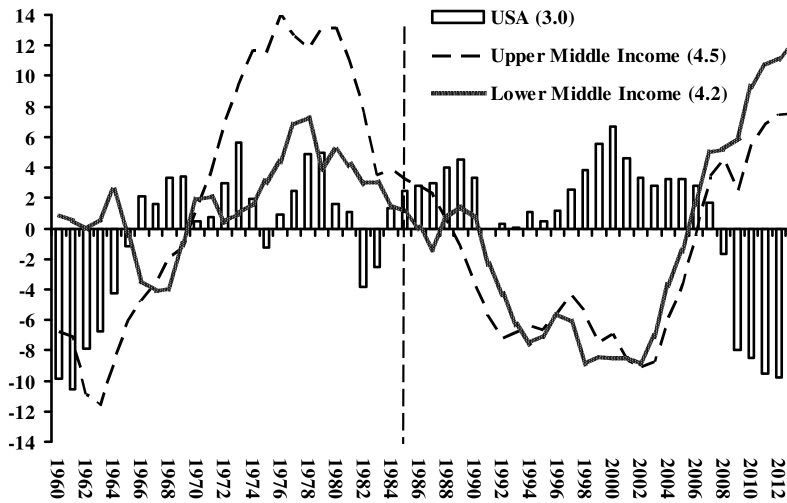


Chart 6 USA and 5 High Income Countries, Constant Price GDP, percentage point deviations from period trend, 1994-2014

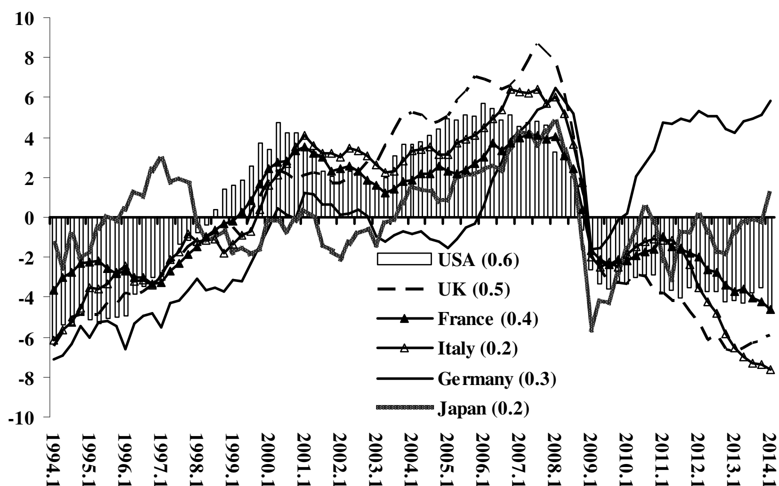


Chart 7 USA and 3 Asian Countries, Constant Price GDP, percentage point deviations from period trend, 1994-2014

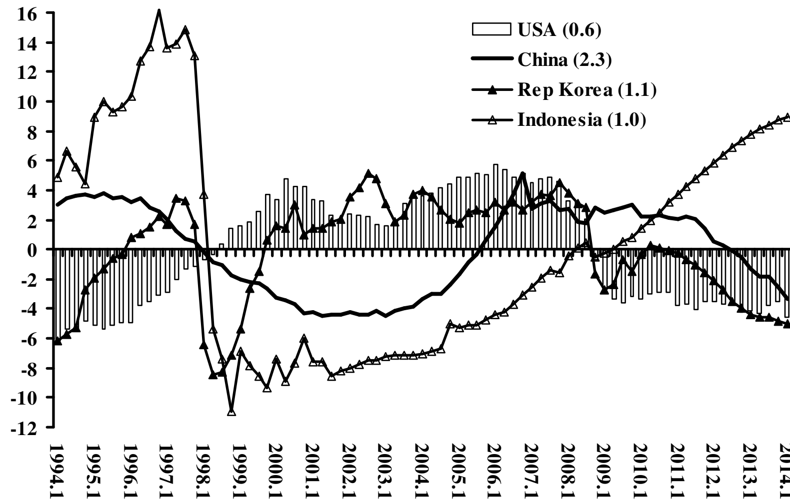


Chart 8 USA and 3 Latin American Countries, Constant Price GDP, percentage point deviations from period trend, 1994-2014

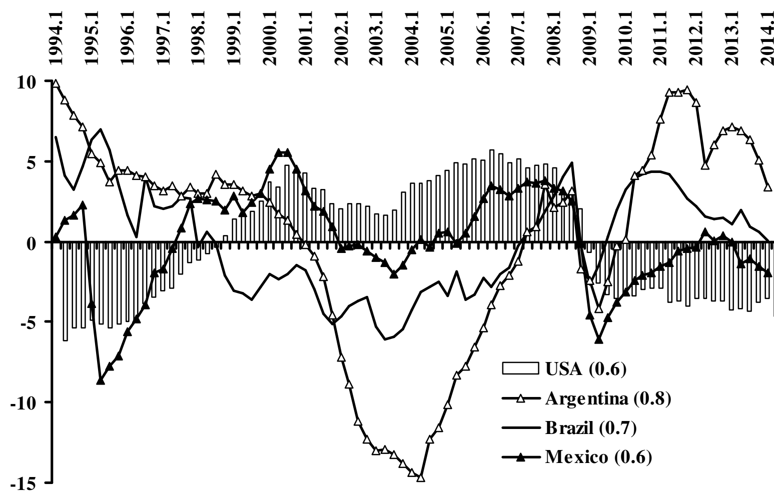


Chart 9 Annual Exports, USA, Germany and China, 1990-2013
(US dollars billions, current prices)

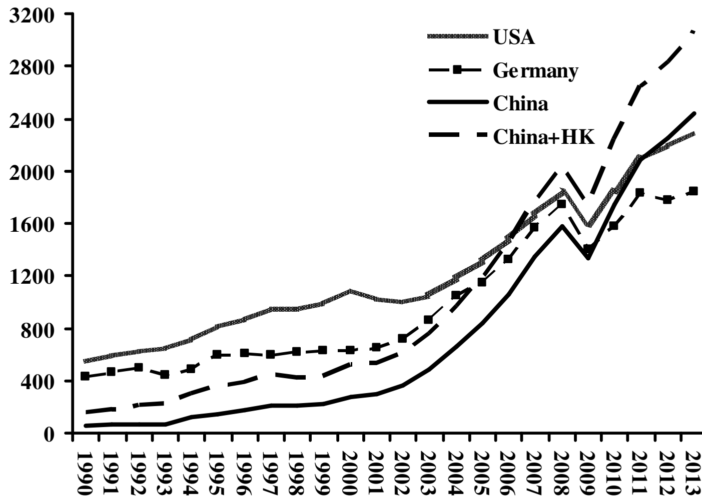


Chart 10 Annual trade balance, USA, Germany and China, 1990-2013
(US dollars billions, current prices)

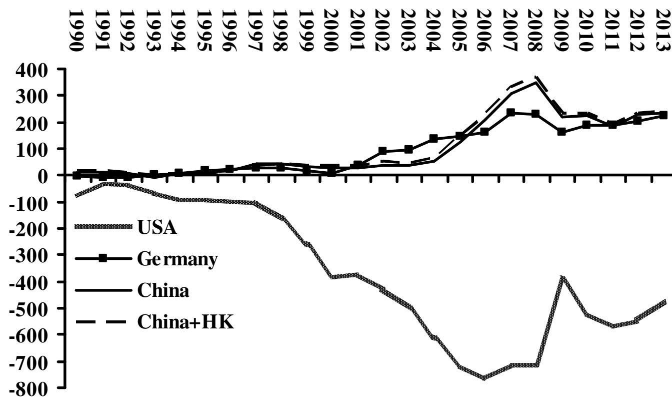
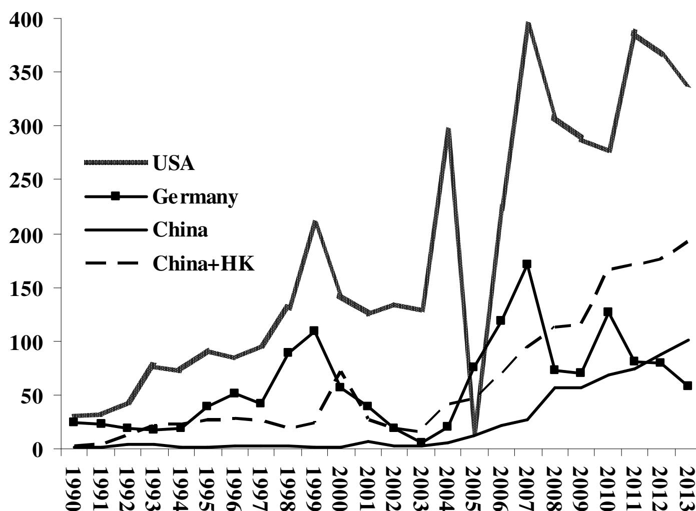
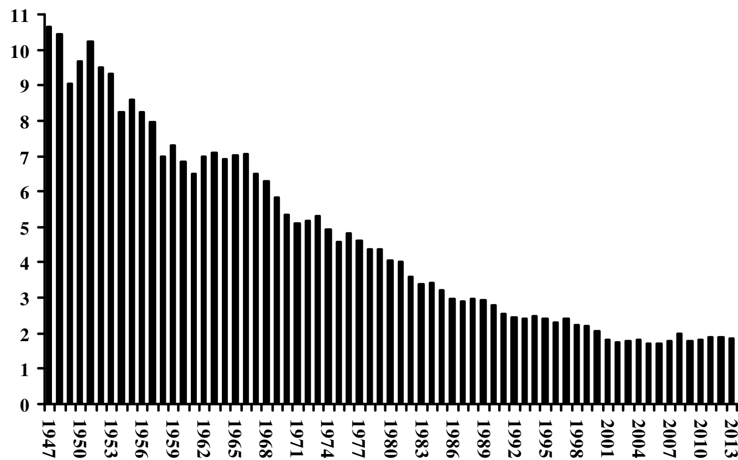


Chart 11 World's 3 largest foreign investing countries, 1990-2013
(US dollars billions)



Source: UNCTAD, World Investment Report 2013, Table 2.

Chart 12 USA: Ratio of Manufacturing to Financial Value Added, 1960-2013



Note: I measure "financial value added" with the BEA category "finance and insurance".
Source: US Bureau of Economic Analysis (http://www.bea.gov/national/Index.htm).

Annex Tables

Chart A1 USA: GDP, Constant Price, percentage point deviations from period trend, 1950-2013 (trend = 3.2% pa)

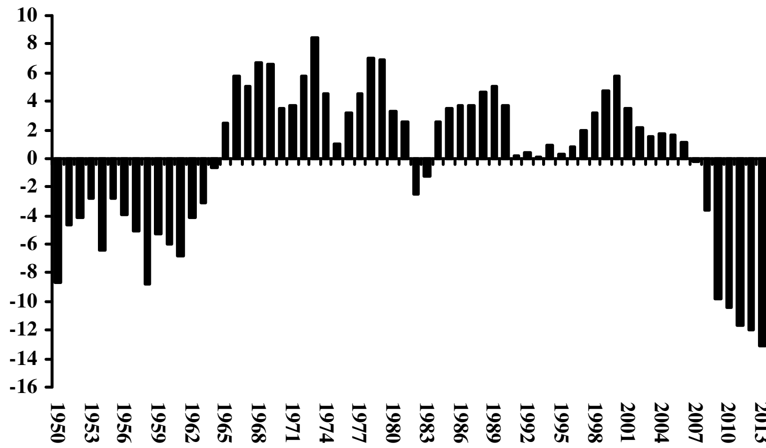


Chart A2 UK: GDP, Constant Price, percentage point deviations from period trend, 1950-2013 (trend = 2.7% pa)

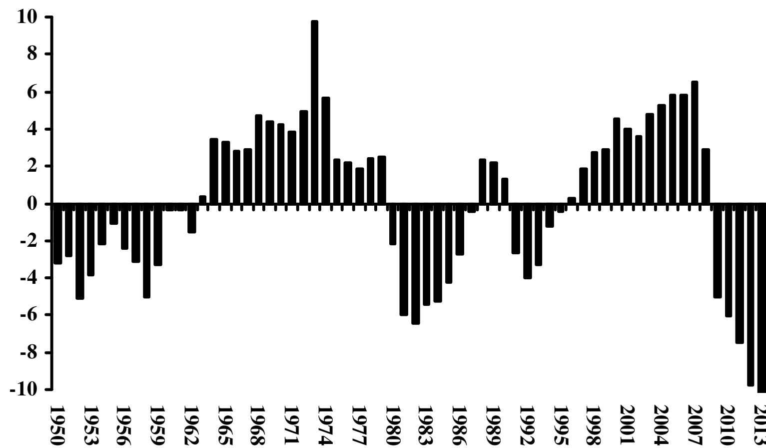


Chart A3 France: GDP, Constant Price, percentage point deviations from period trend, 1950-2013 (trend = 2.4% pa)

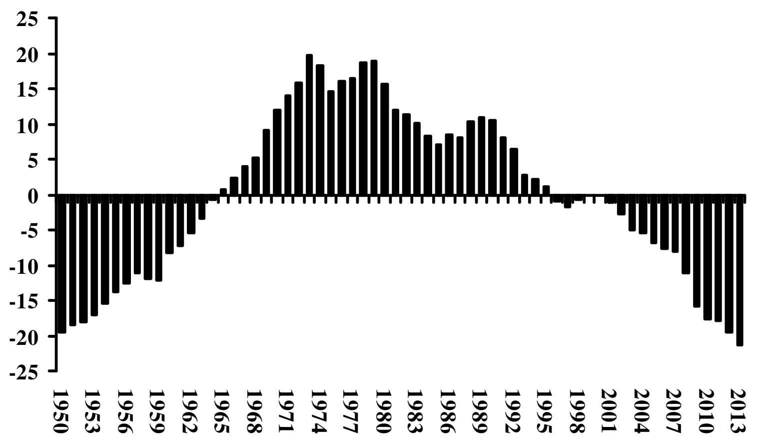


Chart A4 Italy: GDP, Constant Price, percentage point deviations from period trend, 1950-2013 (trend = 2.7% pa)

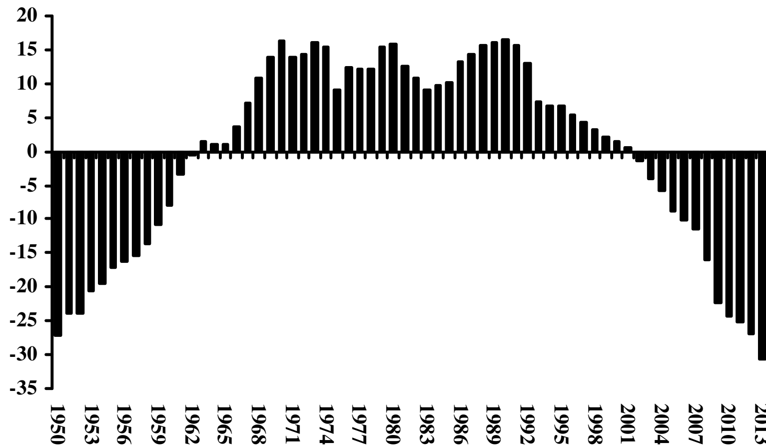
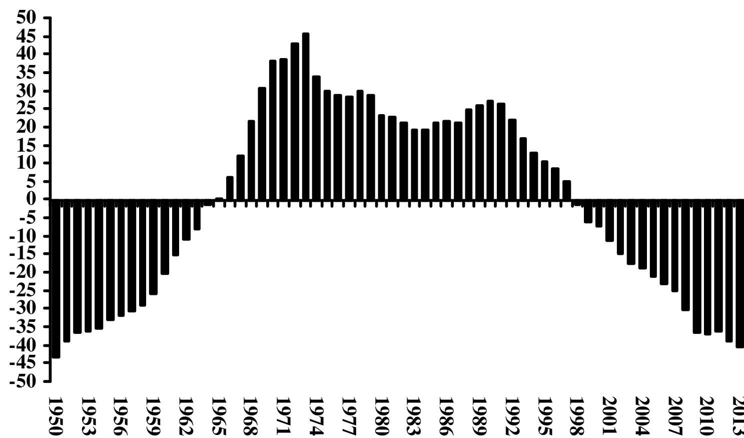


Chart A5 Japan: GDP, Constant Price, percentage point deviations from period trend, 1950-2013 (trend = 3.8% pa)



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[1] I refer to the full circuit including both production and finance capital,

M*→M→[CC+VC]…P…C'→M'

[M* to M] is financial capital lending to industrial capital to initiate production. [CC+VC] is money paid for the elements of productive capital, means of production and labour power. P is the moment of production yielding commodity capital [C], and M' is the realization of commodity capital as money capital.

[2] In his famous and frequently misunderstood discussion of commodity fetishism, Marx writes in a foot note, "It is one of the chief failings of classical economy that it has never succeeded, by means of its analysis of commodities, and, in particular, of their value, in discovering that form under which value becomes exchange value. Even Adam Smith and Ricardo, the best representatives of the school, treat the form of value as a thing of no importance, as having no connection with the inherent nature of commodities. The reason for this is not solely because their attention is entirely absorbed in the analysis of the magnitude of value. It lies deeper. The value form of the product of labour is not only the most abstract, but is also the most universal form, taken by the product in bourgeois production and stamps that production as a particular species of social production, and thereby gives it its special historical character. If then we treat this mode of production as one eternally fixed by Nature for every state of society, we necessarily overlook that which is the *differentia specifica* of the value form, and consequently of the commodity form,

and of its further developments, money form, capital form, &c. " (Marx 1970, Chapter One, footnote 33).

[3] For a discussion of why Adam Smith did not deal with the problem of general overproduction, see Marx. 1968, II, pp. 484ff.

[4] As surprising as it may be, few non-Marxist economists consider capitalism to be fundamentally different from previous societies in which exchange was common. A rare exception is the Keynesian Liejonhufvud:

> [T]he dynamic properties of an economic system depend upon what I will call its ‘transaction structure’. That labor services are sold for money and that households obtain their consumption goods in exchange for money is one aspect of the transaction structure in Keynes' system. In an economy of self-employed artisans [the problem of] unemployment cannot appear. (Leijonhufvud, 1968, 90)

[5] Shaikh (1978) provides a brief survey of crisis theories, Marxist and non-Marxist.

[6] A useful source is Bellofiore (2009) and the review essay by Jaffe (1972).

[7] See Okishio (1961), where he demonstrates that if capitalists apply a profit maximization rule, they will always reject techniques that lower the profit rate. It should be noted that the Okishio "theorem" refers to the level of the production unit, not capital as a whole.

[8] These statistics were compiled in an on-going University of Pennsylvania research project, found at https://pwt.sas.upenn.edu/php_site/pwt_index.php

[9] The World Bank defines "middle income countries" as those with per capita incomes form about UU$1000 to 12,000. The lower and upper limits change over time due to inflation and changes in the base year. See http://go.worldbank.org/BDZHSEY4J0

[10] The perennial Bundesbank obsession with inflation derived superficially from the decision of the conservative government of Helmet Koln to set the conversion of the east German marks at one-to-one with the west German mark.

[11] Throughout 1990-2006 the Italian government maintained primary surpluses very calendar year, which no other major EU country did, certainly not Germany with a primary deficit every year, 2001-2005 (Weeks 2014a).

[12] I omit India because its quarterly growth statistics begin considerably later than 1994.

[13] International Monetary Fund balance of payments statistics are accessed at http://elibrary-data.imf.org/FindDataReports.aspx?d=33061&e=170784

[14] The "sovereign debt crisis" of the 1980s demonstrated the effectiveness of the Banking Act of 1933 in virtually prohibiting risky behaviour by US banks. Legally forbidden to speculate on stocks, bonds and real property, US banks found in the Act a loophole that allowed them to lend to foreign governments (see Weeks 1989, Chapter 3).