The Great Financial Meltdown

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The Great Financial Meltdown: systemic, conjunctural or policy created? edited by Turan Subasat.

This book started from a seminar on the causes of crises hosted by the University of Izmir, Turkey back in October 2014. Many of the top radical and Marxist economists were present.

At that seminar, distinguished Marxist, David Harvey delivered a paper criticising those Marxist economists who support the view that Marx's law of the tendency of the rate of profit to fall (LTRPF) is the underlying or main cause of crises in the capitalist mode of production. In particular, Harvey singled out my work to attack. I replied to his critique on my blog and he kindly posted that reply on his popular website. After that, there was a further exchange of views, including a strong intervention by Andrew Kliman in support of Marx's law.

Turan Subasat has superbly brought together all the papers submitted by leading Marxist and radical scholars at that seminar nearly two years ago in this book. He kindly invited me to present my reply to Harvey which now also appears in the book. But there are many other interesting and relevant papers in the book by leading Marxist economists (contributors: E. Bakir, R. Bellofiore, A. Campbell, R. Desai, B. Fine, D. Fouskas, A. Freeman, D. Harvey, A. Kaltenbrunner, E. Karacimen, D. Kotz, S. Mavroudeas, S. Mohun, O. Orhangazi, M. Roberts, T. Subasat, J. Toporowski, J. Weeks.)

Unfortunately, the book is very expensive, as is the wont of academic publishers, so that only the rich and those able to get a good library will be able to read it, so I thought I would give a flavour of the ideas presented in the book by various authors, of course, through my own particular taste buds.

Turan provides an excellent introduction and summary of the combined views of these top Marxist scholars. He argues that the causes of crises under capitalism and, in particular, the recent global financial crash and subsequent Great Recession, can be considered from three angles: is there a systemic underlying cause of crises (the falling rate of profit or underconsumption); or is it conjunctural (each crisis has a different cause); or is it the result of policy decisions (eg the neoliberal agenda, financial deregulation etc)?

On the first theme, apart from my own paper, Alan Freeman, a longstanding supporter of the LTRPF, offers a *"vigorous defence"* (Subasat) of Marx's law. Like me, Freeman reckons that we must separate the underlying cause of crises (falling profitability) from the immediate causes (financial crash). Some conjunctural phenomena like 'financialisation' in the last 30 years or neoliberal policy regimes may seem to be the cause of crises but they are not alternative causes but are *"themselves explained by the LTRPF."*

In contrast, John Weeks, in his paper, reckons that the LTRPF *"fails to get out to the starting gate as a candidate for generating cross-country crises".* Weeks reckons that the organic composition of capital (OCC), argued by Marx as the main driver of the tendency of the rate of profit to fall, has not risen to critical levels to justify the LTRPF as the main cause and, anyway, falling profitability does not lead to crises but just to a slowdown in the rate of accumulation (investment).

Now I have looked at Week's arguments before. But actually Marx himself dealt with that argument. For him, the fall in the rate of profit eventually leads to a fall in the mass of profit. At that point, capitalist investment will not just slow, it will start to contract sharply, leading to job losses and income falls and the start of a slump. The causal connection between the falling rate of profit, the mass of profit and investment has been outlined and investigated empirically by several authors, including G Carchedi, Jose Tapia and Peter Jones.

In his paper, Weeks argues that there is no precise separation by Marxist economists between mild downturns in economic growth and full-blown crises under capitalism. For him, there have been only three crises under capitalism: in the late 19th century, the 1930s and now. Now I agree that there is an important difference between regular and recurrent recessions every 8-10 years under capitalism and what I have called 'depressions' that last longer and go deeper. Indeed, that has been the main theme of my new book, The Long

Depression, now belatedly available to readers.

It's true that many financial crises are not accompanied by a slump or economic recession, as in the stock market crash of 1987, cited by Weeks as an example. But in that case, profitability in the major economies including the US was on the rise. So the crash was short-lived and quickly reversed. But that was not the case in 1974-5, the first worldwide simultaneous slump, triggered by the oil price jump, but after a decade or more of a profitability slide; or in 1980-2, again triggered by energy prices, but again after another decline in profitability.

In another paper, Simon Mohun argues that when profits are measured properly according to 'class' i.e. profits from ownership of capital, and not by official measures, then profitability, at least in the US, did not fall until just before the Great Recession, and so the LTRPF cannot be the cause. Again I have looked Mohun's thesis of several occasions and I found that, even on Mohun's own measures, corporate profitability peaked in the late 1990s and then fell. .

Both Weeks and Mohun look for other explanations than the LTRPF. Weeks argues that it was the breakdown in the circuit of capital and the realisation of money that was the problem and had nothing to do with the accumulation of value in the production process, as advocated by the 'falling rate of profit' theorists. Similarly, Mohun in his paper concentrates on the financial aspects of the crisis, arguing that crises are the result of breakdowns in the money circuit.

Other authors in the book also downplay the role of the LTRPF because they see a rise in profitability and little or no rise in the organic composition of capital due to the devaluation effects of technical innovation in the 1990s during the neoliberal period and, in the case of Ricardo Bellofiore, argue that we should instead look for crises in the private sector explosion of debt ('privatised Keynesianism'), similar to the position of post-Keynesian economist, Steve Keen.

Radhika Desai, in her paper, goes even further and argues that the current crisis (and all crises) is really the result of chronic underconsumption, Keynesian style. See John Weeks for a formidable refutation of that view (http://marx2mao.com/PDFs/JW82.pdf).

Both Subasat and Desai seem to move towards the post-Keynesian view that cause of crises is to be found in the distribution of wages and profits, Ricardo-style, and not in the production for profit, Marxist style. Similarly, Mohun concludes that reducing the inequality of incomes and the grotesque levels of top incomes would begin to solve recurrent crises: *"unless the issue of soaring top incomes is addressed, the neoliberal financial system remains crisis prone".*

As for financialisation, however defined, that was a response to the falling rate of profit in the major economies in the 1970s; a counteracting factor, as Al Campbell and Erdogan Bakir show in their paper, and also expanded on by Freeman in his. Campbell and Bakir argue that the Great Recession was not caused by Marx's law of profitability but was caused by the collapse of the neoliberal response to the profitability crisis of the 1970s. The policies of the ruling class in the major economies to hold down wages, allow deregulation, promote privatisation and introduce financialisation, eventually turned profitability round, but only at the expense of opening up a new underconsumption or financial crisis with a falling wage share in income and reckless credit-fuelled bubbles in housing that eventually burst. This approach is similar to the paper by David Kotz.

In another paper, Turan Subasat himself is keen to emphasise that the actual policies adopted under the neoliberal era were an important factor in creating the financial crash of 2008 – in effect the third strand of possible causes beyond the systemic and conjunctural. So we have alternative explanations of the Great Recession offered in the book: from financial deregulation (Toporowski), financialisation (Orhangazi) and overaccumulation of financial assets, to neoliberal policies (Subasat, Ben Fine).

Yet, also in the book, we have the case study of Greece, the biggest victim of the current capitalist crisis. And here Stavros Mavroudeas, convincingly in my view, shows how the LTRPF is the best explanation of the Greek tragedy. Mavroudeas: *"First, it is argued that 2007-8 economic crisis is a crisis a-laM arx (i.e. stemming from the tendency of the profit rate to fall – TRPF) and not a primarily financial crisis and this represents the 'internal' cause of the Greek crisis. Second, it is shown that there is also an 'external' cause. This comes from the* *relations of imperialist exploitation (i.e. unequal exchange) that exist within the EU and which divide it between North (euro-core) and South (euro-periphery) economies."*

John Weeks sums up the papers in the book. He makes the point that, while there are substantial differences about the causes and the nature of the current crisis among the authors (the LTRPF versus poor demand or low wages; neoliberal policies; instability of finance), the most common factor among the papers was an attempt to analyse theory with empirical evidence and not just quote Marx etc.

It is interesting to compare the collection of radical economic explanations of the current crisis in this book with the explanations on the causes of the Great Recession offered by leading mainstream economists at an IMF conference more or less at the same time.

Back in 2013, at the IMF conference on the crisis, Christine Romer, head of Obama's economic council, concluded that *"I think the right conclusion to draw is that financial shocks are likely to be both frequent and hard to predict – not just in their timing but in their form."* Very little empirical evidence at the IMF conference was presented to explain the global financial crash and the subsequent slump. It apparently remained a mystery.

Later this year, G Carchedi and I will publish a book (The World in Crisis) similar to Subasat's, a collection of papers by young Marxist economists internationally, that will provide more comprehensive evidence to back the view that Marx's LTRPF remains, as Alan Freeman says, *"the only credible competitor left in the contest to explain what is going wrong with capitalism".*