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Henri Houben was born in 1958 in Liège (Belgium). He obtained a bachelor's degree in sociology in 1980 and then studied economics. He obtained a Ph.D. in Economics from the Catholic University of Louvain-la-Neuve (UCL), near Brussels. The subject was "Evolution of production systems in the automobile industry: from Fordism to Toyotism". He worked as assistant lecturer at UCL, at the Department of Applied Economics.

Henri Houben has published papers in several reviews, mainly in Belgium, in particular in Marxist Studies and Contradictions. He regularly gives courses on economic subjects for the Institute of Marxist Studies. His main topics of research are the theory of Marxist economy, the development of transnationals, the power of the capitalist lobbies, the automobile industry, globalisation, the economic crisis, and the creation of European power, specially the Lisbon strategy. He is also a member of the antiglobalisation association Attac in Belgium (website in French: <http://bxl.attac.be/spip/>). Currently, he works as researcher for a NGO, GRESEA (Groupe de Recherches et d'Etudes pour une Stratégie Economique Alternative: Group of Research and Study in favour of a Alternative Economic Strategy).

Thoughts on the Current Economic Crisis

[BE] Henri Houben

The ghost of the 1929 crisis haunts the Western bourgeoisie. Even if events don't ever quite repeat themselves in the same way, the scale of the recession of the 1930s and the extent of its social, political and military consequences could very well be transcended by the crisis that appeared in 2007.

Authorities in different countries attempt to reassure people by explaining that, unlike in 1929, they have learned from experience. Today, they do not let the situation get out of hand. They carry out large scale interventions, inject liquidities, lower interest rates to encourage credit and investments, come to the rescue of institutions that are in trouble...

The main theory, which was put forward once again during the recent G20 summit in London on April 2nd 2009, is that problems occurred because of excesses on the financial market. The final text is very clear on the subject: "Major failures in the financial sector and in financial regulation and supervision were fundamental causes of the crisis. Confidence will not be restored until we rebuild trust in our financial system."¹

But how exactly did a limited sector such as subprime loans, estimated at around 1,300 billion dollars, lead the entire planet into such a deep crisis? Why, if the excesses of a specific finance are to blame, did we not cut off the rotten branch before it infected the whole tree?

Our thesis goes against this. In our opinion, the current recession, while it started on the American real estate market, while it first affected financial markets, can only be understood by replacing it in the larger context of capitalist "productive" economy and of the economic model which was adopted following the decisions taken in the years 1979-81 in the United States. This explains why it is important to have a historical perspective and to take into account the accumulation processes which caused the current problems. The Marxist analysis is key in such a consideration.

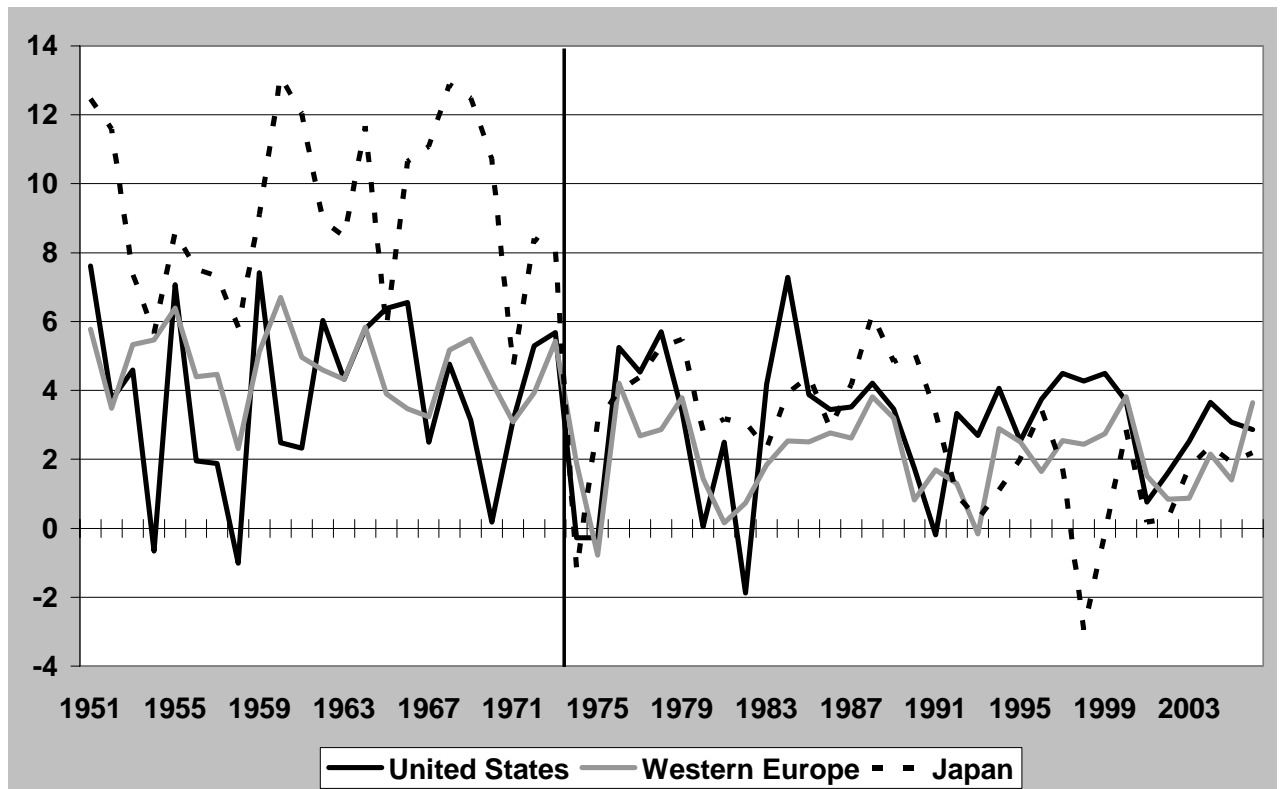
1. Short-term crisis and structural crisis

Traditionally and technically, a crisis is defined as being the succession of two declining quarters in GDP growth. But this defines a crisis from a short-term point of view. As Marxists, we are rather interested rather in identifying the malfunctions and deregulations of the economic machine, the moments when it blocks and the possibilities that exist for it to take off again. GDP can be a good indicator, but a larger framework of study is necessary.

¹ G20, «The Global Plan for Recovery and Reform», 2 April 2009, p.3, point 13 : http://www.g20.org/Documents/g20_communique_020409.pdf

The following figure (figure 1) allows us to situate the various growth problems and interruptions that occurred in the main economies since World War II.

Figure 1. GDP PPP Growth rates in United States, in Europe (12 main countries) and in Japan 1950-2006 (in %)



Source : Estimates based on Angus Maddison, Statistics on World Population, GDP and Per Capita GDP, 1-2006 AD, October 2008 : http://www.ggdc.net/maddison/Historical_Statistics/horizontal-file_09-2008.xls

Note : The 12 main countries integrated in Western Europe are : Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland and United Kingdom.

Broadly speaking, two distinct periods can be observed: before and after 1973-1974. Indeed, the period following 1974 is marked by four elements that were previously nonexistent:

GDP growth (in PPP value) drops under the 0% mark on several occasions, whereas this only previously occurred once or twice and only in the US before 1974 (in 1954 and 1958);

Global growth is slower; in Japan, it dropped from an annual average of 9.3% between 1950 and 1973 to 2.6% between 1973 and 2006; in Europe it dropped from 4.7% to 2.1% for the same periods; even in the US it dropped from 3.9% to 3%;

Annual variations are jerkier, with regular passages under the 0% mark compared to a more fluid, more constant progression especially during the 1960s; thereby, the most significant variation occurred in 1974, when the US went from a growth rate of 5.7% in the

previous year to a 0.3% drop, 5.4% to 1.9% in Europe, 8% in Japan to a production drop of 1.2%;

Other indicators show the persistence of problems which we have been unable to overcome; unemployment remains very high in most advanced capitalist countries; public deficit remains significant as does the level of public debt; interruptions and stalling in the economy are more frequent.

Since at least 1974, a new situation has appeared. Economic growth is no longer ensured. We are entering a period of stagnation or slow growth and the jerky movement of annual variations hovering around 0% most certainly shows an economy that authorities are desperately trying to boost without ever truly succeeding in doing so. We shall interpret this period as a structural crisis, i.e. A recession capitalism cannot get out of.

2. Why do structural crises occur?

When Marx analyses economic crises, he sees them in a cyclical manner. And this is precisely the form they take during the 19th century.

Already at that time, they showed the contradictory aspects of capitalism. On one hand, they showed its malfunctions. With the load of social miseries it causes, it reveals the inefficient and at the same time unjust and often inhumane face of the capitalist system. On the other hand, as Marx observed, recession is a necessary step if capitalism is to function well. Indeed, it is recession which will close, admittedly in a brutal and violent way, the gaps that exist between production and consumption, between the different production industries, between the sphere of production and the sphere of circulation.

The capitalist crisis appears in the form of overproduction, i.e. a momentary surplus of production or of the production capacities in use in relation to what can be sold. In this regard, it is different from pre-capitalist recessions which were mainly caused by phenomena which created underproduction. And overproduction in a world which underfeeds the majority of the population, which does not supply them with enough drinking water, shelter, clothes, etc., is simply shocking.

It is useful to remind ourselves that overproduction is in fact made up of two mechanisms which take place simultaneously, i.e. a relative overaccumulation and a relative under-consumption. On one hand, in their search for the highest possible profit, capitalists invest a great deal, beyond what people can buy. In this way they increase production capacity, driven by both the desire to become the leader and because of competition. They are able to produce more and more and, they hope, earn more. On the other hand, they restrict the compensation of the employees, thanks to means that improve productivity and other means that increase worker exploitation. They themselves increase the share of their income that they affect to investments to the detriment of consumption expenses. The possibilities for

absorbing the surplus of goods and services dwindle therefore, not because of the cut in salaries or because of other similar restrictions on income, but because the funds allocated to consumption do not evolve as fast as what capitalists supply (or can supply) their clients with.

To use the very words of Karl Marx: " 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 productive forces as though only the absolute consuming power of society constituted their limit." ¹ Since this quote is sometimes misinterpreted, let's specify that Marx does not focus on under-consumption or the impoverishment of the workers as it is relative to what capitalists place on the market.

In the 19th century, companies took the necessary decisions to ensure that the adjustment process was a success. This is how it can be summed up:

Price cut of the goods on offer to attract consumers;

Production cut and suppression of unnecessary departments, in order to reduce company costs;

Staff cuts and cuts in nominal wages (and if this cut exceeds the price cut on goods, which is possible because of the existence of higher and higher unemployment, cuts in gross wages);

Getting rid of competitors, those who do not have the means to follow these policies, which also enables the effects of the recession to be borne by others and not by ourselves.

Usually, these measures suffice. The elimination of less sound companies liberates market shares and enables others to be profitable and prosper once again. Creative destruction, according to Joseph Schumpeter's popular saying!

However, since the 1920s, these measures no longer constitute a way out of crises. On the contrary, capitalist countries sink into a depression that only ends with a major and radical disruption (wars, revolutions...). Why?

Isaac Joshua, who studied the crisis of the 1930s, insists on the advent of a true wage society. Before, the worker used to live off the production he created or his family created. The auto-consumption rate for agrarian production was 75% in 1820 and 50% in 1870. But it weakened during the 1920s². Workers almost solely depended on the market for their vital provisions. They acquired greater significance in global consumption. In 1929, workers' wages accounted for 65% of GNP. A way out at the expense of the workers –which is what companies do by nature- threatens the system, by crippling one of the sources to reconstruct national demand. Which explains why revival is difficult. Isaac Joshua observes that 1929 marked the beginning of an era of wage crises and also of major crises³.

1 Karl Marx, *Capital*, Volume III, Chapter 30

2 Isaac Joshua, *La crise de 1929 et l'émergence américaine*, éditions PUF, Paris, 1999, p.113.

3 Isaac Joshua, *La grande crise du XXIème siècle. Une analyse marxiste*, éditions La Découverte, Paris, 2009, p.16.

However, two other elements that have caught our attention also seem to play a role: the fact that competition no longer exists between smaller companies, but only between giant companies, monopolies; secondly, the supremacy of financial capital, i.e. at that time mainly the control of industry by banks, which can be observed in particular through the unprecedented development of credit.¹

The passage from the era of free competition to that of monopolies is an extremely important stage in the analysis of modern-day capitalism. A very large company, which on top of this is an international company, has the ability to resist the "natural" forces of the market, to compete with its rivals on all aspects and not just in the field of the economy, and to be granted the support of "its" government for all its maneuvers.

Facing with the crisis, it constituted a financial mattress to be able to resist the most significant effects of a decrease in sales and to first eliminate the smaller, weaker actors, until the moment when only giant companies remain. And as if that was not enough, public institutions can intervene, namely because they are "too big to fail" or "too interconnected to fail". Regardless of the principals of non-distortion of competition claimed and reclaimed by the world's great capitalist states, government assistance is on the rise in the hope of preventing bankruptcies.

As a result, traditional means of crisis resolution are set aside. Prices are maintained because of oligopolies which aren't engaged in a competition war or which prefer to rely on other aspects rather than this rivalry (quality, branding image, research, etc.). Smaller companies disappear yet it still is not enough to stabilize the market. Thus, since the 1980s, the car industry has gone from around forty major manufacturers, more or less independent, to just about a dozen². And the state of overcapacity in 2007, prior to the subprime crisis, stood at 20% of all installed equipment. We would need to suppress several multinational car manufacturers in order to bring production down to a level that solvent demand can absorb. But can governments let this happen? Will the Italian government abandon Fiat even though one of the peninsula's most powerful families, the Agnelli, is at the head of it and despite the fact that the Fiat group accounts for about 3% of Italy's GDP? The same goes for France and Germany. And didn't Barack Obama, the new American president, declare that the car industry was a symbol of the US and that he would not let it simply vanished ?

As a result, instead of having a normal functioning system, with a violent adjustment which revives the machine, we are faced with a struggling system that is unable to find any tangible way out of this slump. Recession turns into depression. A bigger destruction of production forces is necessary, but it is taking a long time to happen because the implications go far beyond a family-owned business or even a company.

¹ Notice that these two elements form a central axis of what Lenin calls imperialism, i.e. the very passage of free-competition to an era of monopolies.

² Not taking into account the emergence of Indian and Chinese companies.

After the wage society, the advent of monopolies, credit development is for sure the third factor that can explain the passage to structural crises. Credit is monetary creation and so the contribution of a sum of money at a given time, that has to be refunded from income drawn from future production (or activity). However, as capital, it has already been introduced in a monetary form into the economic circuit. As a result, this capital allows people to buy the surplus products or enables a production to continue which would otherwise possibly be at a halt.

When the first troubles arise and companies have liquidity problems, the banking industry can easily supply them and help them overcome the obstacle. As a result, the cyclical crisis turns into a simple drop of growth, which can even be a slight one. It is a time of prolonged prosperity, roughly like the one that took place between 1950 and 1973.

However, the debts are not refunded. They become permanent credit, granted all the more easily as there is a special relationship between the creditor and the client (big company, tied company, wealthy investor...). Limits are increased and loans renewed. This is how we evolve towards a debt society, because debt is dangerously accumulated. Until the moment when the mountain is so high that financial loan institutions are convinced the loans will never be repaid and each and every one of them wants to salvage what he can before the great collapse.

Reality is, however, somewhat more complex. At the arrival of the crisis, banks imagine the damages an immediate demand for repayment would cause, especially to themselves. Indeed, many clients would be unable to meet this demand and would go bankrupt, preventing credit institutions from getting their funds back. This explains why banks grant new loans or transfer the risks to others, often states, who become the guarantors of deficits. Thus, a breeze of fresh air blows over the economy. But this only lasts for a while. Soon the mechanisms that had caused the stall in the first place are back in action and a new solution needs to be found. This enables us to understand the succession of relatively short relaunches which are then followed by new cuts in production and it is this jerky rhythm which is typical of the structural crisis.

3. How has capitalism been practised since 1973?

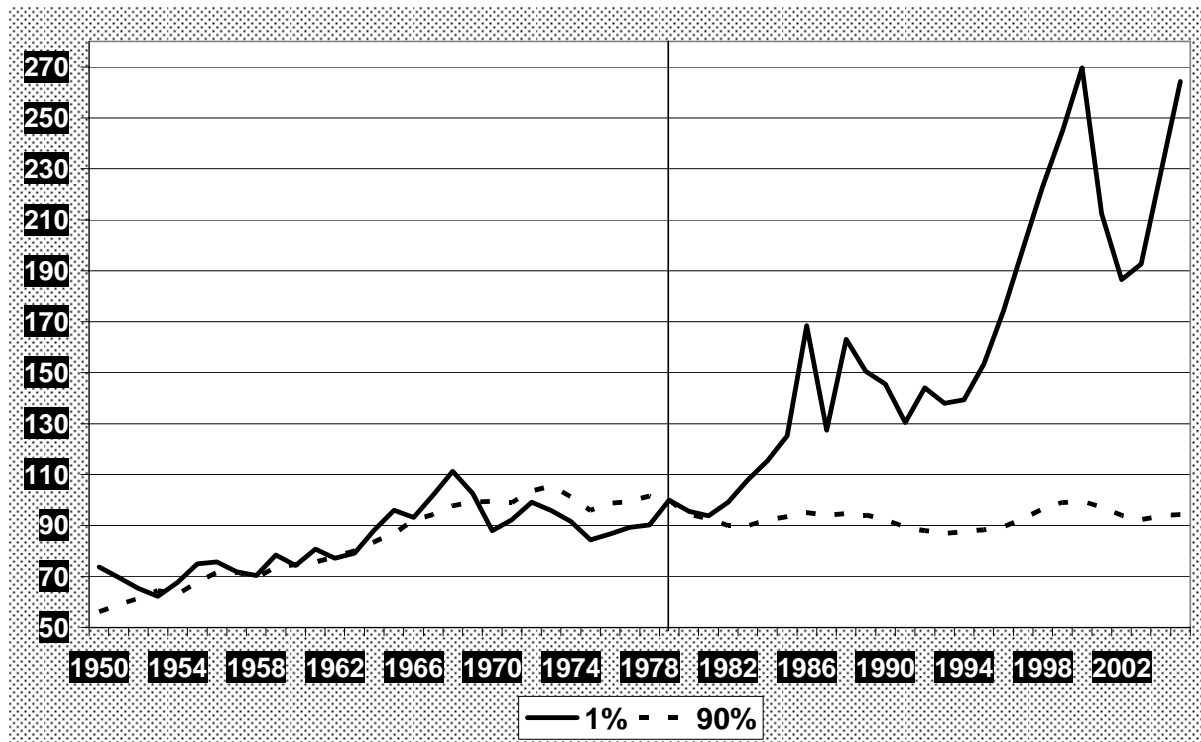
Today's world is the result of the choices made by the American leading class, especially at the turn of 1979-1981.

First, the American elite tried to go back on the compromises it had granted at the end of World War II and following that time. It built a society which was less and less equal, both by paying more to capital income and by reducing taxes for the wealthy.

The following figure (figure 2) shows the real income (in 2005 dollars) progression of the 90% that constitute the majority of the American population compared with that of the

percent which represents the wealthiest part of the population. We have brought both curves to 100 in 1979, which represents the pivotal year in American politics. Income includes estimated capital gains.

Figure 2. Progression of real incomes (including capital gains) of the top percent and the lower 90% in United States 1950-2005 (1979=100)

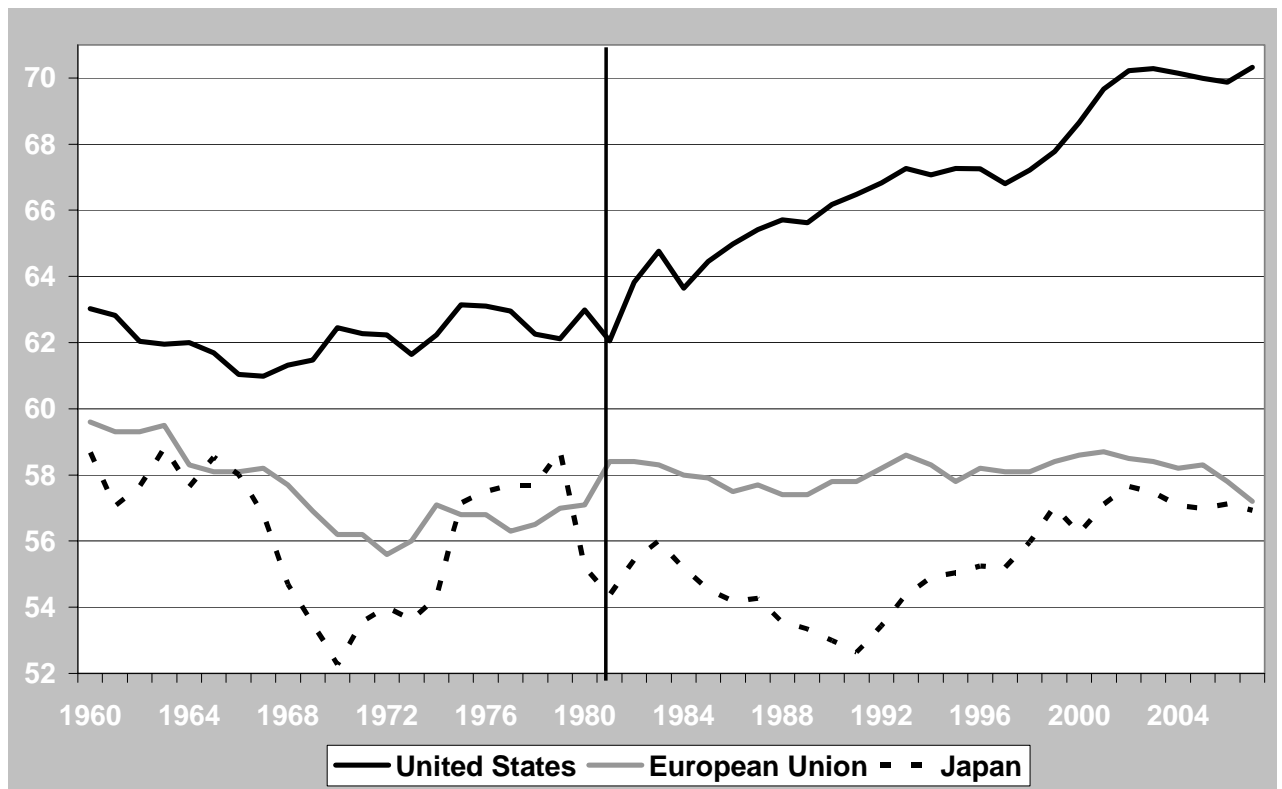


Source : Estimates based on Emmanuel Saez et Thomas Piketty, "Income Inequality in the United States, 1913-2006", Tables and figures updated to 2006, July 2008 : <http://elsa.berkeley.edu/~saez/>

The line that separates the period before 1979 from the period which followed marks a clear upheaval. Before 1979, income increased in a parallel manner. In 1953, both are almost at the same relative level (compared with 1979). After the cyclical reversals during the 1970s, income growth was no longer parallel. The income of the majority of the population was stagnating. It reached its maximum level in real terms in 1973. In 2005, it had dropped by 10.6% compared to this level. However, the income of the wealthy top percent rose with an irresistible force, only stock market falls accounting for partial stalling in 1987, 1991, and 2001. In 2005, income was 164% higher than in 1979. In 1979 the top percent earned 14 times more than the average income of the lower 90%. In 2005, it was 38 times more.

Secondly, the American elite turned towards a lifestyle of "overconsumption". In this regard, it is very interesting to compare the progression of consumption in the United States' GDP in comparison with its two great capitalist rivals, the European Union and Japan. This is what the next figure (figure3) illustrates.

Figure 3. Progression of the share of consumption in GDP for United States, European Union and Japan 1960-2007 (in %)



Source : Estimates based on Bureau of Economic Analysis, National Income and Product Accounts Table, Table 1.1.5. Gross Domestic Product: <http://www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=5&ViewSeries=NO&Java=no&Request3Place=N&3Place=N&FromView=YES&Freq=Year&FirstYear=1950&LastYear=2008&3Place=N&Update=Update&JavaBox=no#Mid>. For European Union, European Commission, European Economy, Statistical Annex, April 2008 : http://ec.europa.eu/economy_finance/publications/publication12534_fr.pdf et avril 2000: <http://www.aueb.gr/users/kalyvitis/European%20Economy%202000%2071%20en.pdf>. For Japan, IMF, International Financial Statistics and Statistics Bureau and the Director-General for Policy Planning (Statistical Standards) : <http://www.stat.go.jp/english/index.htm>.

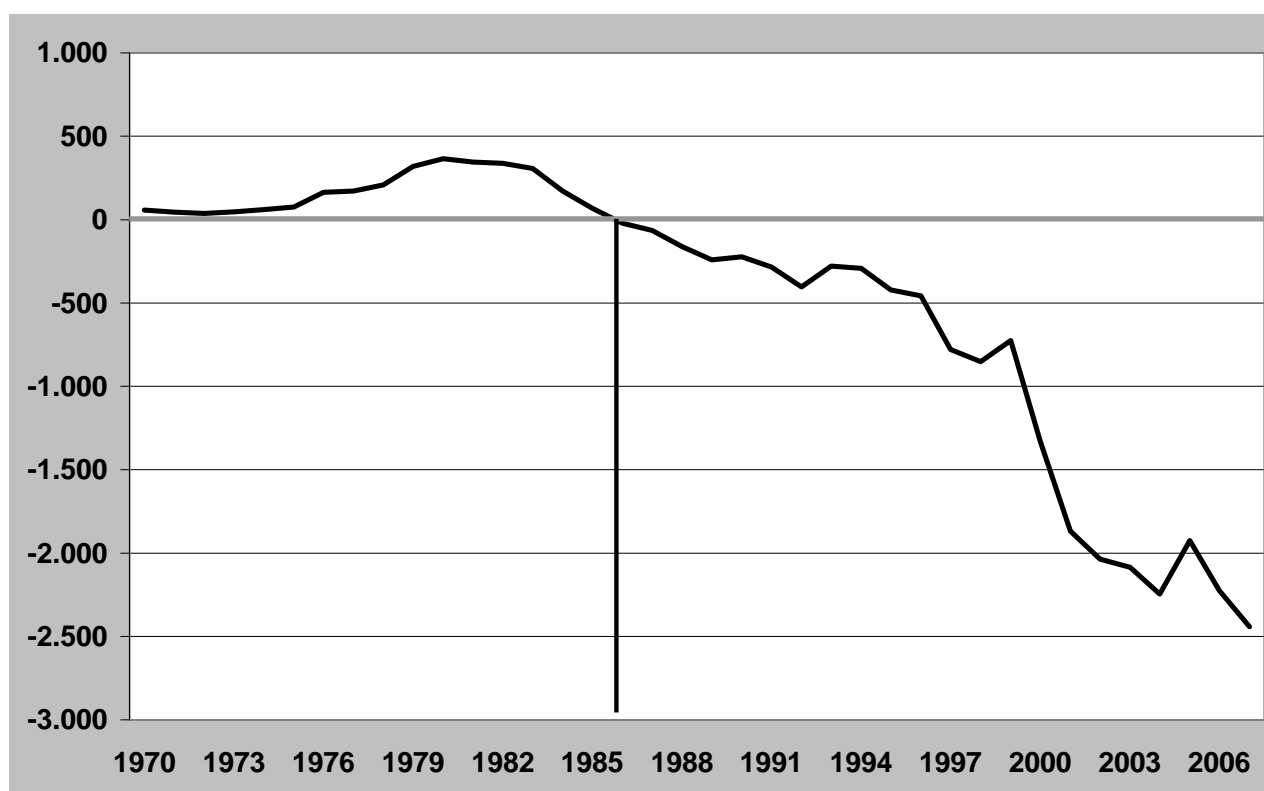
Note : Until 1993, European Union includes 15 countries. After that, 27.

Before 1981 (the vertical line in the center of the figure) the following facts can be observed: a relative stagnation of consumption in the US, a slight drop for the EU and a relative volatility in Japan. However, thereafter, though Europe stays at its level and Japan is still as volatile, American progression is almost constant and reaches a rate of 70% of GDP in 2002. In 2007, the ratio for the other two rivals is at around 57%, which is 13% less. The differential already existed from the 1960s onwards, but it was much less significant: just about two or three percent. If the US had not experienced this increase in consumption, its GDP in 2007 would have fallen short by 1.143 billion dollars, about 8.3%.

This "overconsumption" is kept alive by both a decrease in the net savings rate and a growingly worrying debt. So, net savings, taking into account the difference between available income and household expenses, went from a rate of 8% of GDP at the beginning of the 1980s, to levels that have been close to zero since 2003. As regards household debt, it has been on a constant rise since 1984 when it represented the equivalent of 51%, until 2006 when it exceeded 100%¹.

At the same time, savings becoming rare in the US, foreign investors are called on more frequently. The following figure (figure 4) recounts the evolution of the net supply of capital, i.e. American capital abroad minus foreign capital in America.

Figure 4. Net International Investment Position of the United States at Yearend, 1970-2007 (in billions of dollars)



Source : Estimates based on Elena Nguyen, The International Investment Position of the United States

at Yearend 2007, Survey of Current Business, July 2008, p.18-19 : http://www.bea.gov/scb/pdf/2008/07%20July/0708_iip.pdf.

Until 1986, American net holdings are positive. From there on, they deteriorated at an incredible speed. In 2007, the difference tallied 2,500 billion dollars. A paradoxical phenomenon where foreigners contribute directly to overfeeding American financial markets,

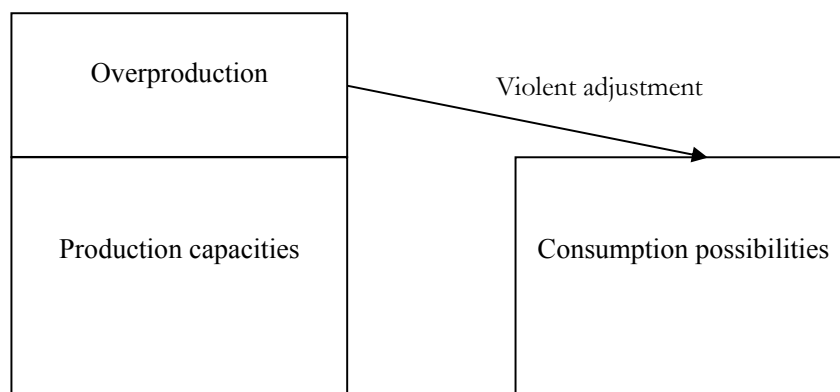
¹ Calculations made based on Federal Reserve, Flow of Funds Account of the United States during various years, release date: 12 March 2009: <http://www.federalreserve.gov/releases/z1/Current/data.htm>.

enabling both debt and a decrease in net savings of American households, who they themselves maintain overconsumption.

4. The extent of the current crisis

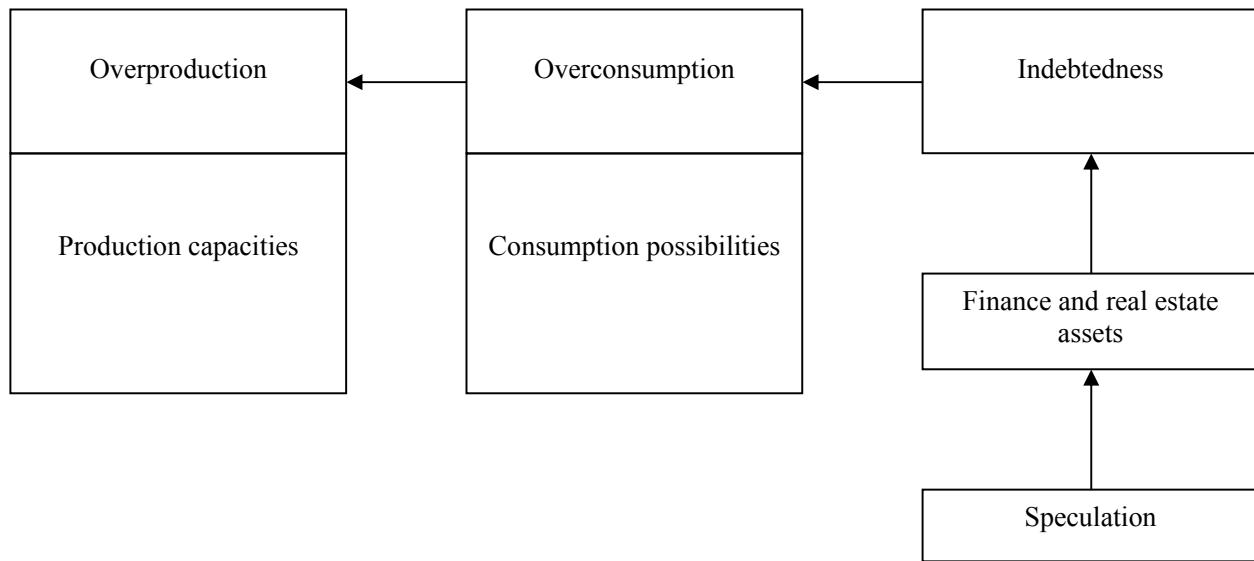
Thanks to a series of small diagrams which explain the mechanisms for resolving crises, we are able to retrace the various solutions put forward by the American leading class. The "normal" situation, which existed over much of the 19th century, can be portrayed in the following way (figure 5). There is a production (or capacity) surplus at some point in time which leads to the actual crisis. The aim of the violent adjustment is to reduce the production surplus to a level that can be absorbed by demand.

Figure 5. Traditional way of solving an economic crisis



However, American capitalists use a different method. Instead of having to reduce production capacities, which means closing down factories, or even giant companies where they are shareholders, they are somewhat artificially going to create additional demand, from credit. This is what figure 6 illustrates.

Figure 6. Crisis resolution pattern in the United States since 1980



In order to constantly increase debt –which is needed to fuel overconsumption-, financial markets need to be on the rise so that the increasing stock market rates of returns can be used as hedges by banks in order to allow them to grant further loans. And in order to encourage financial markets, speculation needs to be developed, letting the wolf into the sheepfold as it were. When stock exchanges fell in March 2000, American monetary entities continued to create a new speculative bubble, only this time on the real estate market. Since it is this very bubble which is bursting today causing financial markets to collapse, the pattern that has been developed since 1980 is in danger. Because they have fewer guarantees, households cannot request an additional increase of their credit. Moreover, banks caught up in the subprime nightmare are reluctant to grant loans. So, there is less money for debt, which undoubtedly affects overconsumption. As a result, the pattern regains its traditional aspect, marked by overproduction and overcapacity which will have to be dealt with in an even more violent way because they thrived on periods of overconsumption and excessive debt in order to build themselves up.

Paul Krugman, recent winner of the Nobel Memorial Prize in Economics, estimates that the inevitable decrease in consumption will create a 2,000 billion dollar gap. Faced with such a gap, only government authorities have the power to compensate, but at the cost of taking on the debt. Furthermore, since net savings are non-existent, overall investments cannot come from the United States itself, they have to come from abroad.

In reality, the international economic situation is hanging on the decisions taken, all of which carry clouds of a stormy global future:

Americans decide to raise their savings rate. They can only do so to the detriment of their immediate consumption. Under these conditions, the crisis would worsen in the US and would mostly affect exporting countries (Eastern Asia, Mexico, Central America, and Europe).

Americans maintain their low savings rate and foreigners have to contribute to financing American schemes. At the moment, interest rates are nil. Foreign institutions decide to maintain this rate to avoid the worst. However, on one hand, capital that could serve their national recovery is being used to save the United States. In this way, the crisis is being exported abroad. On the other hand, how long this zero rate will be able to last is a question of debate. It is clearly unsustainable in the long run.

Foreign institutions refuse to finance such rates. American monetary entities are forced to raise key rates. As a result, they add to credit, but they also incite other countries to follow their lead, otherwise all capital would end up in the US. Investment is choked and growth along with it. The crisis is greatly worsened.

Monetary entities refuse to raise key rates. There is no more external financing. Yet, the trade gap which totaled over 800 billion dollars in 2006 and 2007 is no longer compensated by the arrival of 800 billion dollars worth of capital¹. Dollars flee the country and are worth less and less abroad where everyone is trying to get rid of them. The dollar's exchange rate drops sharply. The international monetary system, which revolves around the dollar, collapses. There is currently no currency to take over. And we may assume financial blocs will take form, among other places, in Europe and in Asia to protect themselves from American goods that have become virtually worthless. Since the US currently dominates the world, or at least is predominant, it will under no circumstances accept such a situation where it would be confined to its territory and almost completely absent from the Eurasian continent. It could become even more politically and militarily aggressive than it already is today.

As it is, in the face of decreasing global sales and regardless of the above option, several countries are already trying to encourage their exportations by manipulating their exchange rates. Which can only take place to the detriment of other nations. Which means engaging in a rather destructive commercial battle and falling into quite a worrying deflationary spiral.

5. Conclusion

The shadow of 1929 is lingering over the planet, but not as a repeat. Rather, the 1930s crash gives us an idea of the extent of the impact today's crisis might have. As it did in those days, recession is taking a structural turn and, furthermore, we have already exhausted a

¹ It is a little less in 2008 (but it is still significant).

number of solutions which could not even been imagined 70 years ago or only with difficulty (such as state intervention for example).

It is very difficult to foretell what is going to happen. But our analysis leads us to the conclusion that the world is headed for a long depression. All sorts of tensions, such as the divide between blocs and nations, threaten to flare up, which could lead to ever deadlier international conflicts. The deadlocks the United States is faced with are a constant reminder to us.