

The Crisis of the Early 21st Century: Marxian perspectives

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That capitalism underwent a new structural crisis about three decades after the crisis of the 1970s, under circumstances evocative of the Great Depression, raised numerous interrogations. The purpose of the present study is to summarize our own interpretation, and discuss a set of other analyses of Marxian inspiration. Marxist scholars share a common critical analysis of capitalism in general and, more specifically, of neoliberalism, the latter phase of capitalism. But there should be no surprise in the discovery that the interpretation of the crisis remains controversial. The example of the Great Depression is telling in this respect: Eighty years after the event, no consensus has yet been found concerning its actual roots, and the same sets of alternative explanations are often retaken in the discussion of the current crisis.

1 - The crisis of neoliberalism

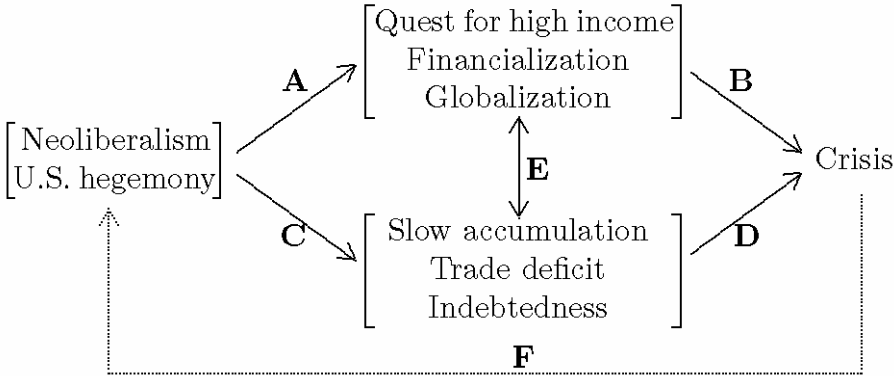
In the mid-1990s, we defined neoliberalism as a class phenomenon. More specifically, we describe neoliberalism as a new “social order” in which capitalist classes restored their powers and incomes, considerably diminished during the class compromise of the first post-World War II decades (the social-democratic or Keynesian decades). The control of financial institutions—now working to the benefit of capitalist classes—was a prominent component of the new social order. We denote as “Finance” the upper fractions of capitalist classes and their financial institutions. Thus, the new neoliberal social order can be denoted as a *financial hegemony* (the second one since the late 19th century). The transition, under capitalist leadership, to this new power configuration would, however, have been impossible if it had not been conducted in alliance with managerial classes, notably their upper and financial segments. (Within “managers”, we include both private and government components, and we denote capitalists and managers, considered jointly, as “upper classes”.)

1.1 - Our interpretation of the crisis

The overall interpretation we gave of the current crisis, as a “crisis of neoliberalism”, that is, a “crisis of financial hegemony”, is summarized in diagram 1.¹ At the root of the entire process is “neoliberalism under U.S. hegemony”. From this, derive two strands of explanatory factors. In the upper part of the diagram are mechanisms typical of neoliberal capitalism in every country: (1) the unquenchable quest for high income; (2) financialization; and (3) globalization. Capitalist classes always seek maximum income, but after the imposition of neoliberalism in the early 1980s, major transformations of social relations were realized in comparison to the previous decades, aiming at this maximization. A new discipline was imposed on workers and all segments of management (but, concerning management, this discipline was gradually transformed into the alliance mentioned above); new policies were

¹ Diagram 2.1 of G. Duménil, D. Lévy, 2011.

defined to the benefit of upper classes; free trade placed all workers of the world in a situation of competition; capitals were now free to move around the globe seeking maximum profitability. To financialization and globalization, one can add deregulation that conditioned both processes.



The crisis could have come later to the world as a result of this neoliberal strategy pushed to the extreme, but it came from the United States during the first decade of the 21st century. On the one hand, the U.S. economy was the most advanced among the large capitalist countries in the conduct of the above transformations. On the other hand, as depicted in the lower frame of the diagram, a set of other “specifically U.S.” features converged with these mechanisms. They can be described as “the trajectory of disequilibria of the U.S. economy”, with both its national and international aspects. The main components of this trajectory are: (1) the declining rate of capital accumulation; (2) the rising share of consumption (including housing) in GDP; (3) the rising indebtedness of households; (4) the widening deficit of foreign trade; (5) the increasing financing of the U.S. economy by the rest of the world (“external debt” for short). The two later trends would have been impossible to maintain during 30 years in the absence of the international hegemony of the country, of which the position of the dollar as world currency is a consequence and instrument. These trends resulted in the construction of an increasingly more fragile financial structure, where tremendous real and fictitious profits were made and, also tremendous, “wages” were paid to financial managers.

These two sets of factors, both real and financial, are not autonomous. This is expressed in the vertical arrow E that denotes reciprocal relationships. For example, the increasing indebtedness of households (lower part of the diagram) would have been impossible independently of the new trends typical of financialization and financial deregulation (upper part). Another facet of the same reciprocal relationships in Arrow E is the crucial role played by globalization. The development of free trade in a world of unequal development and costs caused the rising U.S. deficit of foreign trade; a large fraction of the impact of credit policies tending to stimulate demand on U.S. territory ended up in increased imports and, correspondingly, growing trade deficits (given the comparative cost of labor in the United States and the eroding technical leadership of the country). The growth of the debt of households prior to the crisis was only made possible by the tolerance toward laxer lending practices and the corresponding wealth of daring financial innovations, which, finally, manifested themselves in the mortgage wave. More fundamentally, as contended in Box 1, the

rise of the debt of households was the necessary counterpart of the growing deficit of foreign trade.

Box 1. The deficit of foreign trade and the debt of households

A deficit of foreign trade necessarily creates a corresponding lack of demand for domestic producers. Part of the income (equal to the value of output) resulting from production is used to finance purchases to producers not located on the U.S. territory. If imports are larger than exports, part of this purchasing power does not return to producers. This deficient demand must be compensated by new flows of lending (which are also partly used to purchase imported goods). If this compensation is not ensured, the rate at which the productive capacity on national territory is used declines, inducing enterprises to diminish their investment, with a negative effect on growth rates. A deficit of the government budget would have performed the task (the stimulation of demand) as well, but this device was not in line with neoliberal trends prior to the crisis.

Thus, the rise of households' expenses, supported by their borrowing, was the outcome of macro policies rendered necessary by the trajectory of disequilibria of the U.S. economy in a globalized economy, not by the stagnation of the purchasing powers of wage-earners (section 3.2). For this reason, we believe the disequilibria inherent in the U.S. macro trajectory were a crucial factor of the crisis.

As is well known, it is the collapse of the mortgage pyramid that destabilized the overall fragile financial structure and, finally, the real economy. But the pyramid was already there, the expression of unsustainable trends typical of neoliberalism in general, and the U.S. macroeconomy in particular.

1.2 - Not a mere financial crisis but a strong financial component

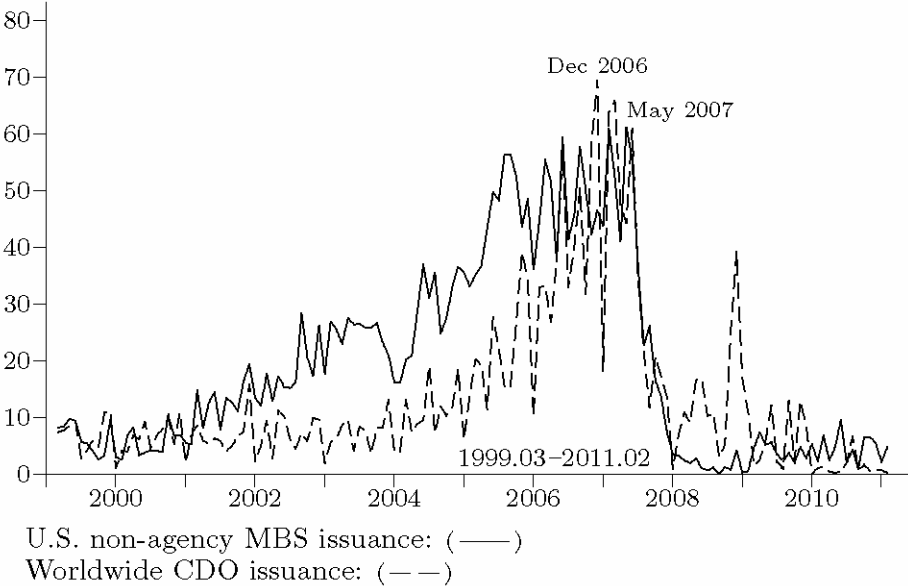
From its first steps, the current crisis has often been described as a “financial crisis” or, even more specifically, as the “subprime crisis”. When analysts comment on the plunge of output in the United States and the rest of the world at the end of 2008, reference is made to a financial event, the fall of Lehman Brothers, certainly not the cause of everything.

It is unquestionable that the expansion of monetary and financial mechanisms was a central aspect of the trends leading to the crisis.² Financialization has been a basic feature of capitalism from its origins, with a dramatic acceleration within neoliberalism. But one should not overlook the *explosion* after 2000, a crucial factor of the crisis. Of the various possible illustrations, we will only consider two examples. The first variable in Figure 1 is the issuance of Mortgage Backed Securities (MBSs) in the United States by private-label issuers (as opposed to Government sponsored enterprises such as Fannie Mae). The second variable is the issuance of Collateralized Debt Obligations (CDOs) worldwide, one type of “vehicles”,

² In the Left, one can mention the analysis by Peter Gowan, in which the emphasis is on financial innovations, “a cluster of mutually reinforcing innovations which we have called the New Wall Street System” (P. Gowan, 2009). See also the work of the *Research on Money and Finance* study group (C. Lapavistas, 2010).

among the riskiest, in which MBSs are pooled. The two variables point to the same tremendous expansion after 2000, from about 2 to 60 billions of dollars monthly.

Figure 1. Issuances of U.S. private-label MBSs and total CDOs worldwide (monthly data, billions of dollars).



It is, however, not appropriate to refer to the crisis as a “merely financial” crisis or a “financialization crisis”. First, the crisis is the “crisis of neoliberalism”, fundamentally a class phenomenon. Besides financialization, all the aspects of globalization are involved, and the crisis was determined by the disequilibria of the U.S. economy, notably the slow capital accumulation and the deficit of foreign trade, not only financial phenomena. A difficulty here is that many mechanisms in capitalism combine real and financial aspects.

1.3 - The crisis as a stepwise process

As of the end of 2011, four years after the first symptoms of the crisis were observed, the crisis entered into a second stage. Within the United States and Europe, the trough of the 2008 recession was reached in the second quarter of 2009. Thanks to active macro policies—the massive lending to the financial sector on the part of central banks and the huge deficits of governments (at least tolerated)—an upward movement of output was initiated. In the second quarter of 2011, the levels reached by GDPs prior to the crisis had almost been recovered. Industrial production remained, however, significantly inferior to pre-crisis levels.

The second phase of the crisis can be described as the crisis of sovereign debts, the debts of governments. The continuation of deficits led to the dramatic rise of government debts, and it is hard to identify new trends that could bring this growth to an end without destabilizing the macroeconomy. The explanation of this new situation lies in the “structural nature” of the crisis and the extreme limitation of reforms. Keynesian demand policies only provide reprieves during contractions of output. During these periods, the macroeconomies are supposed to recover their capability to grow autonomously. None of the basic transformations required to draw the economy back to an autonomous growth trajectory has, however, been

undertaken, neither in Europe nor in the United States. Large deficits remain necessary to support the macroeconomy. The Federal Reserve engaged in the bold practices of “quantitative easing”, financing directly deficits; the European central bank follows a similar path, but only shyly, with the well-known consequences within the euro zone.

As of the end of 2011, the new policy trends are directed to the reduction of deficits. But cutting deficits will, most likely, cause a new plunge of output. One can, therefore, surmise that the crisis will enter a new, more spectacular, phase when the contraction is established as such.

2 - Profitability, demand, and loans

In the interpretation of the current crisis a large debate arose around the trend of the profit rate prior to the crisis. Did the profit rate diminished during the decade preceding the crisis and “caused” the crisis? A crucial issue is the determination of the relevant measure of the profit rate to be used. But, not only profit rates are involved in the on-going debate, also the share of profits (or of wages), supposed to impact demand patterns.

2.1 - Profit rates, taxes, and the use of profits

One difficulty in the discussion of the trends of the profit rate is that, even focusing on one country and one sector, a broad set of measures of the profit rate are considered. We focus here on the U.S. nonfinancial corporate sector. (Similar results are obtained when the entire U.S. corporate sector is considered.³)

The first variable (—) in Figure 2 is a profit rate “à la Marx”. Profits are total income minus the compensation of labor. Thus, profits are the sum of all taxes, interest and dividends paid, and the profits retained by enterprises. Capital is the net stock of fixed capital at replacement cost.⁴ In this measure, the profit rate prior to 1965 oscillates around 19.2 % and, after 1980, around 15.8 %. In sharp contrast, the average value over the entire period of the rate of accumulation of fixed capital, that is, the ratio of net investment to the same measure of capital, was 2.9 %. The distance between the two variables is striking and must be explained.

³ G. Duménil, D. Lévy, 2011, Figure 4.1.

⁴ Series at historical costs underestimate the value of the capital stock. They do not mirror the profit rate that can be expected of the continuation of investment in a given line, since new investments must be made at prices prevailing in the given year not prices of the past. If enterprises made decisions concerning the distribution of dividends on the basis of a measure of profits ignoring that depreciations are estimated at historical cost, they would shortly feel the brunt, in the short run, of a liquidity squeeze and, in the long run, of the requirement to collect capital to compensate excess dividend distribution. Finally, if enterprises were the victims of this misreading of profitability trends, inflation would be the absolute weapon in capitalism against the tendency of the profit rate to fall.

Figure 2. Five alternative measures of profit rates: the U.S. nonfinancial corporate sector

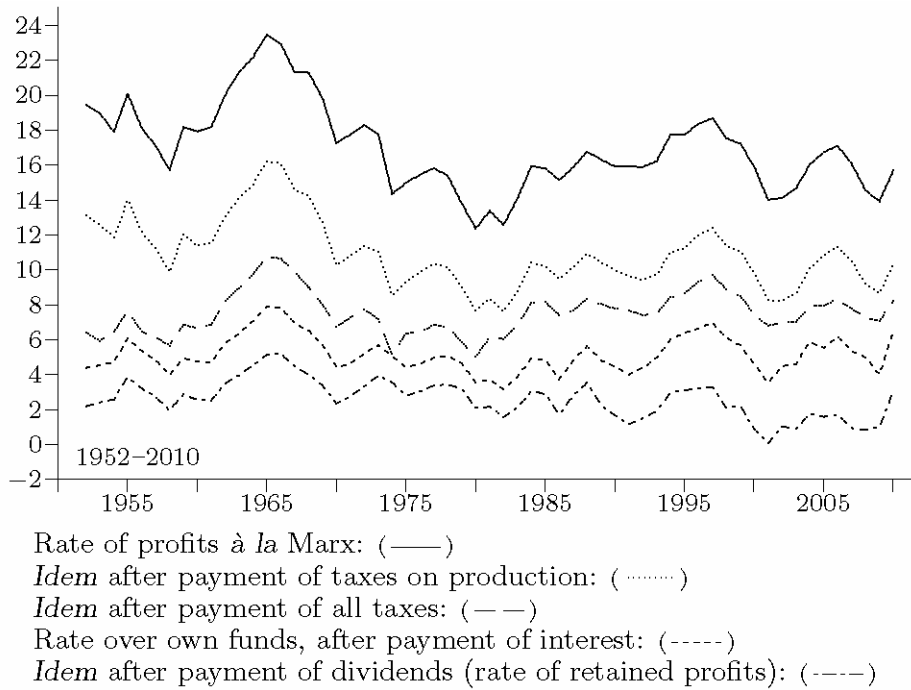
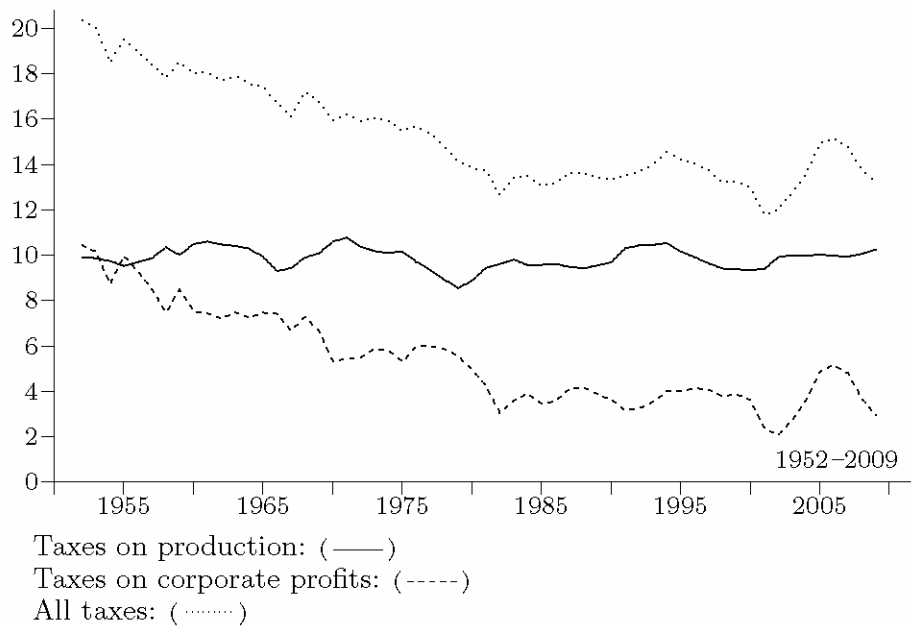


Figure 3. The shares of production and profit taxes in total value added: U.S. nonfinancial corporations (percent, yearly)



In the second variable (.....) in Figure 2, production taxes have been subtracted from profits.⁵ In the third variable (– –), all taxes have been subtracted. (Profits still include net interest paid.) In the fourth measure (---), interest is taken out of profits (“net interest”, that is, interest paid minus interest received); correspondingly, enterprises’ own funds⁶ (or shareholders equity) must be substituted for the stock of fixed capital in the denominator. The last measure (– · –) is the rate of retained profits, derived from the above, but after dividends have been paid out (dividends received minus dividends paid).

An important result follows. Clearly, using an *after-tax* estimate of profits (– –) (still including interest), the average profit rate after 2000 was larger than during the average of the 1950s and 1960s. A complete restoration, or more, is observed. We consider the use of profit rates in which only production taxes are subtracted as misleading (section 4.1). As shown in Figure 3, the share of profit taxes in the total value added of the nonfinancial corporate sector was considerably diminished during the second half of the 1970s, contrary to production taxes. This alleviation acted as a significant countertendency to the declining profit rate.

2.2 - How did profitability matter?

A crucial issue in the investigation of the potential role played by the profit rate in the current crisis is the determination of the mechanisms by which profitability impacts the economy. A common answer points to the effect of the profit rate on capital accumulation. Larger profit rates may allow for faster rates of growth of fixed capital for two sets of reasons:

1. Large profit rates “motivate” capitalists and/or enterprises in their propensity to invest. This first mechanism, *inducement*, plays a central role in Marx's analysis of competition and the formation of prices of production. Capitalists invest more in industries where profit rates are larger. Symmetrically, low profit rates discourage investment.

2. Large profits contribute to the *financing* of investment, and ensure the continuation of the activity of the enterprise as sufficient cash flows are generated. Concerning total investment (instead of its allocation among distinct uses), we believe this second channel is crucial.

More generally, a rather broad perspective is required in the discussion of investment. Three categories of mechanisms must be approached jointly: (1) investment in fixed capital with the purpose of increasing the productive capacity of nonfinancial corporations; (2) investment in the financial sector or, more generally, financial investment; and (3) the distribution of dividends to shareholders. The ways in which decisions are made in these three respects are typical of prevailing social orders such as the social compromise of the first decades after World War II or neoliberalism. (We abstract here from, sometimes, important differences among countries.) In the postwar compromise, a central feature of upper management (or “corporate governance”) was the arbitration in favor of productive investment; a large fraction of profits was conserved by nonfinancial corporations for the purpose of investment; in many countries, enterprises resorted to borrowing, loans being made available to borrowers under favorable conditions by a financial system to the service of accumulation; a limited fraction of

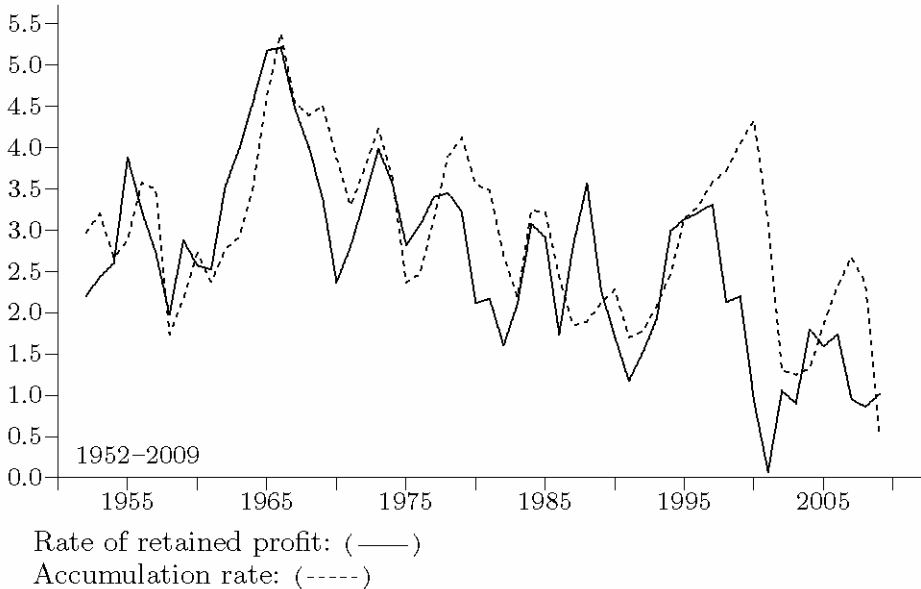
⁵ In this measure, profits are denoted as “net operating surplus” in national accounting frameworks.

⁶ Total assets minus debt.

profits was distributed as dividends. Under neoliberalism, upper management is targeted to stock-market performances; consequently, dividends are lavishly distributed, and corporations buy-back their own shares to the same end of increasing stock-market performances⁷; investments (on the territory of the country, that is, domestic investment, or foreign direct investments) are self-financed; the pressure placed on management to maximize stock-market performances and the inducement created by globalization to export capital are such that domestic investment tends to be treated as a residual. Under such circumstances, it is the rate of retained earnings, which directly impacts accumulation.

In the United States, both the levels and fluctuations of the rate of retained profits (as in Figure 2) tightly match the profile of the rate of accumulation (the growth rate of the stock fixed capital, net of depreciation). This is shown in Figure 4, where the rate of retained profits (—) is directly compared to the rate of accumulation (---). The tight correlation between the two variables mirrors the self-financing of investment by corporations. Nonfinancial corporations resort to limited extent to borrowing and the issuance of new shares to finance their investment. This observation is in line with the above analysis of the determinants of investment.

Figure 4. The rate of retained profits and the rate of accumulation: U.S. nonfinancial corporations



2.3 - Changing patterns of income distribution and demand

There is a long tradition, deeply rooted within Marxian economics, of imputing crises in capitalism to the deficient purchasing power of wage-earners, as manifest in the low levels of the share of wages in total income or a stagnant real wage. Reference is made to a quotation

⁷ G. Duménil, D. Lévy, 2011, Figure 4.4.

from Volume III of *Capital*, out of its context, while it is generally not known that Marx straightforwardly refuted this thesis in Volume II.⁸ We will not address here such theoretical issues, only empirical observations. A preliminary step in this investigation is to check whether the share of wages in total income actually diminished in the United States during the neoliberal decades and, in particular, after 2000. The variable (—) is shown in Figure 5 for the nonfinancial corporate sector. No significant trend downward is apparent.

This observation contrasts with the well-known fact that the real wages of the vast majority of wages-earners were stagnating. (The average real earnings of “production workers”—about 80 percent of wage-earners—increased much slower than the average.) The solution of the apparent contradiction lies in the observation that upper wages increased much faster. (Wages include all supplements, bonuses, realized stock-options, and the like.) This is shown in the second variable (— —) in which the wages of the 5 percent of wage-earners with upper wages has been taken out of the mass of wages. The share of the remaining 95 percent displays a downward trend after 1980. In the third variable (---), the same sort of calculation is repeated but the upper 10 percent is subtracted, instead of 5 percent. The band between the two variables is constant. This observation shows that the concentration of income in favor of high wages was confined within the upper 5 percent, while the share of the 90-95 fractile was preserved and the share of the 0-90 diminished. These distributional trends echo important social transformations.

We interpret these changing patterns as the effect of “managerial” trends, in particular the fate of managers within neoliberalism. Neoliberalism altered the trends of wage distribution to the benefit of very high wages. The households receiving such high wages are also those concentrating the great mass of capital income (interest and dividends, including capital gains).

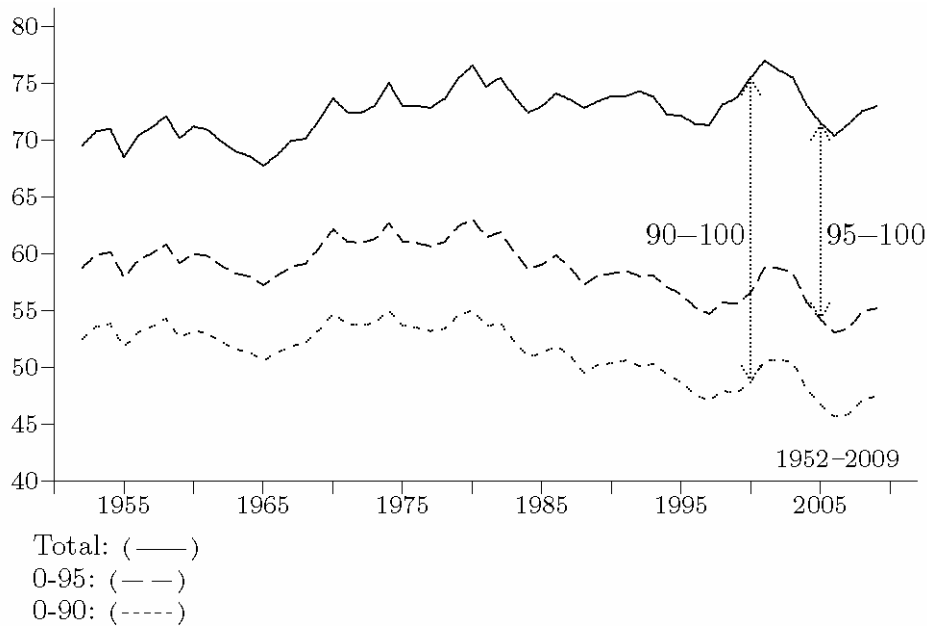
Did the shifting income patterns diminish the overall propensity to spend of households? (In spending, we include consumption in the strict sense and residential investment.) Equivalently, do upper income fractiles spend proportionally less than lower strata? A positive answer could be expected: The beneficiaries of upper incomes are supposed to save more. It was so prior to neoliberalism, but gradually less and less throughout the neoliberal decades. Between World War II and 1980, the average rate of saving of households in the United States used to gravitate around 9 percent. During the neoliberal decades, it declined to almost zero. Thus, under the likely assumption that savings were concentrated within upper income strata, this observation points to the fact that the income brackets that were traditionally savers spent more and more. At least to 2000, this is confirmed by a study of the Federal Reserve⁹, where it is shown that the decline of saving occurred within the 80-100 income fractile.¹⁰

⁸ K. Marx, 1885, p. 486.

⁹ D. Maki, M. Palumbo, 2001.

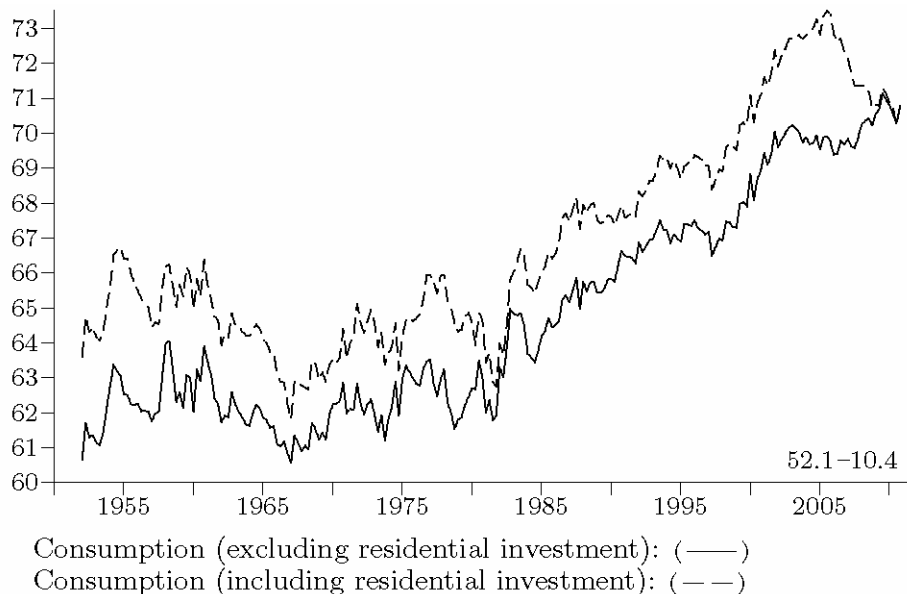
¹⁰ These spending trends are partially the outcomes of a “wealth effect”—the consequence of the rise of stock-market indices and of the price of housing. The effect of gains on housing was larger than on the stock market (E. Sierminska, Y. Takhtamanova, 2007).

Figure 5. Shares of wages in total income: U.S. nonfinancial corporate sector (percent).



Since data concerning the wages of income fractiles are not available within national accounting frameworks, the series, (---) and (- - - -), draw from the Internal Revenue Service statistics, obviously an approximation

Figure 6. Demand: U.S. households (percent of GDP).



The overall conclusion is obvious. The concentration of income distribution in neoliberalism to the benefit of high income did not cause sagging demand patterns. To the contrary, the period witnessed a spending spree. Lower income strata certainly suffered from “underconsumption”—not that they were not spending their income but that their

consumption did not measure up to decent standards—but there was no macroeconomic lack of demand due to their low demand. This trend was much more than compensated by the spending of upper income fractiles. This wave of spending is clearly illustrated in figure 6 where two measures of the spending of U.S. households are shown, one limited to consumption in the strict sense, and one including residential investment. Independently of the variable, spending gained almost 10 percentage points of GDP between 1980 and 2006. The current crisis was rather a crisis of “overconsumption”, given the fraction of demand imported from foreign countries.

The observation of the dramatic spending of U.S. households during the neoliberal decades does not imply that the demand directed toward enterprises located on U.S. territory was sufficient to support *the activity of domestic enterprises* at adequate levels. These are two distinct issues to be carefully distinguished. Free trade is another major aspect of neoliberalism. A growing fraction of total demand was satisfied by imports from foreign countries. This was true of countries with low labor costs, such as China or Mexico, but also European countries such as Germany, or Japan. As is well known, the deficit of U.S. foreign trade went on growing throughout neoliberal decades to about 5 percent before the current crisis. The continuation of these deficits was only made possible by the towering position of the U.S. economy and the dollar in the world.

To sum up, considering production on U.S. territory, there was a deficit of domestic demand, but not because demand was low as a result of a bias in income distribution, but because of neoliberal globalization under U.S. hegemony. This chronic deficit of demand on U.S. territory was at the root of the requirement to boost the macroeconomy.

3 - Marxist economists interpreting the crisis

The present section discusses various aspects of the analyses of the current crisis by a number of Marxist economists (that we distinguish from interpretations derived from Fernand Braudel’s historical analysis). Four categories of issues are considered: (1) the share of wages; (2) the lending boom to households; (3) the profit rate; and (4) financialization.

3.1 - A decreasing share of wages?

Although the straightforward calculation in Figure 5 clearly shows the opposite, the view that the share of labor diminished during neoliberal decades is recurrently put forward in the literature devoted to the crisis. The mistake arises from the fact that the share of wages is not directly considered. An inference is made based on the comparison between labor productivity and the hourly real compensation of labor, as in Figure 7¹¹. The growing gap between the two lines, (—) and (---), is interpreted as a declining share of wages.

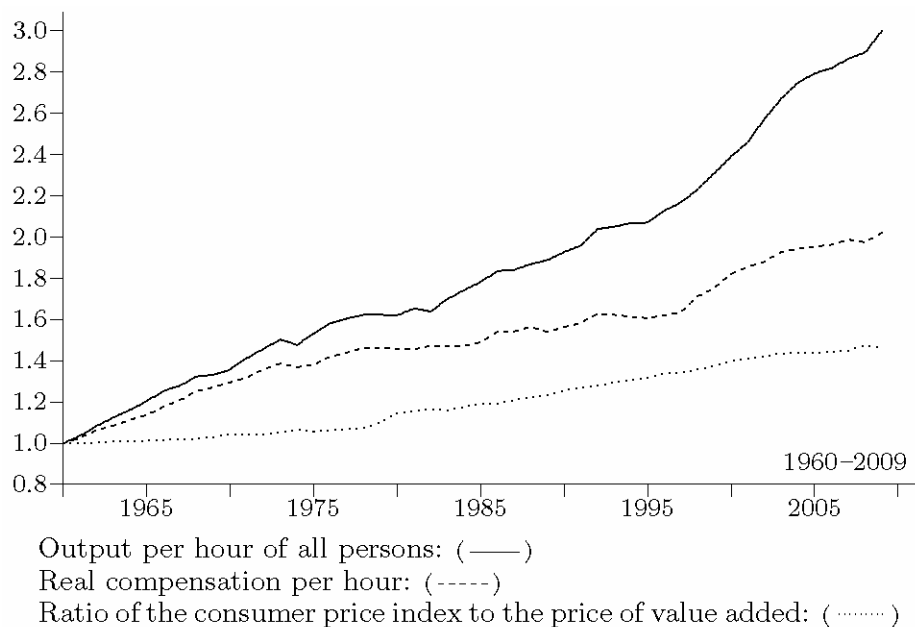
This inference is wrong. As is well known, the share of wages can be expressed as the ratio of the hourly real wage to labor productivity, multiplied by the ratio of the consumer price index to the deflator of output:

¹¹ For example, D. Kotz, 2009, A. Shaikh, 2011 (“the slowdown of real wages relative to productivity”), and A. Valle, 2008.

$$\text{Share of wages} = \frac{\text{Hourly real wage}}{\text{Labor productivity}} * \text{Relative prices}$$

What is omitted is that prices matter in the determination of the share of wages, and that the ratio of the consumer price index to the price of value added changed considerably, as shown by the third variable (.....) in Figure 7. The three variables reveal the followings: (1) The hourly real wage was multiplied by 2 between 1960 and 2009; (2) relative prices, by 1.5; and (3) Labor productivity, by 3. Thus, the share of wages remained about constant ($2 \times 1.5 / 3 = 1$), as shown in Figure 5.

Figure 7. Labor productivity, compensations of labor, and ratio of prices (indices, 1960=1):
U.S. business sector



The business sector is the sum of the corporate and noncorporate sectors (mostly sole proprietors and partnerships).

3.2 - The lending and housing booms

Capitalism is intrinsically prone to cumulative processes such as housing (or stock-market) booms and bubbles. The wave of residential investment caused the excessive rise of the prices of housing (the “bubble” proper), which, in turn, fed the growing wave of borrowing as

houses were used as collaterals.¹² This bubble unquestionably played a crucial role in *triggering* the crisis, although it cannot be considered the *cause* of the crisis.

A common, though problematic, interpretation of the roots of the housing boom prolongs the above misled assessment of the trends of the share of wages. A link is established between the frustration of wage-earners after years of stagnating or declining purchasing powers and the rise of borrowing. This widely held explanation points specifically to the fractions of borrowers belonging to the lower income strata, as in subprime mortgages. We are told that deficient purchasing powers enhanced the inducement to get into debts. For example, in Fred Moseley:

*[W]orkers were strapped with stagnant wages for decades and were all too eager to borrow money to buy a house or a new car, and sometimes even basic necessities.*¹³

Or Anwar Shaikh:

*The normal side effect to a wage deceleration would have been a stagnation of real consumer spending. But with interest rates falling and credit being made ever easier, consumer and other spending continued to rise, buoyed on a rising tide of debt.*¹⁴

There is certainly a degree of truth in the two observations, the decline of the purchasing power of the great mass of wage-earners and the dramatic rise of the debt of households in the United States. But this is not sufficient to infer a causal relationship:

1. There is a first uncontroversial reason. The financial sector, stimulated by large flows of income (capital income, and high wages including all forms of supplements) derived from the lending boom, pushed these mechanisms to the extreme (with active lobbying in favor of financial deregulation). Various sources of incomes (fees and interest) were garnered, deriving from the lending itself, the securitization of the loans (as in Mortgage Backed Securities), and the insurance against defaults (as in Credit Default Swaps).

2. There is, probably, an also broad agreement that the mortgage wave during the last decade preceding the crisis stimulated the macroeconomy and, even, was encouraged to this end. The recovery from the recession of 2001 was only made possible by the tremendous increase in mortgages, which financed residential investment and consumption. But the role of central monetary authorities is overlooked, despite its crucial character. It is the function of central monetary authorities to control the levels of indebtedness. There was, instead, a growing “tolerance” toward the new dangerous practices that made the boom possible; these practices were even welcomed by the Federal Reserve. Involved here is the discussion of the trajectory of disequilibria of the U.S. macroeconomy as in Box 1. At the root of the policy of the Federal Reserve was the growing deficit of foreign trade in the United States, the outcome of globalization, and the resulting increasing deficient demand levels to producers still located on U.S. territory. The lack of demand was compensated by the expenses of households financed by borrowing. This was a macroeconomic requirement.

¹² Kotz provides interesting estimates of the “gross equity extracted” due to the rise of home prices (D. Kotz, 2009), which illustrate this process.

¹³ F. Moseley, 2008, p. 9.

¹⁴ A. Shaikh, 2011, p. 45.

3.3 - The recovery of the profit rate

A broad number of Marxist economists acknowledge the substantial recovery of the profit rate (measured as the ratio of the excess of income on the labor cost, and fixed capital net of depreciation) during the neoliberal decades and do not see in the current crisis a “profitability crisis” (contrary to the tenants of the Braudelian perspective below). Examples are Michel Husson, Moseley, Shaikh, and Simon Mohun. (In Husson's measure the profit rate returned to its peak in the mid-1960s.) In Moseley's formulation:

*It has taken a long time, but the rate of profit is now approaching the previous peaks achieved in the 1960s.*¹⁵

The specific aspect in Shaikh's and Husson's analyses is the explanation of the recovery of the profit rate by a rise of the profit share. But the fact itself is clearly set out:

*At the same time, in countries such as the US and the UK there was an unprecedented rise in the exploitation of labour, manifested in the slowdown of real wages relative to productivity. As always, the direct benefit was a great boost to the rate of profit.*¹⁶

*Inasmuch as productivity gains do not recover their level of the Fordist period, the main way of restoring the profit rate is a decline of the share of wages—that is, an increase in the rate of exploitation—and, therefore, an increase in the share of profits in value added. And this is exactly what happens from the mid-1980s onward.*¹⁷

There is a broad agreement that the purchasing power of the large mass of wage-earners was under pressure. But it is not correct to infer from this observation that the share of wages in total income diminished (section 3.1).

Once recognized the new trend upward of profit rates, no mention is made of a long phase of “overaccumulation”, quite the contrary. For example, Husson, further comments that: “During the decades preceding the crisis, there was no tendency toward overaccumulation”. Reference is generally made to the low levels of investment. Significant exceptions are, however, Shaikh who points to: “the great boom after the 1980s”¹⁸, or the analysis of overinvestment by David Kotz.¹⁹

¹⁵ F. Moseley, 2008, p. 7.

¹⁶ A. Shaikh, 2011, p. 45.

¹⁷ M. Husson, 2012, p. 999.

¹⁸ A specific feature of Shaikh's analysis is the emphasis placed on the declining interest rate: “[A] new boom began in the 1980s in all major capitalist countries, spurred by a sharp drop in interest rates which greatly raised the net rate of return on capital, i.e. raised the net difference between the profit rate and the interest rate [...], the rate of profit-of-enterprise. This is the central driver of accumulation”. We do not think that this measure of the profit rate is the most appropriate to account for the rate of accumulation (G. Duménil, D. Lévy, 2011).

¹⁹ Kotz points to a phase of “overinvestment”. The pre-crisis decade must be interpreted as the combination of a “broad structural crisis” marking “the end of the ability of the neoliberal form of capitalism to promote profit-making and accumulation”, on the one hand, and a crisis of “overinvestment” (a shorter term mechanism), on the other hand.

A special attention must, finally, be paid to Mohun's analysis. Mohun converges with us concerning the emphasis on what the BLS calls “supervisory wages”, and what we call the “wages of managerial classes”.²⁰ He boldly aggregates upper wages with profits. A new form of “profit rate” follows. Mohun shows an upward trend of this profit rate, but with a fluctuation downward during the last decade prior to the crisis. We do not believe the current crisis can be interpreted in this manner, but the discussion of Mohun's framework lies beyond the limits of the present study.

3.4 - Financialization

It is, sometimes, contended by Marxist economists that the absence of recovery of investment fuelled financial activity. It is, notably so in Husson’s analysis:

*It is not the rise of finance that causes the decline of wages but, to the contrary, the rise of uninvested profits that feeds finance. [...] Thus, financialization is not an autonomous factor and appears to be the logical counterpart of the decline of the wage share and the growing scarcity of profitable investment opportunities.*²¹

Or Mohun:

*Hence the financial system failed to convert value in its most liquid form (money) into value in its most illiquid form (fixed capital); instead money was used for speculation.*²²

Moseley's view is similar, but the emphasis is placed on the capacity to lend:

*An important further consequence of the higher profits and the continued weakness of business investment was that financial capitalists had lots of money to lend, but nonfinancial corporations did not have much need to borrow. Therefore, financial capitalists went searching for new borrowers.*²³

Costas Lapavistas quite convincingly criticized this viewpoint:

*The literature on financialisation generally links weak production with booming finance; according to some, causation runs from weak production to booming finance [as in Husson, Mohun, Moseley], while for others it runs in the opposite direction. This article argues that there is no direct causation between booming finance and weak production. Rather, financialisation represents systemic transformation of capitalist production and finance, which ultimately accounts for the crisis of 2007-9.*²⁴

We interpret the simultaneous downward trends of accumulation and the explosion of financial mechanisms as two *consequences* of the specific rules of functioning proper to neoliberal capitalism. But none caused the other.

²⁰ S. Mohun, 2011.

²¹ <http://hussonet.free.fr/attacris.pdf>, p. 3.

²² S. Mohun, 2011, p. 31.

²³ F. Moseley, 2008, p. 9.

²⁴ C. Lapavistas, 2010, p. 3.

4 - A historical perspective

Issues such as the trends of the profit rate or financialization can be addressed in an even more general historical perspective than in the previous sections. Below we, first, discuss a number of such approaches retaking the tradition opened by Braudel. Then, we contrast these interpretations to our own analysis of historical transformations. Note that the scope of our investigation is much more limited, since we only begin in the late 19th century and focus on the United States.

4.1 - The legacy of Fernand Braudel

A number of analysts, elaborating on Braudel's work, developed a broad historical interpretation of the history of capitalism, now prolonged to the contemporary crisis. This perspective is that of long wages, world-systems, etc. As stated by Giovanni Arrighi:

*As Fernand Braudel observed in *Les temps du monde* (1979), all major expansions of world trade and production have resulted in an overaccumulation of capital beyond the normal channels of profitable investment. Whenever this happened, the organizing centers of the expansion were in a position to reaffirm, for a while at least, their dominance over world-scale processes of capital accumulation through greater specialization in financial intermediation. This has been the experience, not just of Britain in the Edwardian era, but also of Holland in the 18th century and of the Genoese capitalist diaspora in the second half of the 16th century. As we shall see, it has been also the experience of the United States in the belle époque of the Reagan era.²⁵*

All the ingredients of a large set of interpretations are there: the lack of profitable investment opportunities, overaccumulation, and the move toward financial activity. Given, the above, there is no surprise to discover that Arrighi retakes most Braudelian themes:

At the roots of all these experiences we can detect a double tendency engendered by the overaccumulation of capital. On the one hand, capitalist organizations and individuals respond to the accumulation of capital over and above what can be reinvested profitably in established channels of trade and production by holding in liquid form a growing proportion of their incoming cash flows. This tendency creates an overabundant mass of liquidity that can be mobilized directly or through intermediaries in speculation, borrowing and lending.²⁶

This framework of analysis is shared by analysts such as Robert Brenner, David Harvey, and Immanuel Wallerstein. Below we do not repeat the basic interpretations but point to specific aspects.

Concerning, at least, profit rates, Brenner shares the common perspective of the group, but one important difference is that he engaged into the explicit calculation of profit rates. In the interpretation of the current crisis, the problem in this first respect is the consideration of profits from which only indirect business taxes have been subtracted. The relevant profit rate for enterprises, in particular if the financing of investment is considered, is a measure after all taxes (actually the rate of retained profits). The consequences have been shown in our section 2.1. Independently of this misleading calculation, the central issue is the misinterpretation of the historical trends of the profit rate. Brenner pins the periods of rise and decline of the profit

²⁵ G. Arrighi, 1999, p. 223.

²⁶ G. Arrighi, 1999, p. 223.

rate on international competition²⁷. It is, therefore, not surprising that the central variable in his analysis is the profit rate in the manufacturing sector, since, besides raw materials, mostly industrial goods are the object of international trade. We criticized this view point in other works.²⁸ Harvey's seems to follow Brenner's analysis, and elaborates on the notion of overaccumulation, linked to his own concept of spatio-temporal fix.²⁹

Wallerstein retakes Braudel's line of argument within the general framework of Kondratieff's long waves. Neoliberalism is seen as the ultimate phase of capitalism³⁰:

We are clearly, today, in the phase B of a Kondratieff cycle that began thirty or thirty-five years ago, after a phase A [...] (de 1945 à 1975) [...]. In a phase A, profits are generated by material production, industrial or other; in a phase B, in order to continue to generate profits, capitalism must seek financing and take refuge within speculation. [...]. We are today in the last section of the phase B of a Kondratieff, when the virtual decline becomes real and bubbles burst one after the other: bankruptcies multiply, the concentration of capital increases, unemployment grows, and the economy undergoes a situation of real deflation.

World capitalism must confront three types of rising costs, which necessarily entail the historical decline of the profit rate:

Three main types of production costs can be distinguished: labor costs, real inputs, and taxes. Each of these costs, or package of costs, clearly defines a complex set, but it is possible to show that, in the average, the share of each of them within potential selling prices increased, and that, consequently, a downward pressure on world profit rates follows [...].

The current crisis manifests that capitalism entered the first phase of the final process leading to its collapse:

[This tendency] threatens the ability to accumulate capital at a significant rate, undermining the existence of capitalism and introducing to the structural crisis in which we now are.

And Wallerstein concludes:

Yes, I think, we, thirty years ago, entered into the terminal phase of the capitalist system.

Overall, the Braudelian perspective quite adequately combines two categories of factors: the tendency for the profit rate to fall and the development of financial mechanisms. In the interpretation we gave of the history of capitalism from the late 19th century to the present, both aspects are also considered, but in a distinct manner. The first disagreement is the interpretation of the current crisis as a profitability crisis. The second divergence relates to the interpretation given of neoliberal decades as a phase B, with the corresponding financial patterns. In our opinion, the turn to financialization in neoliberalism was not a reaction to

²⁷ We will not discuss here the relationship between this specific interpretation and the more general Braudelian perspective.

²⁸ In particular in a very short study: G. Duménil, D. Lévy, 2002.

²⁹ D. Harvey, 2003.

³⁰ I. Wallerstein, 2008.

deficient investment opportunities in the nonfinancial sector, but the manifestation a phase of financial hegemony.

4.2 - When capitalism sinks — when capitalism explodes — when capitalism changes

Not only profitability crises are part of Marx's framework of analysis, also what we denote as “crises of financial hegemony”. In the *Manifesto*, Marx caricatured capitalist classes as apprentice “sorcerers” initiating processes that they, later, become unable to control; the ample developments in Volume III of *Capital* concerning fictitious capital prolong this early analysis of the *Manifesto*.

Capitalism underwent four large crises, which we denote as “structural crises”: the crisis of the 1890s, the Great Depression, the crisis of the 1970s, and the current crisis. The first and third ones were profitability crises. The second and fourth crises followed phases of financial hegemony (taking “Finance” in the sense introduced earlier). During financial hegemonies, capitalist classes attempt to remove all barriers to their power and quest for income. Thus, in the determination of the nature of a structural crisis, not only the trends of the profit rate are involved, also the mechanisms of the crises themselves. The forms of the crisis are quite distinct. In a profitability crisis, capitalism “sinks”; in a crisis of financial hegemony, capitalism “explodes”. The two crises of profitability manifested themselves, respectively, in a crisis of competition (in the 1890s) and a cumulative wave of inflation (in the 1970s), both signaling the pressure on profitability levels. Nothing similar happened before the Great Depression and the current crisis; instead a sequence of phases of explosion of financial mechanisms—notably the dramatic rise of stock-market indices, unsustainable levels of indebtedness, and the involvement in speculative financial investment—and financial crashes was observed.

In various earlier works, we described and attempted to interpret the historical profile of the profit rate in the U.S. economy. The patterns of evolution are shown in Figure 8. The variable is the profit rate in the United States since the Civil War in a measure “à la Marx” as defined in section 2.1. The four segments of the trend line account for the succession of four phases: (1) the first phase of decline to World War I; (2) a lasting recovery, only apparently interrupted by the Great Depression (the manifestation of the low levels of output); (3) the decline from the mid-1960s to 1980; and (4) a slack recovery during neoliberal decades. The two phases of decline, (1) and (3), led to the two profitability crises. The Great Depression and the current crisis interrupted phases of recovery, what the analysts in the previous section interpret as phases B with declining profitability trends.

The measure in Figure 8 is for the total private economy. In this unit of analysis, it is not possible to account for the effects of taxation. Considering a similar measure for the corporate sector, the series are available since 1929. They show the dramatic impact of taxation during World War II. In the after-tax measure, the profit rate during the 1950s was lower than in 1929. All of the additional profits involved in the rise of the profit rate in the upward fluctuation above were transferred to the state, accounting for the “big” state after World War II.³¹ The alleviation of taxes during the 1970s must be understood in relation to this earlier increase in taxation.

³¹ G. Duménil, D. Lévy, 1996, ch. 19.

Figure 8. The profit rate in the U.S. private economy since the Civil War



The existence of phases of recovery of the profit does not contradict Marx’s analysis. The “law” is still there, a crucial component of the dynamics of capitalism. But capitalism must not be understood as a passive victim of the tendency of the profit rate to fall, sliding to the tomb. Strong and meaningful reactions are observed in the history of capitalism, in the continuous transformation of technical-organizational trends and the also constant transformation of social and institutional relations, with recurrent major changes—a continuous and active process of reaction of capitalism to its inner tendencies, with moments of sharp acceleration.

The phase of restoration of profitability levels that occurred during the first half of the 20th century to the middle of the 1960s is of great interest in the interpretation of these historical dynamics. It was caused by a true “metamorphosis” of capitalism in which relations of production and class patterns were involved.³² Three revolutions occurred: (1) the corporate revolution; (2) the financial revolution (with the emergence of large banks linked to corporations); and (3) the managerial revolution. A new bourgeoisie emerged, at a distance from corporations, whose property was supported by securities, and managerial classes became a crucial actor within social relationships. These three revolutions were prolonged after World War II by the revolution in the management of the macroeconomy, the Keynesian revolution. Neoliberalism stabilized the trends of the profit rate, though without revolutionizing the functioning of capitalism in this respect, and conserved the Keynesian framework of macro policies with new objectives. Despite such dramatic transformations, however, unsustainable trends were, once again, established as a result of the return to the unchecked leadership of capitalist classes in neoliberalism.

³² G. Duménil, D. Lévy, 1996; G. Duménil, D. Lévy, 2011; G. Duménil, D. Lévy, 2011, Figure 21.1.

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