



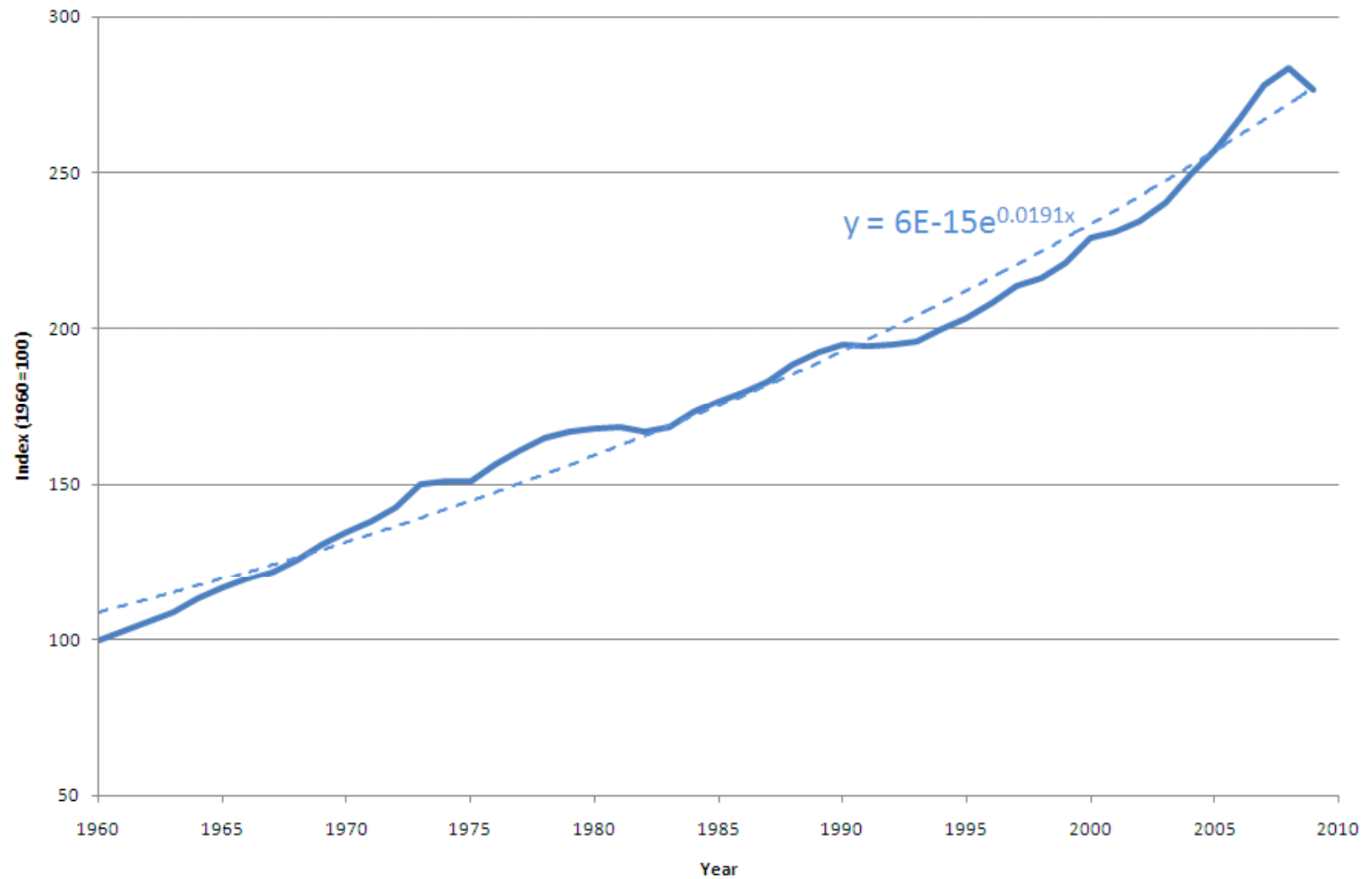
THEORIZING THE CRISIS

Julio Huato
Left Forum, March 20, 2009

Level

World GDP/capita 1960-2009

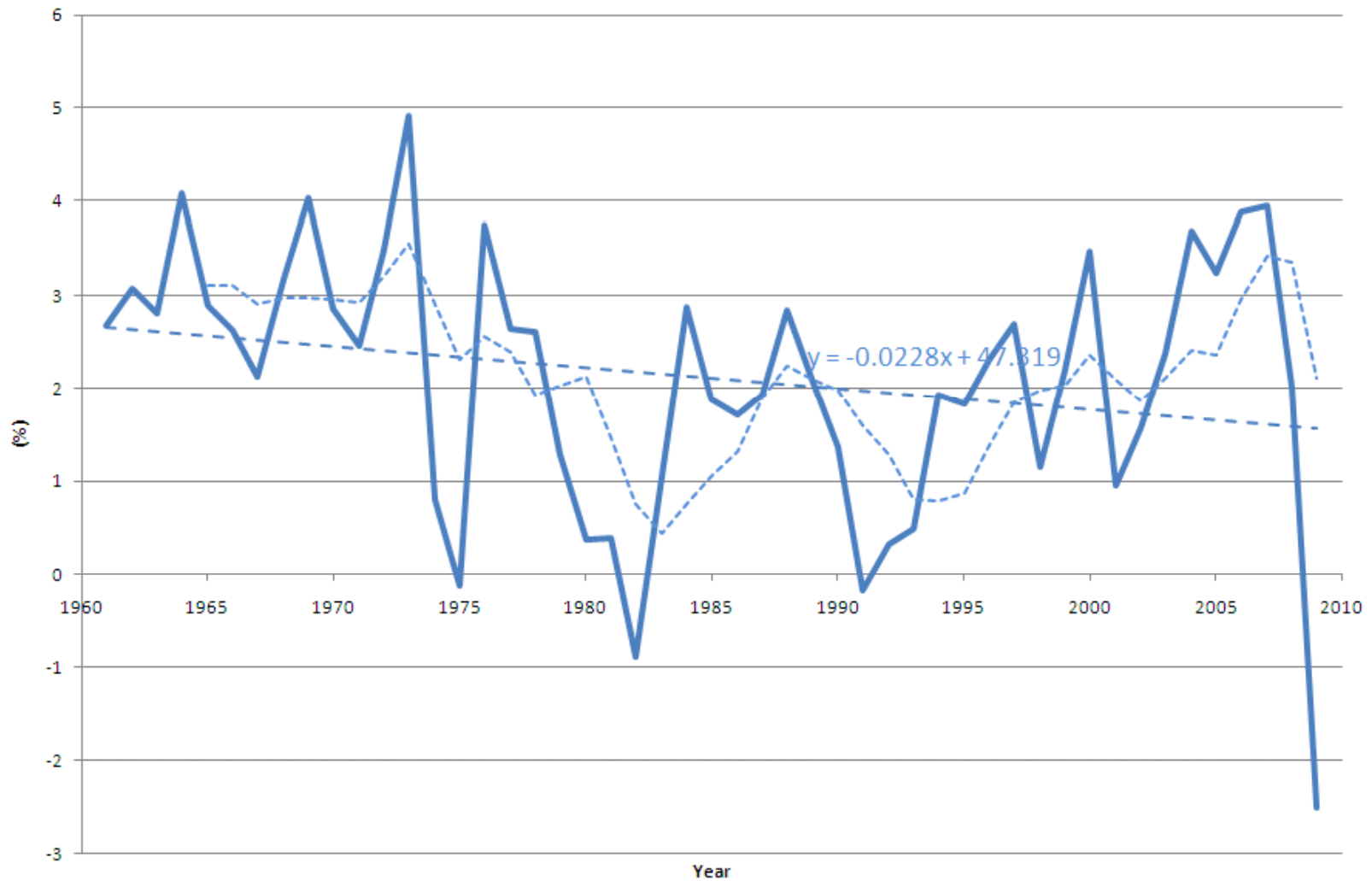
Source: IMF, WEO Oct.2009



Percent change

World GDP/capita (annual % change) 1961-2009

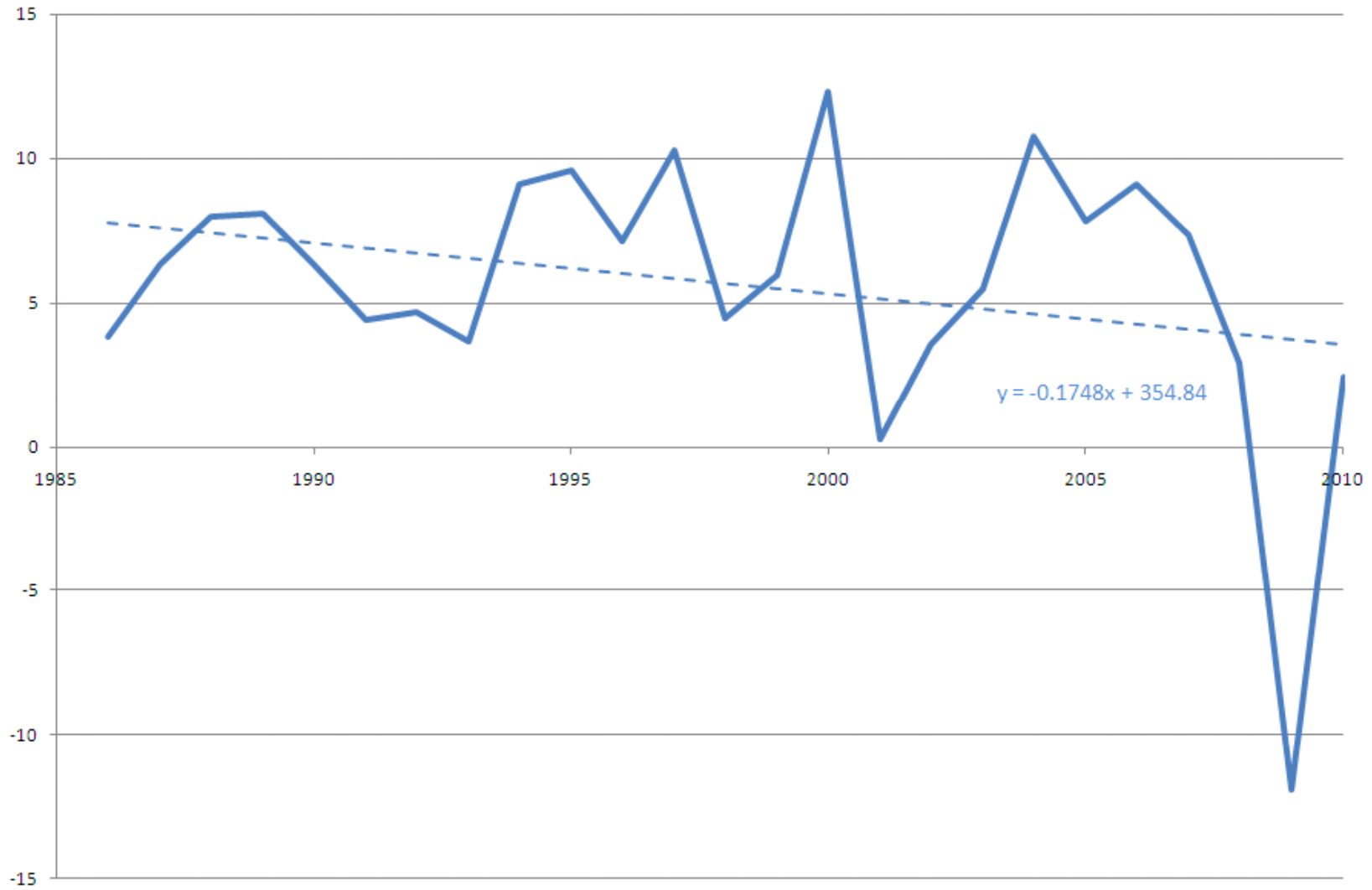
Source: IMF WEO Oct. 2009



Drop in trade

World int'l trade (annual % change) 1986-2009

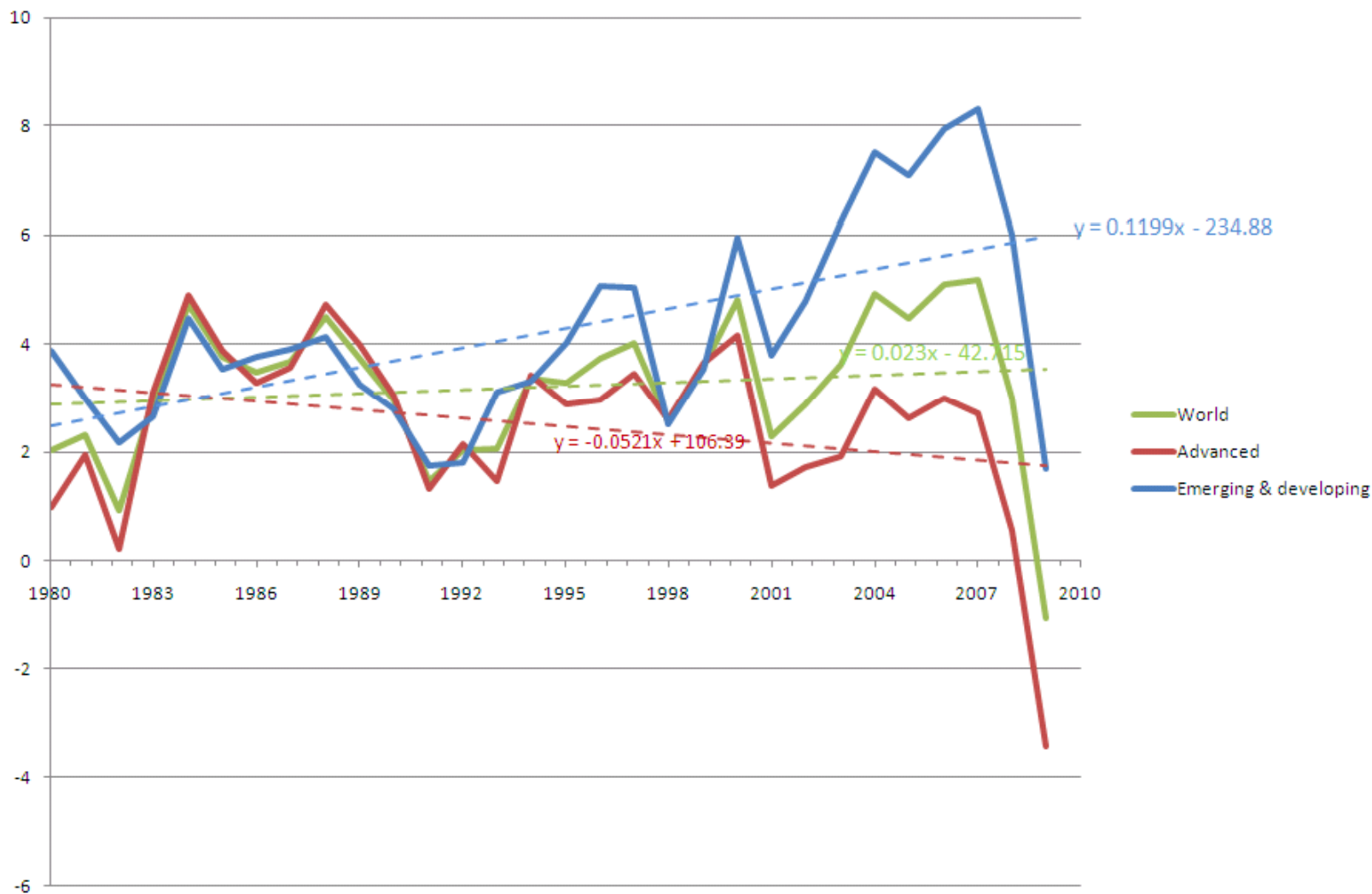
Source: IMF WEO Oct. 2009



Percent change

Real GDP (annual % change) 1980-2009

Source: IMF WEO Oct. 2009



Convergence

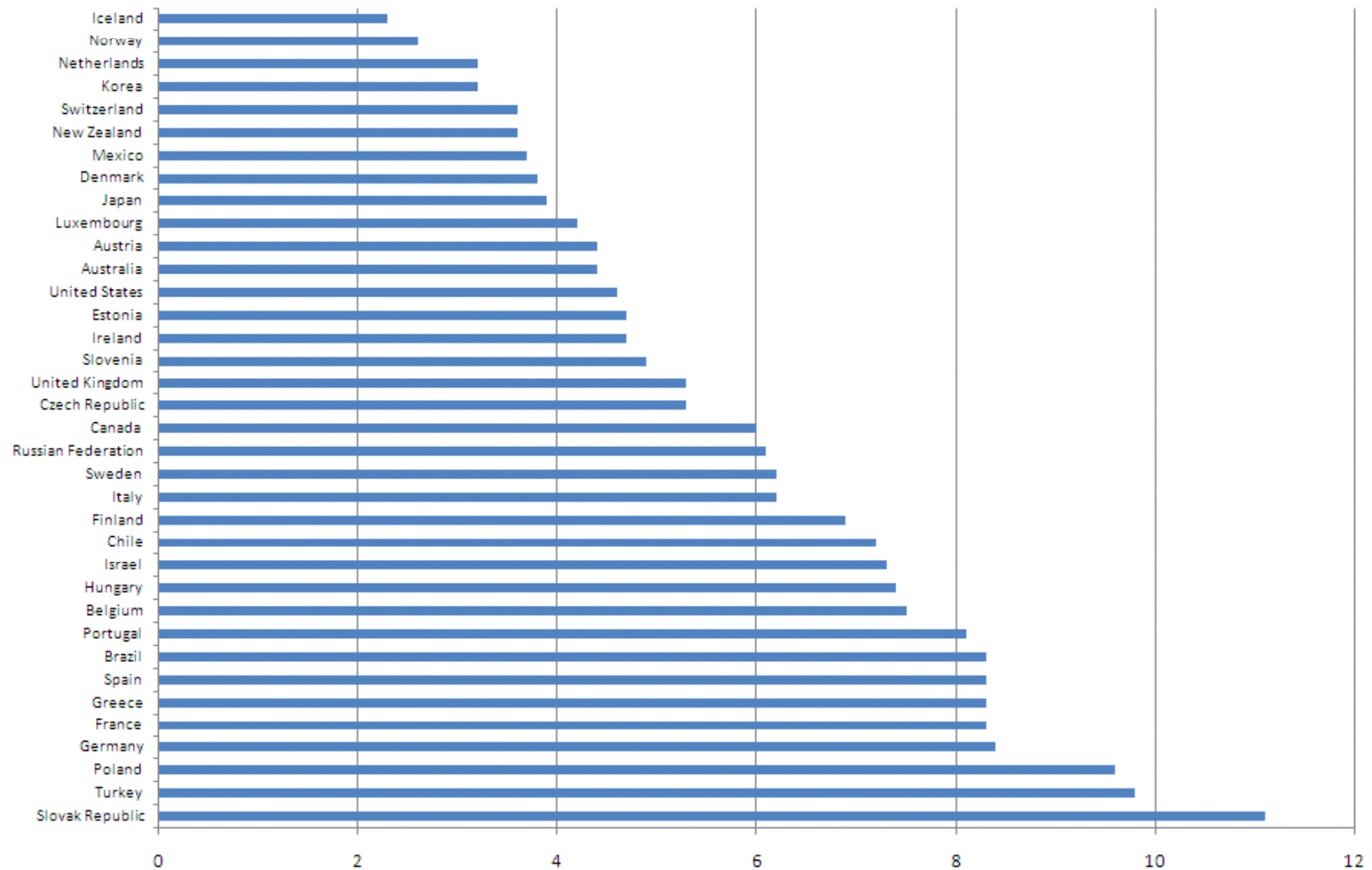
“The country that is more developed industrially only shows, to the less developed, the image of its own future.”

Marx, preface to Capital, vol. 1

Unemployment

2007 unemployment rate (% of civilian labor force)

Source: OECD Factbook



The crisis in reverse sequence

1. Drop in global output & trade, and large increase in global unemployment
2. Credit freeze & deleveraging, despite massive monetary and public-spending infusions
3. Financial panic, failure or near failure of large financial institutions (Lehman Bros, Bear Sterns, WaMu, AIG, Citi, etc.)
4. Burst of two mutually-reinforcing bubbles: asset prices (especially real estate, but also stocks) & credit

What originated the upswing?

Factors that restored profitability from the mid 1980s on:

1. Capital devalorization & gradual recovery in productivity (later turned boom) resulting from “globalization” and technological change
2. Stagnant or declining real wages after a series of political defeats inflicted on the global working class
3. Recycling of Asia’s and oil-exporters’ forex surpluses through U.S. & European financial systems as household & business spending
4. The relative reduction of NATO military spending from the mid 1980s & absolute reduction from the late 1990s

What inflated the bubbles?

- Raw profit motive, manifest in the push to remove all legal, political & ethical barriers to capital accumulation
- Self-replicating inequality, manifest
 - Internationally, as disparities in productivity, class balance of forces, exploitation rates, profit rates, capital accumulation rates, and BoP imbalances
 - Domestically, as low standard of living, political weakness & economic insecurity of working people, which workers try to compensate by individual indebtedness
- Turbulence: crisis-ridden dynamics manifest in the frequency & virulence of international currency crises from the early 1970s

Marx's framework

- Throughout Capital, but especially in the manuscripts that – under Engels – became section V of vol. 3, there is clearly – and surprisingly relevant – sketch of the causal mechanism of a modern monetary & credit crisis
- Marx viewed these crises as intimately linked to the “industrial cycle” of capitalism

Marx's framework

- The possibility of crisis lies in the separate acts of C-M and M-C
- The conditions that make the crisis necessary lie in the expansion of credit: credit fosters disproportions & gets the basic relations underlying the profit rate out of whack, push industrial & commercial capital (and nowadays household finances) to their “absolute limits”
- The conditions that lead to the crisis are related to the evolution of profit rate: the operating cause of the crisis can be traced to the fall in the profit rate

Marx's monetary & credit crisis

- A boom leads to the gradual erosion of the profit rate, because it unleashes forces that slow down the exploitation rate and speed up the increase in capital composition
- Prolonged booms reduce unemployment, allowing for some respite in real wages. They also build up the capital stock at times when relatively low interest rates revalorize capital assets.
- Credit turbo-charges the entire process by centralization capital and purchasing power, and making it available to capitalists and (in our times, also massively) households, which leads to overproduction & overaccumulation.

Marx's monetary & credit crisis

- An expanding credit system fosters an increasingly complex yet delicate network of mutual interdependences, payments depend on payments, etc.
- The gradual erosion of the profit rate winds up reducing the ability of borrowing capitalists (and borrowers in general) to service or roll over their obligations.
- At a point, reality catches on and large disturbances in robust areas (or small ones in delicate areas) of the system can precipitate the crisis.
- During the crisis, there's a sudden rush for money as a means of payment and, as capital devalorizes in a downward spiral, as a store of value.

Marx's monetary & credit crisis

- Credit unravels: the overreactions reinforce the unraveling of the entire reproductive process.
- In the critical times, the interest rates skyrocket. To avoid bankruptcy, capitalists sell off their commodities at bargain prices: Money, money, money!
- Marx (and Engels) viewed the role of the central bank as decisive at these times. If banks made efforts to maintain credit, and the central bank to increase the availability of money, some of the worst effects of the crisis can be avoided.

Trivia

- Curiously for Marxists, the crisis global capitalism is now experiencing has a lot of commonalities with the crisis in the early and mid 19th century in Europe & the U.S.
- This crisis is making it so easy for us to read (and re-read) Capital, volume 3!

THANKS!