# Reply to Critics


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As is well-understood, the postwar economy, has gone through two major phases. During the long boom between the end of the 1940s and the early 1970s, most of the advanced capitalist economies (outside the United States and the United Kingdom) experienced record-breaking rates of investment, output, productivity, and wage growth, along with low unemployment and only brief and mild recessions. But during the long downturn that followed, the growth of investment fell significantly and issued in much-reduced productivity growth and sharply-slowed wage growth (if not absolute decline), along with depression-level unemployment (outside the United States) and a succession of serious recessions and financial crises. In *The Economics of Global Turbulence* (henceforth *EGT*), I sought to explain the foundations of the long boom, show why long boom turned to long downturn, and to account for the persistence of the long downturn.

**History, Theory, Periodization**

I agree very much with Jameson (p.45) that the fundamental problem in an exercise like this one is to maintain in "unresolved tension" both structural-theoretical and historical-empirical approaches to the problem, without slipping either toward a mechanism that obscures the ultimately historical nature of the reality to be grasped or toward an historicism that ends up substituting description for explanation. In seeking to confront it, I took as my point of departure three basic notions.

First, there is the empirical-historical recognition, or assumption, that capitalist development has typically proceeded through long economic upturns, followed by long periods of crisis and stagnation. Thus, the post-World-War-II movement from long boom to long stagnation is only the most recent of such sequences, the great Victorian expansion from 1850 to 1873 having given way to the "great depression" from 1873 to 1896 and the Edwardian boom from the late 1890s to 1913 having led to the long inter-war downturn of the 1920s and the 1930s.[1]

Second, there is the hypothesis that the key to each of the aforementioned long booms and long downturns is, respectively, the maintenance of high profitability and the inability to transcend low profitability. This proposition is derived from the idea that the source of economic dynamism in a capitalist economy is the rate of capital accumulation, and that, at the most general level, the determinant of the rate of capital accumulation is the size of the economic surplus, which is itself dependent on the rate of profit (on capital stock). From this vantage point, what accounts for the passage from long booms to long downturns is a fall in profitability. So, the conceptual challenge in explaining each progression from long boom through long downturn — and in particular that of the postwar epoch — is to explain the, hypothetically typical, sequence from the reproduction of a high rate of profit, to the onset of falling profitability, and, finally, to the failure of profitability to recover.

Lastly, there is the "middle-range" hypothesis that capital accumulation historically tends to take the form of uneven development, a pattern of interaction between earlier developing, technologically leading, and hegemonic blocs of capital, and later developing, technologically following, and hegemonized blocs of capital, which itself tends to follow a definite progression over time. From this standpoint, the pattern of German and US economic development with respect to that of Great Britain in the period from the 1880s to the Great Depression provides a very rough template for the pattern of German and Japanese economic development with respect to that of the US in the post-World-War-II epoch. Of course, these two successive waves of economic development do not duplicate one another; to be fully understood, each requires reference to a history with determinations "beyond" the theory.

The goals of my text were, roughly speaking, as follows: to offer a rudimentary theorization of the sequence from sustained high profitability, through falling profitability, through the reproduction of reduced profitability; to link this theorization of the progression of the profit rate to a conceptualization of the process of uneven development, which itself proceeds through a sequence of phases that parallels, because it is heavily driven by, the dynamics of the profit rate; and, by fleshing out the pattern of uneven development by reference to the actual course of history to offer an interpretation of postwar economic development.

**Theoretical Paths Not Taken**

Jameson asks why certain theoretical paths were not taken. I see the alternative perspectives to my own as falling into two basic categories, with some conceptions partaking of both categories at once. There are, first, what I term "Malthusian" theories, which are thus defined because they find, intentionally or unintentionally, the source of economic problems in the declining capacity to develop the productive forces. Kaiwar is, of course, right that none of the approaches I am referring to are Malthusian in the strictest sense, since none of them find the economic problem to lie in too rapid population growth ("overpopulation"). But, I think it's reasonable to invoke the term (of abuse), because they all seek to explain falling profitability in terms of a growing incapacity to develop technology that

is exogenous to the economy and which gives rise to declining productivity growth. There are, second, what might be called power-political theories, because they locate the source of economic problems in maldistributions of income — particularly, reduced profits — rooted in maldistributions of power — particularly, too powerful working classes.[2] Virtually all existing accounts of the long downturn that began in 1973 invoke either declining technology or growing working class power. Indeed, what is almost certainly the dominant one — versions of which have been offered by economic schools from the left to the right end of the political spectrum — combines both of these factors, explaining the downturn in terms of declining productivity growth due to technological exhaustion (and sometimes also growing working class pressure), which brings about declining profitability, because an overly strong working class first extracts wage increases that squeeze profits and then prevents the downward adjustment of wage growth to productivity growth necessary to restore the profit rate. (*EGT*, pp.10-22)

*Malthusian Approaches*

No doubt the most widely-influential left-wing Malthusian account of the long downturn is that of the Regulation School, which finds the source of the economy's falling profitability in its declining productive dynamism (Aglietta 1979; Boyer 1986; Boyer 1988; Lipietz 1990). Specifically, the Regulationists argue that the declining rate of profit resulted from a crisis of the Fordist technological paradigm, defined by them as "*nothing more than Taylorism plus mechanization*" (Leborgne and Lipietz 1988: p. 6, emphasis added). The profitability crisis was thus, for the Regulationists, the product of a "crisis of productivity," which manifested employers' declining capacity to derive productivity gains from their increasing control over production, leading to intensification of labor, the breakup of tasks into their component parts, from the standardization of operating practices, the separation of design and manual labor, the application of machinery, and ultimately the introduction of the assembly line.

The Regulationists' thesis is hard to credit on either conceptual or empirical grounds. If Fordism is merely "Taylorism plus mechanization," as above, how can its presence distinguish the post-World-War-II epoch of capitalist economy, let alone be responsible for its long downturn from 1973, especially when the assembly line itself enjoyed increasing application in a variety of industries in the US from the end of the 19th century at latest? Why should the economy of the US, which derived more or less steady gains from mechanization for at least a century before the late 1960s, suddenly cease to be able to do so? How could it have been, moreover, that an "exhaustion of Fordism" manifested itself simultaneously between 1965 and 1973 in economies at such different stages of industrial evolution as those of the G-7 and precipitated the declines of profitability that took place in all of them in that brief period? Given that the Japanese economy was so notoriously successful in securing accelerating gains from mechanization from the 1950s onwards — and offered to the world a new pattern to emulate — why should there have been any "exhaustion" of Fordism in Japan? By the same token, why should the crisis of profitability have struck Japan as harshly as it in fact did, when Japan was so clearly enjoying historically unprecedented rates of productivity growth? Finally, what possible justification could there be for focussing so single-mindedly on mechanization and the assembly line as the source of productivity gains, when it is so obvious that, since the middle of the 19th century at the very latest, industrial improvements have been increasingly derived, beyond mechanization, from the application of scientific knowledge to technology, in field after field, including especially such core sectors of the "second industrial revolution" as petrochemicals and electricity, not to mention the "high technology" lines of the "third industrial revolution" of our own era?

Nor does the "crisis of Fordism" conception find support in postwar economic history. There is no evidence of a relatively slow, secular decline in productivity, as there should have been, had productivity problems stemmed from an "exhaustion of Fordism." Even though the bulk of the fall in profitability took place in the manufacturing sector between 1965 and 1973, there is no evidence that manufacturing productivity fell at all in either the US or in the G-7 economies taken together in this period. When productivity growth finally did clearly decline, as it did after 1973, it fell precipitously not gradually, as it should have, if it were actually reflecting a decreasing capacity to derive productivity gains from mechanization. In fact, since the fall in productivity growth was delayed until after 1973, it appears most sensible to interpret it as a result, not a cause, of the profitability decline…deriving from the big slowdown in the growth of investment that was precipitated by the fall in the profit rate.[3]

It was, I realize, a provocation to classify as Malthusian the classical Marxian theory of the tendency of the rate of profit to fall, since Marx was notoriously so anti-Malthusian. Yet if, as is posited by the theory, the substitution of capital for labor leading to a rise in the organic composition of capital (roughly the ratio of dead to living labor) actually does bring about a fall in the rate of profit, it follows *logically* that the fall in the productivity of capital (output/capital) that has been brought about by the rising organic composition of capital has exceeded the increase in the productivity of labor (output/labor) that has been brought about by the rising organic composition of capital and that total productivity (output per capital plus labor) has thus fallen to bring about the fall in the rate of profit. I stress the Malthusian trajectory because the theory's reliance on the *increasing cost in labor plus capital* to produce a given output — and thereby bring down the profit rate — is its fundamental defect.

This theory takes as its point of departure, reasonably enough, the assumption that, under the stress of competition, firms will adopt new techniques that *cut costs* per unit of output by means of increasing the value of the capital set in motion per unit of labor. But, the point is that, if the new technique actually does cut costs — as it must if the innovating firm is to have reason to adopt it — it must lower the cost of *labor plus capital* (living plus dead labor costs) per

unit, cheapening the innovating firm's output. In this situation, other firms in the industry can be counted on to adopt the same technique, on pain of extinction, with the consequence that the whole industry will sooner or later produce the good at a lower exchange value. Assuming that the real wage remains constant, the nominal wage must now fall and the rate of profit must *rise,* since one of the goods that enter into the workers consumption bundle has become cheaper. Put another way, because total productivity has risen but the real wage has not — or, alternatively, because the increase in the rate of surplus value has outrun the increase in the organic composition of capital — the rate of profit must rise.

*Power-Political Approaches*

No doubt the most prominent account of the long downturn finds its roots in a rise in the costs of production, caused by an increase in the power of, and pressure from, workers over the first postwar quarter century, particularly in the 1960s. This growth of workers' leverage is attributed to the tightened labor markets that resulted from the very extended cyclical upturn of the years 1960-1969, as well as the reduction of the cost and the risk of unemployment that derived from the rise of unemployment insurance and governments' political commitment to secure full employment through Keynesian subsidies to demand.

Now there can be no doubt that tightened labor markets that result from longish periods of economic growth do tend to squeeze profits by enhancing the power of workers. But, what is often forgotten is that the very same processes of accelerated capital investment that tend to raise costs also set off counter tendencies that tend to cut costs and raise profitability — notably increased capacity utilization and faster productivity growth. Meanwhile, the same rising wages that result from increased labor demand tend to provoke, in compensation, increased labor supply by inducing stepped up immigration, the increased export of capital, and labor saving technical change. As Michal Kalecki, the father of what might be called the "contradictions of Keynesianism" approach, concluded, "The higher output and employment [that result from the application of Keynesian measures] clearly benefit not only workers, but business as well, because their profits rise."

Nevertheless, as I stressed in my book, "it would be absurd to deny that full employment leading to an enhancement of labour's leverage sometimes *can* precipitate a fall in the profit rate" (*EGT*, p.18). The bottom line of my argument is not therefore that the exercise of workers' power can never bring down profitability, but that workers' pressure cannot sustain an *extended* period of reduced profitability such as the two decades beginning in the early 1970s. The reason for this is that, where tight labor markets do make for declining profitability, firms will inevitably respond to their reduced rates of return by cutting back investment, bringing about a reduction in aggregate employment and thus of labor's leverage. That is exactly what happened from the late 1950s in the US. In the wake of a decline of profitability caused by the maintenance of wage growth in the face of declining productivity growth, business launched an all-out attack on labor, while sharply reducing the growth of investment, opening the way to a half decade of high joblessness. The near-total reversal in the balance of class forces that resulted opened the way to a profound recovery of profitability, and perhaps the best period for US capital and the US economy more generally, during the second half of the 20$^{th}$ century (*EGT*, pp. 58-63).

In the postwar epoch, a further mechanism has tended to operate to insure that profit squeezes brought on by increased pressure from labor will be self-correcting. Firms suffering reduced profitability find themselves decreasingly competitive because they are less able to invest and thereby to improve. If their profitability does not revive, they are obliged, in order to survive, sooner rather than later to reallocate investment to other places or industries. If they do not, they find themselves suffering further reduced profitability and/or reduced market share due to price-cost pressure from firms beyond the region affected by working class pressure. Workers who reduce their firms' profit rates therefore tend, over time, to price themselves out of the market. The exertion of workers' power, supported by full employment and the institutions of the welfare state, has the potential to bring on a cyclical or short-term profit squeeze; but, it cannot, in my view, precipitate a long-term profitability crisis, such as gripped the international economy from the later 1960s.[4]

**Theoretical Framework: Evolution of Profitability and Phases of Uneven Development**

My own alternative theorization of the course of profitability seems to have given rise to some misunderstanding (Jameson, pp.45-6; Kaiwar, p.50), so it might be best to briefly outline it here. My point of departure is the competitive anarchy that defines the capitalist mode of production. I start, therefore, with the pressure on capitalist enterprises that derives from their subjection to competition to cut costs as the condition for their very survival. The resulting tendencies to the accumulation of capital and to innovation are, of course, at the root of capitalism's historically unprecedented capacity for developing the productive forces. But, occurring as they do in an unplanned, competitive manner, these tendencies are also, I would argue, at the source of capitalism's tendencies to periodic crisis and stagnation. This is because individual capitalists have no interest in, and are in any case incapable of, taking account of the aggregate effects of their action, specifically the destructive impact of their cost-cutting on already-existing capitals embodied in plant and equipment of an earlier vintage and on the ability of those capitals to yield profits.

*Fixed Capital and the Pattern of the Profit Rate*

The axis of my account of the movement from high profitability to falling profitability to the reproduction of fallen profitability is thus fixed capital. I take it as a reasonable premise that capitalist cost-cutting tends to take place by means of bringing in new techniques that are embodied in plant and equipment that can be realized only over an extended period of time. It is from the logic of the interaction of new placements of fixed capital of increased productiveness with already existing placements of fixed capital of lower specific weight that, in my view, one can derive, at the most abstract and general level, a theory of the evolu-

tion of the profit rate, an evolution that goes through three phases:

*Sunk fixed capital and deterrence, avoidance of competition and co-existence:* Firms that come earlier with their investments can, by virtue of their earlier placements of plant and equipment, deter the introduction of lower-cost, lower-priced goods even by competitors with the capacity to produce more cheaply than they can. This is because, to enter a line, a firm must be able to "carve out a place for itself," to seize market share. In order to do this, the entrant must have the capability of producing goods at a price that both allows it to continue to secure the established rate of profit *and* is so low that it forces at least some incumbents to withdraw from the line. The problem is that incumbents can be forced from the line only if the price that the entrant imposes is so low that the incumbent can no longer make a profit even on its *circulating capital alone,* i.e. the additional labor, raw materials, and intermediate goods required to put their fixed capital in motion. This is because the incumbents' fixed capital is "sunk," i.e. already paid for. They can therefore rationally regard its further use as free, with the consequence that it makes sense for them to persist in the industry so long as they can make the established, or average, rate of profit on their circulating capital.

The upshot is that firms that come first can thus deter entry into their industry beyond that point that potential entrants have the technology to produce with lower total costs than they can and up to that point that those potential entrants can produce with total costs that are lower than their circulating costs. Firms with fixed capital representing the most advanced technology will thus tend, for a time, to slow down entry into their industries even beyond the point that their technology has been improved and force investment into new regions/markets beyond their competitive reach.

*Devaluation of/inability to realize fixed capital:* After a certain point, however, potential entrants do tend to develop technologies capable of reducing their costs of production below the circulating costs of production of some incumbents. Problems thus do tend to arise for incumbents when innovating firms succeed in cutting costs sufficiently that they are able to set prices so as to seize increased market share, even while maintaining for themselves the established average rate of profit. This is because, in so doing, the cost-cutting entrants render obsolete the fixed capital that their rivals introduced earlier. Plant and equipment that at the point of their introduction represented the most up-to-date technique but which needed to be operated for an extended period to recover their cost and provide sufficient returns are thus left insufficiently profitable in the face of the new, lower prices that have been imposed by the "premature" introduction of the new, even more productive fixed capital. Its possessors thus incur falling rates of profit (*EGT*, pp. 24-29).

*Sunk capital, failure to exit, and fall in the rate of profit:* The aggregate outcome is in effect redundant investment, making for overcapacity and overproduction in the given industry. Overproduction and overcapacity is defined as such with respect to the established rate of profit: it manifests itself in a price for the industry's output that is too low to allow the other (non-innovating) firms to realize their former rates of return, given their now too-high costs of production, and forces them to accept reduced profit rates. Some firms, for whom the price has fallen too low to allow them to make the established rate of profit even on their circulating capital alone are forced to retire from the industry and to yield their market share to the innovating entrant. The others, which can still make at least the average rate of profit on their circulating capital, remain in operation, but are nonetheless obliged to accept a rate of profit on their total capital below the established average rate. With the innovator making the established, average rate of profit on their total capital, and the others rationally refusing to exit even though they are making a rate of profit that is below the average on their total capital, the rate of profit in aggregate in the industry falls.

Finally, on the assumption that capitalists *outside* the "affected" industry fail to garner all, and that workers derive some of the benefits from the affected industry's reduced price — i.e. that capitalists do not get to buy all and workers do get to buy some of that industry's output and thereby increase their real wage — the rate of profit in the economy in aggregate falls (Cf. *EGT*, p.29).

*Uneven Development: From Boom to Downturn*

The foregoing highly abstract scenario for the evolution of the profit rate tends to work itself out by way of a process of uneven development that is rooted in the nature of capital accumulation itself and thus ultimately derives its pattern from that of the progression of profitability. The point of departure for uneven development is the wave-like character of investment. Just as capital accumulation via cost-cutting by each firm tends to take place by means of ever larger placements of fixed capital per unit of labor, investment on an economy-wide basis tends to take place in waves, to be embodied in large, technically interrelated, "developmental blocs." This is because each firm's investment tends to depend on other firms' investments both to provide the demand for its output and to the supply of inputs required for its production. Schematically speaking, the process of economic evolution through developmental blocs tends to assume the following pattern, closely aligned with the dynamics of the profit rate:

*Inertia of earlier-developing bloc, dynamism of later developing blocs, and their initial separation/symbiosis:* The initially leading and dominant bloc tends to productive inertia, though not necessarily reduced profitability, because it tends to repel "domestic" investment and to stimulate investment externally, beyond the bloc. Prospective entrants, even some with more cost effective techniques than those of the incumbents, are deterred by already existing fixed sunk capital. Incumbents find that the "interrelatedness," or interconnectedness, of the plant and equipment that make up the earlier developing bloc constitute a barrier to the reorganization of its component plant and equipment for the purpose of adopting cost-cutting innovations. At the same time, because the rates of return that can be derived from investments in the later developing blocs tend to be relatively high, firms of the earlier developing bloc tend to step

up, in relative terms, their foreign direct investment.

The later developing blocs tend to greater economic dynamism, because they possess certain advantages in terms of costs vis-a-vis the earlier developing bloc. Production tends to be cheaper in later developing economies because its enterprises can often make use of relatively advanced techniques while availing themselves, in a way no longer possible for producers of the earlier developing bloc, of relatively cheap labor, secured from still-large agricultural and small business sectors containing significant portions of disguisedly unemployed labor. The evolution of technique, typically characterized by de-skilling and standardization, tends to magnify this advantage by facilitating the combination of ever more advanced techniques and ever less skilled labour. Producers in later developing economies often have the further advantage of trade protection and perhaps subsidies to exports. Beyond that, they may be able, or indeed be obliged — in a manner not desirable or possible for the firms of the early developing bloc — to avail themselves of "advanced" institutional forms that make for greater industrial competitiveness through merging bank and industrial capital, through facilitating horizontal or vertical coordination/cooperation among producers, through regulating capital-labor relations, and through opening the way to successful state intervention.

Initially, the earlier developing and later developing blocs will tend to operate to a significant degree in separation from, and symbiosis with, one another. In part, this is because, by virtue of their existing fixed capital, the firms of the leading bloc are able to ward off the competition of the firms of the follower bloc, by virtue either of their straightforward superiority in terms of costs of production or of their ability to price their products, if necessary, in terms of their circulating capital costs alone. In part, it is because the newly placed capitals of the later developing bloc are able to secure their best profits by exploiting, with lower productive costs, new labor forces and new markets in new regions in relative freedom from the competition of the established producers. In part, it is because the trade relations that initially develop between leader and followers tend to manifest a certain complementarity, with the earlier developer selling technology-intensive capital goods and equipment to the later developer and buying from them labor-intensive consumer goods. It is also because the later developers provide a needed outlet for the earlier developer's export of capital. The upshot is that aggregate profitability system-wide tends to sustain itself.

*Intensified competition leading to inability to realize fixed capital:* Nevertheless, in the longer run, capitalists serving new regions on the basis of lower cost production will tend to improve and expand their productive capacity to a point where they cease to be confined to opening up new markets with new labor forces, but can profitably enter into the markets already occupied by the firms of the hegemon. Over time, these producers find it ever easier to penetrate markets hitherto dominated by the firms of the older bloc, especially because they can do so by increasing the output of plants already serving their own markets, rather than by incurring the risk of setting up new plants for the specific purpose of invading the markets of the hegemon. Markets thus tend to be unified and firms of the new blocs of capital come into direct competition with the those of the old. By virtue of their lower costs, firms from the later developing bloc are able to take market share, even while maintaining at least the average rate of profit, by reducing the price for their output. Initially, elements of the older bloc will thus face lower prices, but be caught with out-of-date fixed capital. Stuck with higher costs, they suffer downward pressure on their profits.

*Overcapacity and overproduction, falling rate of profit:* Those capitalists that are unable to make the old rate of profit even on their circulating capital in the face of the reduced prices will be forced to scrap. Others will find that they can do best by maintaining their market share by means of lowering their price, even though they must thereby accept a reduced rate of profit on their total capital. This is because, in view of the fact that their fixed capital is already paid for, they can still achieve at least the average rate of profit on their new investments in circulating capital. But, with the representatives of the new bloc making the established rate of profit and the firms of the older bloc incurring reduced profit rates, the aggregate profit rate will fall.

*Reproduction of reduced profitability:* The outcome of the preceeding process is a kind of paradoxical equilibrium, characterized by overcapacity/ overproduction. There is overcapacity/overproduction because an oversupply of markets has brought about a fall in the rate of profit by forcing down prices with respect to existing costs. But there is nonetheless an equilibrium, since the surviving firms have succeeded in maximizing their rate of profits as well as they can — and there is no obvious alternative course that they can now pursue to improve their condition. In this situation, firms can be expected to pursue strategies that, while individually profit maximizing, fail to raise aggregate profitability or bring it down even further, because they fail to bring about the required reallocation of means of production out of the oversupplied lines.

On the one hand, then, firms find it makes sense to "fight rather than switch." Through long years of operation in their lines, the higher cost firms of the older bloc have accumulated otherwise unattainable information about markets, favorable relationships with suppliers and purchasers, and above all technical know-how. This "proprietary" intangible capital constitutes perhaps their greatest asset; but, no less than their tangible fixed capital, it can be realized only in their established lines of production and would be lost were they to switch lines. Despite having just been victimized by unforeseen cost-cutting on the part of their rivals, the firms of the old bloc will therefore have every reason to try to maximize their profits by defending their markets and counterattacking, through speeding up the process of innovation through investment in additional fixed capital. Indeed, they may well be further encouraged to do so by virtue of the availability of assistance from supportive states and financiers. The adoption of such a strategy by the initially higher cost firms of the earlier developing bloc will tend to induce the original cost-reducing innovators of the follower bloc to follow suit by

innovators of the follower bloc to follow suit by accelerating technical change themselves.

On the other hand, firms from still later developing blocs may well find that it makes sense to enter the oversupplied industries, despite its reduced profitability. Just as the mere oversupply of a line of production cannot be counted on to force enough exit to restore its profitability, that same oversupply is insufficient to deter further entry that could bring down its profit rate further. Indeed, the initial fall in profitability that results from processes of uneven development bringing about overcapacity and overproduction can be expected to intensify the world-wide drive for even lower production costs through the combining of even cheaper labor with even higher levels of techniques in still later developing regions. To the extent this drive succeeds, it only worsens the initial problem.

Put most generally: reduced profitability has been reproduced, because the means firms have found best to respond to the downward pressures on prices resulting from intensified competition have only reproduced already existing overcapacity and overproduction.

**From Theory to History: Interpreting the Development of the Postwar Economy**

It was my goal in *EGT* to provide an interpretation of the evolution of the postwar economy on the basis of the perspective outlined above — i.e. in terms of what I hope will be seen to be my closely interconnected theorizations of the evolution of the profit rate and of uneven development. Both Jameson and Kaiwar doubt whether my theory really motivates my historical interpretation, whether it is actually doing the work of accounting for the narrative. It therefore seems to me worthwhile to try to demonstrate just how the theory illuminates the history by laying out, very schematically, my interpretation of the historical movement from long boom to long stagnation. I hope it will at least become crystal clear that the fundamental long term story here is *not*, as Jameson attempts to encapsulate it (Jameson, p.43) of the original winners (the later developers Germany and Japan) losing, and the original loser (the earlier developer US) winning, although something very roughly like that did happen over the course of the second half of the 20th century. The fundamental story is that of the movement from a generalized condition of high profit rates and economic vitality *systemwide* to a generalized condition of reduced profit rates and economic stagnation *systemwide.* Thus, the changing relationship among the earlier and later developing economies at the heart of the process of uneven development on which I focus assumes its primary significance as the *form,* as it were, through which the evolution of the aggregate profit rate worked itself out, determining the fate of the system as a whole. It has thus been the health, or lack thereof, of the system as a whole — as expressed in its aggregate profit rate and the rate of expansion of the economic pie — that has, for the most part, been the main determinant of the health of its component economies, much more than has those economies' competitive position relative to one another.[5]

*From Long Boom to Long Downturn Postwar Boom: High Rates of Profit, US Relative Decline.* The indispensable precondition for the long boom of the advanced capitalist economies was the achievement of very high rates of profit at the start of their expansions — by US producers at the end of the 1930s and by Japanese, German, and other west European producers at the end of the 1940s. This was made possible by the repression or containment of the powerful and disruptive working class movements that broke out all across the advanced capitalist world and threatened capitalist rules of the game, first in the mid-1930s, then on the morrow of World War II. Real wages were thus forced down vis-a-vis the level of productivity, enabling manufacturers to net large surpluses with respect to their capital stock. Capital accumulation could therefore drive the boom, as it made for the rapid growth of productivity, employment, and real wages. The rapid growth of both investment demand and consumer demand naturally followed, making for a virtuous upward spiral.

The US economy took off during the years between the end of the 1930s and the middle of the 1940s, the way prepared by the industrial shakeout, record-high unemployment, and wage repression of the previous decade, as well as the containment and repression of the dynamic industrial labor movement that had exploded on to the scene between 1934 and 1937. Especially under the stimulus of wartime demand, the US economy experienced rapid growth, increasing its already impressive lead over all other national economies, at a time when the Japanese and west European economies were torn by war, then preoccupied with postwar reconstruction. Nevertheless, as a consequence of the very developments by which it consolidated its leading position, the US economy found it difficult to sustain the growth of investment. Its initially advanced technology as embodied in sunk fixed capital; its more evolved socioeconomic structure as manifested in its reduced agricultural and small business sectors and consequently limited supply of surplus labor; its internationally hegemonic position as expressed in the internationalizing ambitions of its multinational corporations, its great banks, and of course its state — all of these turned out to constitute significant barriers to its continued economic dynamism, as did the resistance of its residually powerful working class. The US economy was thus plagued, from the end of the Korean War, by a loss of momentum, manifested in a slowdown of capital accumulation. Already existing, sunk fixed capital fettered capital accumulation in the domestic market. The profit-making potential of the new boom in Europe encouraged US firms to invest abroad while declining competitiveness discouraged them from investing at home. Meanwhile, a slowdown in productivity growth resulting from the slowdown of investment growth, in combination with a speed up in real wage growth, brought about a squeeze on profitability. The consequence was a powerful tendency to economic slowdown.

What underlay the sustained, unprecedented economic dynamism of the postwar economy as a whole was thus the ability of the later developing economies in particular — Germany and Japan, but also France, Italy, and others — *to continue* to achieve record breaking rates of capital accumulation for an extended period. This they were able to

accomplish by virtue of their capacity to *maintain* their initially high rates of profit, in the face of the powerful upward pressure on costs that was the unavoidable concomitant of their very high rates of economic expansion. The producers of the later developing economies possessed the *potential* to cope with upward pressures on costs, and therefore maintain high profitability and international competitiveness precisely by virtue of their coming late. They could take advantage of huge pools of disguisedly unemployed workers in their still relatively backward rural sectors, so as to keep wage growth relatively low compared to productivity growth. They could also exploit the possibilities of catch-up, adopting cheap but advanced US technology, while succeeding, in many cases, in innovating so as to forge ahead, especially by means of learning by doing in the process of laying down huge masses of new capital stock. The leading enterprises of these economies focused on export-oriented manufacturing. In so doing, they received strong support from banks that, by virtue of their intimate ties to the manufacturers, were able to offer relatively cheaper credit, and cater to their changing needs in the face of changing market conditions. The leading manufacturing enterprises also improved their competitiveness by means of participating in various forms of vertical and horizontal networks, through which they secured cost advantages and more secure markets. Their governments, meanwhile, enabled them to develop, for a significant period, behind protectionist walls, while offering them subsidies and securing for them undervalued currencies. The upshot was that the huge gains in productive effectiveness that they accrued could redound, for the most part, to the benefit of the domestic economies. This was in some contrast to the dominant trends in the relatively inertial, hegemonic US economy, which witnessed an epoch-making move toward internationalization via the overseas expansion of its dynamic multinational corporations and banks, strongly supported by the US state.

The fact remains that the later developing, follower, and hegemonized economies could realize their potential only by virtue of their accelerated export growth. Their ability to secure such rapidly expanding exports depended in the first place on the unusually rapid growth of world trade during the postwar boom. But it also rested on their capacity to expand their share of the world market. In fact, German and Japanese manufacturers were able to achieve the extraordinary rates of export growth that drove their economies forward only by virtue of their ability to wrest *ever greater shares of world export markets* from US and UK producers and, in particular, to penetrate the enormous US market itself. In this context, they served as hubs for dynamic regional economic blocs in Europe and East Asia, respectively — supplying them with increasingly high powered capital and intermediate goods and offering them huge and rapidly growing markets for their output (although Japanese tolerance for manufactured imports was always limited).

Uneven development did, then, practically from the start, entail the US economy's *relative* decline. But it must be said that it was also a precondition for the vitality of the dominant forces within the US political economy. US multinational corporations and international banks, aiming to expand overseas, needed profitable investment outlets. Domestically based manufacturers, aiming to expand exports, required overseas demand for their goods. An imperial US state, bent on "containing communism" and keeping the world safe for free enterprise required overseas economic success as the foundation for capitalist consolidation. All these forces thus depended upon the economic dynamism of Europe and Japan for the realization of their own goals. This meant that they relied, paradoxically, for their own prosperity on the capacity of their rivals to increase export competitiveness, so as to appropriate growing shares of US producers' overseas markets and gain at least some access to the US domestic market. US producers could cede, without too much cost, significant shares of their overseas markets because those markets were growing so rapidly in absolute terms during the long upturn and, because, in any case, they constituted such a small proportion of their total markets. Above all, they could fall back on the enormous US market, which they were long able more or less totally to dominate as a consequence of their superior technology as well as the deterrent effect of their sunk fixed capital.

Because US economic success turned out to be so tightly linked to the success of its rivals and allies, postwar international economic development within the advanced capitalist world could, for a brief time, manifest a relatively high degree of international cooperation — marked by high levels of US aid to and politico-economic support for its allies and competitors — even though under the domination of the US state and heavily shaped by US interests. One therefore witnessed, at least for a certain moment, a symbiosis, if a highly conflicted and unstable one, of leader and followers, of early developer and later developers, and of hegemon and hegemonized.

*From Boom to Crisis: Intensified International Competition and the Onset of Overcapacity and Overproduction.* The fact remains that uneven development, by way of international competition leading to the growth of trade and the world division of labor, could not long remain only favorable in its economic effects. From the end of the 1950s, with the restoration of convertibility and lowering of commercial barriers, trade began to grow even faster, with contradictory effects. On the one hand, producers in western Europe and Japan exploited gains from trade to secure the fastest rates of economic expansion of the postwar epoch during the second half of the 1960s and early 1970s. On the other hand, these same producers began without warning to supply radically increased fractions of the world market. These manufacturers had previously been producing for their home markets bundles of goods that were quite similar to those already being produced by the leading, earlier developing, and hegemonic economies, especially the US. It was therefore hardly surprising that the goods that they turned out to export tended to be redundant, rather than complementary, to already-existing products, tending to challenge the incumbents' output for markets and to invite overcapacity and overproduction.

Beginning in the mid-1960s, manufacturers based in the later developing blocs — most especially in Japan, but also in Germany and other parts of Western Europe — were thus

able to combine relatively advanced techniques and relatively low wages to sharply reduce relative costs vis-a-vis those in the US. On this basis, they dramatically increased their shares of the world market and imposed on that market their relatively low prices; but, precisely by virtue of their relatively reduced costs, they succeed simultaneously in maintaining their old rates of profit. US producers thus found themselves facing slower growing prices for their output, but caught with inflexible costs as a result of their being stuck with fixed capital embodying suddenly outmoded technology. Those capitals which could no longer make the old, or average, rate of profit even on their circulating capital alone — i.e. on the labor power, raw materials, and intermediate goods that were needed to operate their fixed capital (plant and equipment) — had to shed productive capacity and/or reduce capital utilization. Others which could make at least the average rate of profit on their circulating capital, but not on their total capital (including fixed plus circulating), had little choice, in order to hold on to their markets, but to accept significantly reduced rates of profit on their fixed capital, since they could not raise prices above costs as much as they had previously. With the later developing aggressors in the world market roughly maintaining their old rates of profit on their capital stock, and the earlier developing US defenders obliged to sustain reduced rates of profit on their capital stock, the average rate of profit on capital stock in international manufacturing could not but fall. The onset of overcapacity and overproduction, thus brought about the shift from long boom to long downturn, as it was instantiated in a fall in prices resulting from the oversupply of manufacturing lines that made for a fall in aggregate profitability.

I hope this makes clearer to Kaiwar (pp.50-1) the meaning, the mechanisms, and the timing, of the onset of overcapacity and overproduction. As a consequence of the unplanned-for irruption of lower priced goods onto the market, US manufacturing producers thus turned out to have overinvested, in the sense that they were unable to realize the old, established rate of return on their placements of fixed capital due to the outrunning of demand by supply in their industries. System-wide overcapacity and overproduction, which manifested itself in a declining system-wide rate of return on capital stock in manufacturing, was the result. Between 1965 and 1973, the US manufacturing sector sustained a fall in the rate of profit on its capital stock of over 40 percent. Thus, even though the manufacturing sectors of Japan and the leading European economies were simultaneously able to maintain but not, by and large, increase their rates of profit (though only through 1969-1970), the manufacturing sectors of the G-7 economies taken in aggregate, a surrogate for international manufacturing as a whole, saw its profit rate fall by 25 percent between 1965 and 1973.

It should be added that, in this context of worsening overcapacity and overproduction in international manufacturing, Japanese and German producers could not themselves long avoid sharply falling profit rates. Their assumption of greater shares of the world market, as US competitiveness declined, issued in enormous trade and current account surpluses, paralleled by record-breaking US current account deficits. In the wake of the ensuing international monetary crisis of the years 1969-1973, the yen and mark had to fall precipitately vis-a-vis the dollar, raising German and Japanese relative costs while reducing US relative costs correspondingly. German and Japanese profit rates fell accordingly, but US profit rates could not rise by much, as aggregate profitability in international manufacturing, as measured by the G-7 manufacturing profit rate, continued to fall through 1973.

It needs to be emphasized, finally, that the fall in the rate of profit in the manufacturing sector of the G-7 economies taken together resulting from the relative repression of price increases in international manufacturing engendered a fall in the rate of profit for the private economy *as a whole* of the G-7 economies taken together. Had capitalists outside manufacturing succeeded in garnering *all* of the gains that were derived from the slowed growth of manufacturing prices, they would have secured increases in profits sufficient to match the reductions in profits sustained by firms inside manufacturing; in that case, a rise in the non-manufacturing profit rate would have compensated from the fall in the manufacturing profit rate. No fall in the aggregate profit rate for the private business economy as a whole would then have occurred. But, in view of the composition of manufacturing output, specifically the major place of consumer goods within it, it was a foregone conclusion that workers would share in these gains, increasing their real wages. Moreover, since employers outside manufacturing did not suffer reductions in their own profit rates as a result of the increased real wages that their workers derived from the slowed growth of manufacturing output prices, they felt no added pressure to attempt to reduce the growth of nominal wages. The upshot was that, between 1965 and 1973, the rate of profit in the private business economy fell by some 30 percent in the US and by almost a quarter in the G-7 taken in aggregate.

*The Failure of Profitability to Recover: US Counter-Offensive and the Impasse of Manufacturing.* From the early 1970s, in response to falling profit rates, firms, assisted by governments, stepped up their assault on workers' wages and working conditions all across the advanced capitalist world. Their success was striking and immediate, as real wage growth and the growth of real social expenditures decelerated sharply from 1973. But stepped up exploitation of labor did strikingly little to restore profit rates. The reason for this was, in part, that the reduced profit rates that had followed upon the onset of overcapacity and overproduction in international manufacturing could not but issue in slowed investment growth and thereby reduced productivity growth, which tended to cancel out employers' profitability gains from reduced real wage growth. The more fundamental problem, however, was that there was relatively little of that reallocation of means of production out of oversupplied lines into new lines that was indispensable to alleviating the overcapacity and overproduction behind reduced profitability. Firms all across the advanced capitalist world thus found that their best response to rising competitive pressure was simply to try to improve competitive-

ness in their established industries by containing wages, maintaining or even increasing investment, and accelerating technical change, while seeking ever stronger support from their states and accommodating financial institutions.

The US government, in particular, launched an all-out counterattack on US firms' rivals, aimed at reversing the prevailing trends in competitiveness and profitability. The pivotal step was, of course, the Nixon administration's closing of the gold window, which ended dollar convertibility, its adoption of floating exchange rates, and its resort to ultra-expansionary monetary policy to stimulate the economy and push down the value of the dollar. Even before that time, from the start of the 1960s, the US had assumed an increasingly aggressive stance in order to maintain the sanctity of the dollar, demanding its allies and competitors sell gold to support the dollar and hold onto dollars to keep up US gold reserves, even as it insisted on pursuing an expansionary macro-policy, while its payments deficits grew and its competitive position declined. But the allies and rivals of the US were caught in a bind: they disliked the US's exploitation of the Bretton Woods system through its mounting budget and trade deficits and overvalued exchange rate; yet they had reason to fear even more what turned out to be the alternative from 1971 — the end of the overvalued dollar, leading to the decline in their own manufacturing competitiveness and the depreciation of their huge dollar holdings.

By reneging on the US's obligation to convert dollars into gold in 1971, perhaps the greatest de facto default in world financial history, Nixon freed his administration from the necessity to deflate the economy to restore the balance of payments. He thereby enabled it to pursue Keynesian expansionary policies aimed at stimulating domestic growth, while devaluing the dollar and reducing real interest rates in aid of manufacturing competitiveness. During the 1970s, Presidents Ford and Carter continued the policy of incurring growing public deficits so as to increase demand and, by inviting inflation, to reduce real interest rates below zero and to bring down the value of the dollar a great deal further.

In this more favorable context of declining absolute and relative costs, US manufacturers sought to invest their way out of the crisis, actually increasing the growth of expenditures on plant and equipment over its level of the 1960s, while reducing dividend payments out of profits and stepping up borrowing to do so. (At the same time, foreign investors sharply increased their direct investment in the US). By stepping up capital accumulation, US manufacturers were able to maintain the growth of productivity fairly well in the face of two oil crises, and this did have a positive effect on their ability to export and, ultimately, their profit rates. Nevertheless, despite a major improvement in their relative cost position in international terms, US manufacturers were unable to increase either their rates of profit or their share of world export markets during the 1970s, because their counterparts overseas were unwilling to politely cede the field to their US rivals.

Assisted by governments, as well as supportive financial institutions, US manufacturers' overseas competitors, notably in Japan and Germany, accepted reduced profit rates in order to retain, or even expand, their shares of world export markets. In Japan in particular, manufacturing firms, with the collaboration of the state, the banks, and other members of their industrial groups (*keiretsu*), unleashed an extraordinary process of across-the-board restructuring. Because both US firms and their rivals abroad thus insisted, for the most part, on fighting rather than switching, international supply in manufacturing continued to exceed demand, making for ongoing downward pressure on prices. International overcapacity and overproduction in manufacturing could not but continue, so that by 1978-1979 profitability for the G-7 manufacturing economies in aggregate, as well as for the US, German, and Japanese manufacturing economies taken separately, had dropped somewhat further, falling below their already-reduced 1973 levels and creating the potential for severe crisis, even depression. (The fact that profitability *outside manufacturing*, which had fallen relatively little between 1965 and 1973, actually increased to some extent despite incurring cost increases at least as high as those in manufacturing, evidences, once again, the roots of the profitability decline in manufacturing overcapacity and overproduction).

It should be emphasized in passing that Keynesian policies — which began to be widely implemented in the early-mid 1960s at the first sign of economic difficulties in the advanced capitalist economies and became quasi-universal with the slide into crisis and stagnation in the 1970s — actually contributed to the perpetuation of overcapacity and overproduction in manufacturing and thus helped to prevent a decisive recovery of profitability. By increasing demand, deficit spending and easy credit thus allowed many high cost, low profit manufacturers that would otherwise have gone bankrupt to continue in business and maintain positions that might otherwise eventually have been occupied by lower cost, higher profit producers. But, given their low surpluses, such weakened firms could hardly undertake as much capital investment or expansion as previously. In general, in response to any given increase in aggregate demand resulting from Keynesian policies, firms were rendered unable, as a consequence of their reduced profit rates, to bring about as great an increase in supply, as in the past when profit rates were higher. There was therefore "less bang for the buck," with the result that the ever-increasing public deficits of the 1970s brought about not so much increases in output as accelerated rises in prices. On the other hand, despite the declining dynamism, the international economy was kept from depression by the Keynesian deficits.

The outcome, by the end of the 1970s, was a profound impasse for international manufacturing, as well as for the Keynesian subsidies to demand that had been designed to buttress it. The US macro-policy of record federal deficits, extreme monetary ease, and "benign neglect" with respect to the exchange rate, had brought not only runaway inflation, but also record current account deficits, which led, by 1977-1978, to an outright run on the US currency that threatened the dollar's position as international reserve currency. The way was thus opened up for a major change of perspective. Almost unbelievably, it was now the US which

was obliged to accept a program of "stabilization," and the result was something of a revolution, led by US Fed Chair, Paul Volcker. The advanced capitalist governments now turned to monetarist tight credit and so-called supply-side measures aimed at cutting costs further. Since the debt-based subsidy to demand that had been keeping the world economy turning over in the face of manufacturing overcapacity and overproduction was now suspended, renewed recession was unavoidable…and between 1979 and 1982, the world economy suffered its worst recession of the postwar epoch.

*Lenin's Imperialism and the Postwar Economy*

In view of the emphasis of my interpretation on rivalry not just among firms of the different advanced capitalist economies, but also the national states that stood behind those firms, seeking to endow them with improved weaponry to fight the competitive struggle, Jameson logically poses the question of the relevance of Lenin's *Imperialism,* the objective of which, after all, was to analyze the struggle among the leading capitalist powers of the World-War-I epoch to *redivide* the world market, and indeed the world.

How does Lenin's *Imperialism* bear on this account? To the extent that Lenin puts the focus, as Jameson implies, on the struggle for international markets by means of trade and foreign direct investment by industrial firms, supported by their national states, his account seems to me to retain much of its relevance. I would say, though, that Lenin somewhat weakened his own analysis, and its applicability to both his own time and to ours, by failing to analyze the world economy of his epoch in a more differentiated way. He thus saw the world system as a whole in the era around 1914 as characterized *in general* by certain institutional forms and economic processes distinguishing "the highest stage of capitalism" — the concentration and monopoly, the merger of banks and industry, the dominance of finance capital, the export of capital, and the power of multinational corporations. But these institutional forms and economic processes were in reality distributed in a highly *uneven* fashion among the different national economies because their emergence was largely an expression of the process of uneven development, driven by the competition among the early developing, hegemonic economy and the later developing challengers and, for that reason, differentially characteristic of, respectively, pre-World-War-I England and post-World-War-II US, on the one hand, and pre-World-War-I Germany and the US and post-World-War-II Germany and Japan, on the other.

The dominance of finance and the export of capital were interrelated defining features of both the pre-World-War-I UK and the post-World-War-II US, but far less so of pre-World-War-I Germany and the US and post-World-War-II Japan and Germany (though more so, as time went on). They were, as already indicated, especially characteristic of the earlier developing dominant economy, because its investors faced relatively diminished potential for profit making in industry at home, but, in possession of enormous surpluses, were capable of scouring the entire capitalist world for the best opportunities. The overwhelming dominance of British overseas investment on a world scale in the face of British industrial decline was thus a fundamental determinant of the evolution of the world economy before World War I. In the same way, the extraordinary penetration by US multinationals, in partnership with internationalizing US banks, of the dynamically developing European economies, against the background of the relative decline of postwar domestic manufacturing in the US, was a fundamental determinant of the evolution of the post-World-War-II world economy. By contrast, in Germany and Japan, at least for a long period, there was relatively little export of capital, as finance was "repressed" in order to insure its support of domestic industry, and, to the extent that the leading banks were dominant, they functioned in close connection with the great industrial corporations.

The merger of banks with industry, as well as the prevalence of multiple forms of horizontal and vertical integration (trusts, cartels, *keiretsu, etc.)* within manufacturing were thus distinguishing features of the later developers, notably Germany and the US before World the War I, and Germany and Japan after World War II. This was because their *raison d'etre* was to allow the firms of the follower economies to develop the industrial capacities to challenge the enterprises of the hegemon on the world market, viz. pre-World-War-I UK and post-World-War-II US, respectively. By contrast, the economy of pre-World-War-I UK, as the earliest industrialized, was characterized by small family firms, while its great financial institutions maintained only arms-length relationships with domestic manufacturers, seeking higher profits abroad, even by investing in the US and Germany. In a similar way, the post-World-War-II US economy lacked the complex networks of manufacturers common to the follower economies, nor did its banks ever forge the kind of intimate relationships with domestic manufacturers common in post-World-War-II Germany, Japan, and elsewhere. They did, however, establish the closest working relationships with US multinationals, in financing foreign direct investment.

The fact remains that the burden of this gloss on Lenin is only to strengthen his argument concerning the primacy of international competition among firms supported by their national states, and to enhance its applicability to the post-World-War-II international political economy. What, then, distinguished the field of international economic relations in the last half century from the epoch around World War I? This question raises a series of issues far too vast to be seriously dealt with here. But perhaps a few, necessarily limited, observations are in order, on that aspect of the post-World-War-II epoch that most obviously distinguishes it from that of the half century centered on World War I — viz., the continuous, overwhelming politico-military domination of a single power within the capitalist world, that of course being the US.

The degree to which the US dominated the world, not only politically, but also economico-productively, on the morrow of World War II was without historical precedent. Basically, the US was free to dictate terms, and it initially sought to impose on the entire capitalist economy the famous "multilateral world order," aka "the imperialism of free trade and investment" — i.e. an "equal playing field"

to which all would have equal access by virtue of the unfettered movement of commodities and capital. Not accidentally, under such free market conditions US manufacturers and financiers could be expected to dominate by virtue of their overwhelming competitive advantages. Nevertheless, this perspective for international economic policy, vigorously pursued between 1945 and 1947, turned out to be profoundly counterproductive for the US. A huge "dollar gap" opened up, which drove overseas producers to turn to bilateral and protectionist arrangements of various sorts to hold down their deficits. Meanwhile, economic dislocation created the conditions for militant labor and socialist resistance. In order to see to the creation of indispensable export markets for its domestically based manufacturing and attractive fields of overseas investment for its multinationals and banks, as well as to make the world politically safe for free enterprise, the US government could not but back down, and accept on a more or less permanent basis forms of state protection, types of government intervention, and economic-institutional arrangements that would enable its allies and rivals to regain economic vitality.

The fact remains that it was precisely these forms of state protection, types of government intervention, and economic-institutional arrangements that enabled the US's chief allies and rivals to realize the potential advantages of later development and technological followership and to develop the wherewithal to compete. Between the end of the 1940s and the end of the 1950s, the US was obliged to allow the Europeans and Japanese an extended period in which they were largely insulated from US import competition in their home markets, but subsidized and supported in multiple ways on the world export markets by their governments, as well as domestic financial institutions and industrial networks. Even before the start of the 1960s, therefore, the rising challenge from Japan and Germany and other economies of Europe was already being felt in a range of important commodities — steel, auto, electrical goods. By the end of the 1960s, of course, the US was experiencing a true crisis of trade. Even by the end of the 1970s, despite an all-out government attempt to restore the competitiveness of US manufacturers, especially by means of a profound devaluation of the dollar that did somewhat lower US relative costs, US producers could do little to recover their old profit rates, as Japanese, Germans, and other rivals were able to use state intervention and their organized capitalisms to prevent US manufacturing from increasing its share of the world market.

In this context, what has been perhaps most striking — and profoundly distinguishing the situation of the post-World-War-II epoch, from that of the half century or so centered on 1914 — has been the inability of the US to use its unchallenged political and military power against its competitors from the advanced capitalist economies to make up for its relative decline in terms of productiveness. In part, this was an expression of the nature of US hegemony itself. The US had imposed its multilateral world order, its imperialism of free trade and free capital movements, partly as a means to pry open the old empires of its allies and rivals; having done so, it would have been difficult for it to establish colonies of its own. More generally, though, the exercise of military force appears to have possessed declining utility for the achievement of economic-productive ends, particularly the pursuit of international economic rivalries within the advanced capitalist world.[6] Even if acquiring colonies had been an option, their cost would not likely have justified the prospective benefit, since, for the most part, raw materials could be purchased increasingly cheaply on the world market, as their prices tended to decline with respect to manufactures over most of the post-World-War-II epoch. (The main exception to this generalization, oil, proves the rule, as the US has made much of the oil-bearing Middle East its informal colony). World War I and II showed, moreover, that annexations within the world of advanced capitalism were difficult, and extraordinarily expensive, even if politically viable. In the postwar epoch, the employment of military threats for economic or political ends by the US against allied governments in Europe and Japan would have been profoundly counterproductive, the best way to push domestic political sentiment in a leftward direction. Above all, as the cases of Germany and France, and especially those of Japan and the East Asian NICs, demonstrated, the key to economic success in the postwar epoch was not the buildup of a military machine to redistribute already existing wealth by force, but the construction of an organized capitalism and an interventionist state suited to seizing markets, initially mainly through exports, but eventually also via foreign direct investment.

It was thus no accident that, having largely failed, through the end of the 1970s, to enable US producers to defeat their international rivals merely by strengthening their position on the world market, especially by devaluing the dollar, the US government has increasingly sought to do so by seeking to directly weaken those rivals' industrial might. In this effort, it has, paradoxically, derived its greatest force, not from its political clout, but from the leverage it can derive from its control over access to its enormous domestic market. That market drove the postwar boom forward, and, more particularly, provided the indispensable demand that made possible, first Japan's, then the Asian NICs', dynamic development. Especially since the beginning of the 1980s, while imposing ever greater restrictions on imports from East Asia into the US market, it has used the threat of further protecting that market to pry open the controlled markets of East Asia and to dismantle the East Asians' systems of state intervention and organized capitalism. It is impossible, within this compass, to adequately explicate this trend. But, to indicate what's at stake one can point to such markers as the establishment of quotas on key Japanese imports such as autos and steel during the 1970s and 1980s, as well as Japan's 1984 agreement to begin deregulating its financial system, the succession of agreements imposed on Korea and Taiwan to open up their import markets in a growing list of commodities, and the deregulation of Korean finance in the early 1990s.

It should be emphasized that, in seeking to break down those statist, organized capitalisms of Japan and East Asia that have proved so difficult for US exporters and financiers

to penetrate and such potent rivals for US manufacturers on the world market, the US has been able increasingly to secure the implicit alliance of ever more powerful domestic forces. What has facilitated this development has been the trend toward international financial liberalization, and, more generally, toward an ever greater focus on financial activity all across the world economy that has been unleashed by secularly reduced profit rates in the "real economy." Domestic manufacturers in places like Korea, hitherto dependent upon bank finance and international lending, both of which were controlled by the state, have been anxious to exploit in an untrammeled manner the huge sources of short-term capital available from the metropoles. By the same token, domestic financiers throughout East Asia have been anxious to break free of restrictions forcing them toward the domestic market, to take advantage of the opportunities opening up in the global financial marketplace. Thanks, then, to the spectacular rise of finance on a world scale, states, banks, and manufacturers have, throughout East Asia, increasingly gone their own way, disintegrating their hitherto organized capitalisms, and this has created unprecedented openings for US capital. It is to the rise of finance, then, that it makes sense now to turn.

**The Shift to Finance**

In view of my focus on the "real economy," Surin (p.54) reasonably asks about where finance fits, especially the huge explosion of financial activity over the last two decades. The answer follows directly from my analysis of the progression of the profit rate.

The sharp fall in profitability in manufacturing on an international scale between 1965 and 1973 detonated an ever-intensifying search across the world economy for economically more rewarding alternatives, and this quest issued, sooner or later, in a sharp lurch toward financial activity throughout most of the advanced capitalist world. In most of Europe and Japan, this shift was delayed at least until the start of the 1980s, as it required the elimination of generally quite major restrictions on both domestic and international financial activity. Featuring strict controls on capital mobility, these had been imposed on the morrow of World War II in order to make finance serve industry in the interest of economic revival through manufacturing exports. The postwar US economy distinguished itself from its rivals among the later developers by the dominant and relatively free position of finance, and the US government sought throughout the 1940s and 1950s to pave the way for the banks' expansion of their international financial activity in coordination with that of the great multinationals. Its efforts were crowned by the establishment of the Eurodollar market as an unregulated center of international financial activity in the early-mid 1960s, which undoubtedly marked the turning point in the freeing up of finance on a world scale. The fact remains that, even in the US, the real explosion of financial activity failed to follow immediately upon the initial fall in manufacturing profitability, but was delayed for a decade, as the US government focused, from 1971, on aiding the revival of competitiveness and profitability in the US manufacturing sector. Its inflationary policies to this end, which made for the accelerating decline in the value of the dollar and negative real interest rates, were anything but favorable to the efflorescence of finance. By the end of the 1970s, however, the US manufacturing sector dismally failed to transcend systemic overcapacity and overproduction. And, to make matters worse, runaway inflation and a collapsing dollar had opened the way to Volcker's monetarist revolution, which featured record-high real interest rates and led to a collapse of aggregate demand. In this situation, few manufacturing industries offered much potential for profit through investing in new plant and equipment, and a huge shift into financial activity ensued, reflected in a sharply increasing share of new investment in plant and equipment going into FIRE (finance, insurance, real estate).

The way was opened in the US for the ascendancy of finance by the large-scale and persistent move to deregulation, by which means, bit by bit, the geographical and functional barriers that had hitherto restricted the operations of different types of financial institutions were eliminated. Because much of the rest of the world was also deregulating, and in particular eliminating capital controls, investors could increasingly seek the highest return for their short-term money just about anywhere. It was, however, one thing to free up the flow of capital and for capital to shift toward finance; it was quite another to make a satisfactory profit from financial activity in this particular phase of the postwar international economy. The problem was straightforward. In a situation in which the real economy was producing such a sharply reduced aggregate surplus with respect to its total capital stock, how could lenders and speculators make a killing when they depended for their returns precisely on the transfer to themselves of some part of that same reduced surplus? Just how difficult it was to resolve this conundrum would be shown time and again over the course of the decade.

In the face of the stagnating economic pie, successful financial activity throughout the 1980s tended perforce to depend on various forms of more or less forceful redistributions of income and wealth to the financiers. This could be achieved most strikingly through political action by the state, though also via class struggle at the level of the firm, as well as by means of the paradoxical plundering of the corporations themselves. Not only then did capitalists profoundly enhance their profits at this juncture by means of tax breaks to the corporations and state subsidies to the military-industrial complex, they secured truly spectacular gains by financing the resulting record-breaking state deficits at record-breaking real interest rates. Investors were also able to do superbly well on the stock market, thanks once again to the government's substantial lowering of tax rates and the consequent sharp rise of after-tax corporate profits, as well as to the Fed's partial relaxation of credit from 1982. During the first half of the decade, before its potential for gain was wiped out by massive oversubscription, the great movement toward leveraged buyouts and acquisitions offered a further field for major gains. Having used borrowed funds to gain a controlling interest in a firm, financial entrepreneurs would make a killing by tearing up union contracts and abrogating long-term arrangements with suppliers, while cutting back on investment and simply

appropriating to themselves the resulting "free cash flow."

On the other hand, where lending and speculative activity sought to be self-sustaining, it almost always had to assume a speculative and highly risky form, often ending in disaster, although the state almost always came in to save the day. Just how problematic it was to try to profit through lending in the teeth of international overcapacity and overproduction in manufacturing was brought home at the start of the 1980s, when the explosion of lending to third world producers that had taken place during the previous decade issued in an LDC debt crisis that shook the system to its foundations. Of course, the advanced capitalist states came in to save the great commercial banks, using the IMF to insure (as far as possible) that their loans would ultimate be repaid by imposing the most crippling terms on the developing economies for their bridge loans.[7] The foray by US Savings and Loan institutions and commercial banks into commercial real estate followed a similar pattern, ending in collapse by the end of the decade. The resulting bail-out cost US taxpayers the equivalent of three full years of private investment. Nor did the mergers and acquisitions craze, no doubt the characteristic financial trend of the era, prove very different, yielding steadily diminishing returns as the decade wore on and contributing mightily to the declining condition of commercial banks already suffering sharply reduced returns as a consequence of intensifying competition from a variety of institutions, from manufacturers' increasing recourse to the money market for their borrowing, and the trend to securitization.

It's true that during the 1980s, the very rich (and just about no one else) got very much richer, in large part through financial and speculative activity. But it should be emphasized that this took place not only by means of a spectacular redistribution of income by political force to the rich away from everyone else, but also a phenomenal milking of industrial and financial institutions that were as a result left in desperate situations. The difficult straits into which financial institutions had fallen found expression in the sharp fall in the rate of return on equity sustained both by the commercial banks and the financial sector as a whole during the 1980s. By the end of the decade, especially as corporations' huge borrowing of the previous several years brought only financial fragility, banks were overtaken by a wave of bank failures of a sort not seen since the Great Depression. Their condition was made much worse with the onset of the recession of 1990-1991, which was itself exacerbated by the inability of weakened banks to lend to debt-strapped corporations. It was only by means of another dramatic state rescue operation that a major financial crisis was averted. This time, the Federal Reserve brought down real interest rates to zero in the early 1990s to enable the banks to restore their balance sheets.

The fact remains that the financiers' problems of the 1980s were dissolved with astonishing rapidity in the early 1990s. It is the era of Bill Clinton, Robert Rubin, and Alan Greenspan, much more than that of Ronald Reagan and Donald Regan, that has witnessed the true ascendancy of finance. When Greenspan brought down interest rates so sharply at the start of the decade, he enabled banks to carry on borrowing cheap short term in order to lend dear long term with almost miraculous success. When Clinton promised to balance the budget by refraining from undertaking new expenditures that were not balanced by spending cuts, he offered security to lenders by reducing inflationary tendencies. To remove all doubt about the state's priorities, its concern for "price stability," in 1994 Greenspan sharply raised interest rates on six occasions, when the economy began to show the slightest sign of vitality. The outcome was truly breathtaking. During the 1990s, US financial institutions in general, and commercial banks in particular, achieved their highest rates of return on equity in the postwar era, and did so by a goodly margin. Indicative of the new state of affairs, financial sector profits had come to constitute a greater percentage of total corporate profits than at any time in history.

Still, when all is said and done, the US financial sector's new found prosperity of the 1990s was ultimately a reflection of the broader strengthening of the US economy as a whole during the 1990s. By the middle of the 1990s, the manufacturing sector had achieved a formidable improvement in its pre-tax profit rate, even though it was still a significant distance from regaining its peak levels of the postwar boom. On this basis, as well as the huge reduction in tax rates for the corporations in the early 1980s, the private economy as a whole had by the mid-1990s, come very close to regaining the levels of *after tax* profitability it had achieved at the height of the long postwar boom. The question that immediately poses itself is what made this possible, especially given the ongoing stagnation of the world economy as a whole right through the 1990s.

**Toward a New Long Upturn? Theoretical Conditions Versus Historical Actualization**

All three critics raise the issue of the conditions required for recovery that follow from my argument, and, in turn, the question of the degree to which those conditions have been fulfilled in the course of recent economic history. In so doing, all three call attention to an apparent inconsistency in my account. I strongly disavow "supply-side" explanations of the onset and perpetuation of the long downturn, which account for the fall in the rate of profit and the long term failure of profitability to recover in terms of the increased real wage growth and/or declining productivity growth that ostensibly resulted from the growing power of and pressure from labor. But, at the same time, in my interpretation of the forces that have, from the start of the long downturn, tended to bring about the restoration of profitability, I give a central place to the employers' ever intensifying assault on labor, the consequent reductions in workers' power, and the resulting major declines in real wage growth, and sometimes even real wage levels, as well as of social spending growth.

I would respond that this discrepancy is only apparent. There is nothing contradictory about asserting that workers *cannot* as a rule force down profitability for an extended period, while simultaneously contending that capital *can* counteract a fall in the rate of profit, whatever its source, at the expense of the working class, especially by reducing wage growth. This is so because capitalism's very *modus*

*operandi* is systematically biased against labor and in favor of capital. The simple point is that workers are dependent on successful capitalist profit-making, because that is the key to successful capital accumulation, and the latter is the necessary condition for employment and real wage growth. If capitalist profits are thus brought down by class struggle, capital accumulation will also slow, with the result that, as a consequence of rising unemployment or the effective relocation of investment to other lines, workers' pressure on profits tends to subside. Workers are thus obliged, sooner rather than later, to accede to capital's attempts to restore the profit rate at their expense. By the same token, no matter what the source of a serious decline in profitability, firms individually and in aggregate have no choice, if they wish to survive, but to try, through individual and collective action, to reduce "variable capital," the real wage and the social wage, for the obvious reason that reduced profitability means reduced competitiveness and thus reduced viability. If they can increase their exploitation of labor, to that extent they can raise their profits and increase their chances for survival.

From this perspective, the real question is why employers' increasingly successful assault on workers' real wages, their working conditions, and their social benefits, beginning around 1973 at latest, did not better restore profitability. An important part of the answer, as noted earlier, is that the fall in profitability that had resulted from overcapacity and overproduction indirectly induced further downward pressure on the profit rate by leading to reduced investment and thereby reduced productivity growth.[8] The upshot was that the reduction in the growth of real wages secured through the employers' offensive was largely canceled out by a reduction in the growth of workers' productiveness. Then, too, as also stressed previously, too many incumbent firms, instead of reallocating means of production out of oversupplied lines, fought to retain their position, while too many others actually entered in the face of the reduced profit rates of industry(ies). As a result, overcapacity and overproduction in manufacturing, the initial cause of the profitability downturn, tended to become worse over the course of the 1970s and even the 1980s.

Still, Jameson is right to emphasize that the harsh turn to monetarism and supply-side economics that took place starting in 1979-1980, should not only have helped to cut costs even further, but, by shaking out redundant means of production, have gone to the heart of the problem of overcapacity and overproduction in manufacturing that lay behind reduced manufacturing profit rates. He is also right to note that the advanced capitalist economies, led by the US, have been tilting ever more strongly in this direction as time has passed. Why has it therefore taken so long for the world economy to break beyond stagnation? The answer, schematically put, is that while neo-liberal remedies *have* tended to shake-out redundant, high cost means of production *and* to raise unemployment so as to bring even lower real wage growth, they have proved to be rather crude weapons. Macroeconomic tightening — the limiting of credit and the reduction of deficit spending — thus works by reducing the growth of demand for the economy *in the aggregate*, but the underlying problem that must be confronted is *the misallocation of capital*, specifically overcapacity and overproduction in manufacturing. High real interest rates and declining debt-financed government purchases do tend to knock out redundant, high cost means of production; but they also tend to eliminate "socially necessary" means of production that are both highly efficient and (under normal conditions) much in demand. They also tend to limit that reallocation of capital into new lines that is so essential to setting the economy on an upward trend. Indeed, because their destructive effect tends to be so indiscriminate, the sort of credit restricting and budget balancing policies that have been increasingly in vogue tend to drive the economy toward deep recessions or even depressions and therefore tend to evoke, sooner rather than later, for both economic and political reasons, renewed policies of stimulating demand. The upshot is that, while processes of eliminating overcapacity and overproduction and simultaneously cutting the growth of wage costs have been taking place over an extended period, they have tended to occur very haltingly and have been subject to interruption by serious financial crisis.

Briefly stated, harsh austerity *has* been creating the conditions for revival throughout the world of advanced capitalism over the long run, but, because it has perforce been imposed in a self-contradictory manner, it has ineluctably brought with it perpetually high real interest rates and the slow growth of effective demand, so that the transcendence of the long downturn has been very difficult to bring off. During the 1980s and 1990s, the economic pie on a world scale, or even within the advanced capitalist economies, has thus grown only very slowly. As a result, the struggle for markets has tended perforce to take place as a zero sum game using the weapons of means of competitive austerity and competitive devaluation. The US economy has been able to play this game particularly successfully, freezing wages and forcing down the value of the currency. But, at least through 1995, its gains came largely at the expense of its leading rivals, so that profitability recovery in the US was paralleled by deep recession in Japan, Germany, and most of western Europe. It is true that, from 1996, the US economy did begin to boom and did so on a different basis from previously, as both the dollar and real wages rose notably for the first time in over a decade. But, though the US expansion did now begin to stimulate recovery in the economies of its trading partners and rivals, its own foundations in rising competitiveness and rising exports were soon disintegrating, and the boom threatened to collapse in under the dual impact of the rising dollar and the crisis in East Asia. The boom's continuation was only secured on the contradictory basis of runaway consumption spending, itself heavily dependent upon fast-rising debt and the hot-housed explosion of equity prices. A new *systemwide,* self-sustaining upturn in investment has, in the end, been very slow to materialize…and even now is not assured.

*Successful Employers' Offensive But the Long Downturn Continues, 1980-1995*

The dramatic turn to monetarism by Volcker and Thatcher was, then, as Jameson says, designed not only to

raise unemployment in aid of lower real wage growth, but to shake out that great ledge of high-cost, low profit firms which was the expression of overcapacity and overproduction, but which had been sustained by the Keynesian expansion of credit. That, obviously, was what was needed to found a recovery. The problem was that monetarist measures, by their very nature, were prevented from focusing on redundant means of production in the manufacturing sector, but had to work by means of their effect on the economy as a whole. By bringing about a drastic, but undifferentiated, reduction in the growth of demand, they could not but create problems that were the opposite of those of the Keynesian policies that they had replaced. By bringing down the growth of demand in the aggregate, they did tend to eliminate the purchasing power required for the survival of high-cost, low-profit firms in the oversubscribed manufacturing sector and to precipitate a shakeout. But they likewise removed the demand for the products of firms in general all across the non-manufacturing economy, whether these were cost-ineffective or not, and thereby set off a downward deflationary spiral that was hard to control.

The implementation of what might be termed pure monetarism thus turned out to be incompatible with the maintenance of even a modicum of economic stability. By summer 1982, sharply restricted credit and a rising dollar had detonated the Latin American debt crisis and, by threatening to bring down some of the world's leading international banks, had threatened to precipitate a crash starting in the US. Keynesianism had to be brought back with a vengeance, and a monumental program of military spending and tax reduction for the rich was introduced to offset the ravages of monetarist tight credit. The latter did keep the economy turning over, but, in the process, partly blunted the thrust of the essay in monetarism.

The general effect of the combination of record federal deficits and highly restrictive monetary policy was to further extend economic stagnation. Interest rates were forced up to record levels. The growth of effective demand was pushed down, as low profitability and the rising cost of borrowing discouraged investment, high unemployment limited working class buying power, and the assault on government deficits in most countries aside from the US slowed the rise of government purchases. In this context, a large-scale and extended shake-out of high-cost, low profit means of production in manufacturing did take place especially in the US (even if the process was slowed by record US government deficits which kept up economic growth through most of the 1980s). On the other hand, that increase of investment in new lines that was necessary to found a recovery was held back by the discouragement to investment offered by low profit rates, high interest rates, and inadequate demand growth. In the face, moreover, of the restricted growth of domestic markets, manufacturers were forced to grow by way of exports, which only tended to exacerbate the existing problem of overcapacity and overproduction in manufacturing. The latter was made that much worse by the continuing rapid appropriation by East Asian manufacturers of large chunks of world export market. All told, economic growth in the 1980s was slightly slower than in the oil-crisis plagued 1970s. Though rising well above their highly depressed levels of the 1979-1982 recession, pre-tax profit rates were no higher at the end of the 1980s than they were at the end of the 1970s.

Bill Clinton's turn to budget-balancing in 1993, in combination with Fed chairman Alan Greenspan's anti-inflationary monetary policy, was intended to finally bring to fruition the revolution in macroeconomic policy initiated but left incomplete more than a decade previously. One of its effects was to accelerate the long-term shakeout of the manufacturing sector. But another was to eliminate the most important counter-tendency to the contractionary trend unleashed with the turn to tight credit and budget balancing begun at the end of the 1970s — i.e., the experiment by Reagan and Bush in military Keynesianism for the rich. Through most of the 1980s, the advanced capitalist states outside the US had been progressively restricting wage growth and slowing the increase of government spending in the interest of reducing costs and raising profitability. With the US, too, turning to budget balancing in the early 1990s, there was a further significant reduction in the growth of aggregate demand for the world economy, and perhaps the main source of stability for the international system was eliminated. Given the further freeing up of international capital flows that was simultaneously taking place, a heightening of international instability could not but be the result, and this manifested itself in an extended series of financial crises over the course of the decade. Meanwhile, squeezed by the declining growth of domestic purchasing power, producers everywhere were obliged to step up their orientation to exports even further, which made for a further intensification of international competition, paving the way for a certain exacerbation of international overcapacity and overproduction in manufacturing. The conditions were thus created for the world crisis that began in East Asia in 1997. For the G-7 economies taken as a whole (or the OECD economies taken together), economic performance during the 1990s, in terms of all of the major economic indicators was even worse than that of 1980s, which was itself less good than that of 1970s, not to mention he booming 1960s.

### *US Profitability Revival within International Stagnation, 1985-1995*

Against this unpromising background of secular international economic stagnation, US capital, practically alone, *was* able to substantially improve its condition by the mid-1990s. But coming as it did within a world economy that was hardly expanding, the improvement of profitability in the US could not but come at the expense of the economic well-being of the US producers' leading rivals, especially in Germany and Japan.

The US manufacturing sector, which had been the initial site of the crisis of international profitability, was now the main locus of the US profitability recovery. During the recession of 1979-1982, precipitated by Volcker's turn to monetarism, massive means of production and labor were eliminated by means of an explosion of bankruptcies on a scale not witnessed since the 1930s and the parallel shedding of suddenly unprofitable plant and equipment. In the several years that followed, the crisis was rendered deeper

and longer by the huge rise in the dollar that followed upon the major increase in real interest rates of these years. The process of US manufacturing rationalization that was indispensable for manufacturing revival did then get under way, but during the first half of the 1980s it assumed a mainly destructive character and, by mid-decade, was beginning to threatening the very future of US industry.

The emergence of conditions making possible a turnaround for US manufacturing did not emerge until the signing of the Plaza Accord of September 1985, by which the G-5 powers agreed to take joint action to reduce the exchange rate of the dollar. This opened the way to ten years of more or less continuous, and major, devaluation of the dollar with respect to the yen and the mark, which was accompanied by a decade-long freeze on real wage growth. In the interim, the long-term shakeout of high-cost, low profit means of production was given a further major fillip by the recession of 1990-1991 and subsequent extended "jobless recovery."

The combination of dollar devaluation, wage repression, and industrial shakeout — and the increased manufacturing investment that finally ensued after about 1993 — detonated a major recovery of competitiveness and a fundamental shift in the modus operandi of US manufacturing toward a sharply increasing dependence upon exports. That shift had gotten started when the dollar's value fell sharply between 1971 and 1978, but had been brutally interrupted by the rise of the currency, consequent upon the imposition of high interest rates between 1978 and 1985. Between 1985 and 1997, US exports grew at an average annual rate of almost nine percent, more than 40 percent faster than between 1950 and 1970. Little by little, exports drove the manufacturing sector forward, and thereby the whole economy.

The recovery of competitiveness made possible what turned out to be a major recovery of (pre-tax) profitability in manufacturing. As late as 1986, the rate of profit in manufacturing still remained below its level of 1979, which was 10-15 percent below its level of 1973, and more than 50 percent below its level of 1965. But from this point onward, manufacturing profitability increased rapidly, although its upward ascent was interrupted by the recession of 1990-1991 and its aftermath. By 1995, pre-tax manufacturing profitability was two-thirds above its 1986 level and had, for the first time in a quarter century surpassed its level of 1973, even though it was still a good distance from its peaks of the long boom.

The huge rise in manufacturing profitability from the mid-1980s to the mid-1990s was the main source of the parallel recovery of pre-tax profitability in the private economy as a whole. Between 1986 and 1995, the pre-tax rate of profit in the private economy as a whole rose by 16 percent, to surmount for the first time in a quarter century its level of 1973 and to approach its level at the end of the 1960s. Since the pre-tax rate of profit in the private economy outside manufacturing remained flat (or dropped a bit) for that nine-year period, all of this increase achieved in the private economy as a whole was evidently accounted for by the profitability increase attained by the manufacturing sector.

The revival of profitability was very much amplified by the tax breaks that had gone into effect in the early 1980s, when Republicans and Democrats vied with one another to offer the greatest handouts to the corporations. By 1997, *after tax* profit rates in the non-financial corporate economy and in the corporate manufacturing sector had thus climbed, respectively, to within 16 percent and 21 percent of their 1965 peaks, even though pre-tax profit rates for these sectors were still, respectively, 31 percent and 35 percent below their 1965 levels.

In the wake of the slow recovery from the 1990-1 recession, the profitability revival finally began to stir the real economy. Investment had languished for a long period. But from 1993-1994, it suddenly accelerated, and was almost certainly responsible for the parallel jump that took place from this point in the rate of growth of manufacturing productivity. The step up in investment was even faster outside manufacturing, although non-manufacturing productivity growth began to increase only after 1995.

*From Recovery for the US to Recession for Germany and Japan, 1985-1995*

Even as the revival of the US manufacturing sector that had originated in the mid-1980s slowly gathered force during the first half of the 1990s, it found its reflection internationally in falling profit rates, growing instability, and deep recession. In the context of ongoing manufacturing overcapacity and overproduction, exacerbated by the ever slower growth of aggregate demand on a system-wide basis, the struggle for export markets took on added significance, but perforce assumed an increasingly zero-sum character, manifested in a slowly-developing chain reaction in which first falling then rising exchange rates would thrust one group of economies after another from cyclical upturn to recession, and vice versa. It was thus impossible, throughout the period, for all of the leading economies to increase their profit rates and expand together. By the latter part of the 1990s, the chain reaction would reach East Asia and threaten to bring down the entire world economy.

The US economy had been in fact the initial victim of this progression, when, from the end of the 1970s, exploding real interest rates introduced an extended period of skyrocketing exchange rates, leading to the desolation of the US manufacturing sector. But, with the Plaza Accord of 1985, the pressure of rising exchange rates was shifted to Japan and Germany. Even before 1985, high US real interest rates had weakened the Japanese and German cyclical recoveries from the recession of the early 1980s by attracting funds away from domestic investment into US assets, especially treasury bonds. During the decade after 1985, enormous increases in the value of the yen and the mark relative to the dollar, combined with relatively fast rising real wages, made for incipient crisis for both Japanese and German manufacturing.

Both economies had founded their rapid growth during the postwar epoch not simply on the rapid expansion of world export markets, but on their appropriation of growing shares of those markets, especially from the US. But over the course of the long downturn, both economies' dependence on exports proved their Achilles' heel, as both were

increasingly hard hit following the onset of the long downturn not just by the slowed growth of world trade, but their systematically declining competitiveness. In Germany, export dynamism continued to be sustained by restrictive fiscal and monetary policy aimed at keeping down the growth of domestic demand and slowing the increase of prices. But the unavoidable outcome was relatively high interest rates and rising trade balances that tended to produce an ever-rising mark and ever-rising relative costs. In Japan, export dynamism was supported by manufacturers' commitment to purchasing their inputs from other members of their *keiretsu,* or industrial groups, as well as a certain amount of implicit protectionism. But the resulting repression of import growth made for chronically growing trade surpluses, and a permanently rising yen. Especially as the dollar fell secularly from 1971 under the impact of more or less permanent, and growing, current account deficits — which brought both increasing US competitiveness and more slowly expanding US markets — the inability of either economy to break from their established patterns of export-based growth led them sooner or later into crisis.

By 1986, Japan was on edge of serious recession due to the sudden collapse of exports, resulting from the Plaza Accord and the exploding yen. The Japanese government sought to respond by precipitating the financial "bubble" of the late 1980s. It sharply reduced interest rates and promoted the massive step up in private borrowing, especially to real estate companies and brokerages, in order to artificially raise the value of assets in land and equities held by Japanese manufacturers. The goal was to stimulate sufficient investment not only to restore export competitiveness, but to begin to reorient the economy toward the home market. A huge expansion of the capital stock did materialize, but it was insufficient to compensate through productivity increase the increase in costs brought by the rising yen. Meanwhile, Japanese banks suffered increasing financial fragility, due to massive lending not only to manufacturing firms that failed to restore their profitability, but to speculators in land and stock equities whose fate depended on the ever expanding bubble.

The German economy traversed an analogous path leading to export impasse, followed by temporary government stimulus. Through most of the 1980s, the government sought, as usual, to stimulate growth through dynamizing exports by keeping down domestic costs through tight credit and fiscal stringency. But, because the resulting domestic deflation brought an implacably rising currency, exports could not really take off, and the economy stagnated. Toward the end of the 1980s, the economy did begin to benefit from the macroeconomic loosening that took place domestically and across the advanced capitalist economies in the wake of the stock market crash of 1987. Then, in the wake of unification, the German government unleashed a massive program of subsidies aimed at reconstructing the economy of eastern Germany. The ensuing transfer of funds from western to eastern Germany provided a major shot in the arm to western German firms, pumping up the call for their goods. Nevertheless, the record-breaking government deficits that financed the expansion could not but issue in a major flare-up of inflation, quite intolerable to the German authorities.

In the end, both the Japanese and German governments were obliged to raise interest rates sharply to gain control of their respective runaway booms. But, in so doing, they precipitated major cyclical downturns, especially by bringing about still another extended period of the revaluation of their respective currencies. The situation was made that much worse, when the US refused to assume its usual role of providing the macroeconomic stimulus required to bail out the world economy from its early 1990s recession. German and Japanese export growth, already reduced after 1985, thus fell sharply from 1991, causing in both places the collapse of the manufacturing profit rate and the onset of the most serious recessions of the postwar epoch, which extended through mid-decade.

*Toward Crisis or Boom? 1995-*

Even by the mid-1990s, the world economy showed little sign of breaking out of its long stagnation. This was true not only of Japan and Europe, mired in extended cyclical downturns, but also of the US economy itself, which grew even more slowly in the six years between 1989 and 1995 than it had during the 1970s and 1980s. Slow growth was, however, anything but distressing for US policy-makers, for the raison d'etre of their entire program was to reduce the growth of wages and prices so as to raise manufacturing competitiveness and "financial services" profitability, while enabling a service sector plagued by very slow productivity growth to increase its rate of return. But, especially in view of the Clinton administration's turn to budget balancing and the Fed's tight money "anti-inflation" campaign, it was hardly surprising that between 1989 and 1995, US GDP, labor productivity, and real wages all grew even more slowly than they had during the 1980s and 1970s.

Nevertheless, from 1996, there was a clear break in the pattern. In that year, and the one that followed, the growth of every major economic variable palpably accelerated, even including (with a lag) real wages. Clearly, the across-the-board recovery of profitability, focused in the manufacturing sector, though based heavily on dollar devaluation, wage restraint, and corporate tax relief — and only recently amplified by the boom in investment — was beginning to pay off. In 1997, exports grew by 14 percent, the economy flourished as it had not for several decades, and, as US imports sparked faster growth throughout the advanced capitalist world, it began to appear that the US might finally lead the world economy out of the doldrums. The expansion of the US domestic market that was making possible export-led growth internationally was no longer being driven, as it had been for decades, primarily by the US government deficit. Instead, rising US investment in new plant and equipment, stimulated by rising profit rates and increasing competitiveness, was playing a major role. It turned out, however, that, from the very moment that the boom began to take hold, its very foundations began to be corroded by a suddenly fast rising dollar that threatened to cut short, directly and indirectly, the US economy's manufacturing-based expansion and, thereby, the revitalization of the international economy.

*Crisis: From East Asia to the US*

By the spring of 1995, the yen had risen to 80 to the dollar, and the Japanese economy appeared to be in deep trouble. The G-3 powers agreed to coordinated action to push the dollar up. The yen did fall dramatically. The Japanese economy did, moreover, begin to emerge from its recession in 1996-1997. But the process did not end there, for the very weakening of the yen that was driving the Japanese economy forward would soon prove disastrous for the dynamic economies of East Asia. Most of these economies had pegged their exchange rate to the dollar. So, having flourished when the yen rose steadily between 1985 and 1995, they found themselves stopped in their tracks when it fell sharply between 1995 and 1997 just as had the US economy when the dollar rose sharply between 1978 and 1985, and had Japan and Germany when the yen and mark exploded upwards between 1985 and 1995. The ensuing crisis would, moreover, soon boomerang back against Japan, and would ultimately strike hard at the US as well.

East Asia had been the only part of the world economy to enjoy truly dynamic economic growth during the decade 1985-1995. The powerful expansion of manufacturing, especially manufacturing exports, drove the Asian economies forward, although it is critical to distinguish the extraordinary growth trajectories of Korea and Taiwan, both of which went back a quarter of a century and were rooted in their successful adoption of the Japanese model, from those of the ASEAN economies, which gathered force from 1985 and, especially, from 1991, and were more driven by Japan, than emulative of it. In any case, what made for the truly unprecedented economic leap forward achieved by the whole region in this decade was the confluence of a number of conditions *that turned out to be temporary*, the most important of which was the skyrocketing yen.[9]

From the time of the Plaza Accord, Japanese manufacturers had sought to respond to the competitiveness and profitability problems brought on by the skyrocketing currency, in part by way of a large-scale reorientation to East Asia. After the bubble had burst in 1990-1991, with domestic investment prospects contracting but the yen still rising, they had redoubled their efforts in this direction. The idea was to focus the domestic economy ever more intensively on the highest technology lines by relying on Japan's highly skilled but costly labor force, while sloughing off less advanced production to other parts of Asia, to be combined with local cheap labor that had been made even more inexpensive by the rise of the yen. At the heart of this initiative was the large-scale establishment of subsidiaries of Japanese multinationals in East Asia, supported by the relocation of firms within their supplier networks. This facilitated the increased penetration of US markets that had become ever more difficult for Japanese exporters based in Japan to enter, especially as a consequence of increasing US protectionism, as well as the fast-growing markets of Asia itself. It also allowed for the stepped up growth of exports of high-technology capital and intermediate goods from Japan to East Asia. Playing a major role in orchestrating the whole process, Japanese banks supplied massive loans to Japanese corporations initiating operations in East and Southeast Asia, as well as to domestic corporations, constituting the largest source of bank loans to every country in the region, except for Taiwan and the Philippines.[10]

For their part, the East Asian economies, with the notable exceptions of Taiwan and Singapore, had from the end of the 1980s de-regulated their financial markets so as to ease not only the inflow but also the outflow of capital, and affirmed the peg of their currencies to the dollar to make for exchange rate stability. The ASEAN economies had led the way along this path, but South Korea had followed suit, as part of the government's move to reduce state intervention but continue to appease the great *chaebols,* who were in fact being increasingly squeezed at this juncture by low end competitors from Southeast Asia and China and high end producers from Japan and the US. The goal, of course, was to attract bank loans and portfolio capital to the region.

In fact, massive short-term flows to the region did materialize, and Surin (p.57) is surely right to emphasize their role, as I may not have done sufficiently, in stoking the East Asian boom. He is also correct in stressing the contribution to these flows made by the huge expansion of international liquidity during the period. The availability of cash on a world scale was sharply increased at the start of the 1990s when the US Federal Reserve made deep reductions in short-term real interest rates to cope with domestic recession and the financial fragility of both manufacturing corporations and banks. Relatively little of the cash thereby made available was demanded for investment in the still slow growing US economy, so it was free to flow to Asia. The growth of liquidity was further increased with the Japanese government's massive attempts to reflate the domestic economy following the bursting of the bubble. As earlier in the US, the resulting cheap money heavily bypassed the domestic economy and flowed, via the "carry trade," to East Asia or the US itself. The first half of the 1990s is, of course, the originating moment in the "emerging markets" craze, and, to the extent that capital flowed beyond the core of the world economy at this juncture, it was heavily focused on East Asia. A spectacular manufacturing export expansion ensued, which produced booming economies throughout the region.

By 1996, investment in East Asia accounted for more than 18 percent of the total investment made in the four regions of East Asia, Japan, Europe, and the US combined, which was three times its share just six years earlier. But in the wake of the yen's precipitous fall beginning in the second part of 1995, which came hard on the heels of the devaluation of the Chinese and Mexican currencies in 1994, Japanese exports skyrocketed and import growth fell, and the enormous accretions made to the region's plant and equipment over the previous years, which had hitherto proved highly profitable, suddenly turned out to manifest massive overcapacity. The struggle for markets in a global manufacturing sector that continued to be plagued by oversupply continued to take the form of a zero-sum struggle, with winners and losers determined by the movement of exchange rates.[11]

The super-fast growth that had come to be taken for granted throughout the region was, from 1995, clearly in

jeopardy. Surin raises a good question, when he implicitly asks what would have happened had not international capital flows in both the core and East Asian periphery previously been de-regulated, and/or had the East Asian economies resisted the lure of cheap, short term credit and gone off the dollar peg. But, in the interest of what appeared to be a never-ending flow of cheap short-term loans, they did not, and the East Asian economies were overrun to the point of overheating by speculative inflows. The latter were only made worse, when local authorities loosened credit after 1995 to restrain the further rise of local currencies under the impact of those inflows. Huge stock market, land, and construction manias were the unavoidable result. In effect, the Japanese bubble was, with the help of investors from around the world, being blown up in East Asia, even as the manufacturing export foundations of the regional economy was being undermined.

Almost immediately, virtually all of these economies suffered massive reductions in their export growth, under the impact of intensified Japanese, as well as Chinese and Mexican, competition, not least in the US and Japanese markets. The rate of growth of overseas sales in the region (excluding Japan) fell from a peak annual rate of more than 30 percent in early 1995 to zero by mid-1996 (from 25 percent in 1995 to 4-5 percent in 1996-1997, on a yearly basis). Deep current account and profitability crises were the unavoidable result.

As remittances from exports fell sharply, it became ever more difficult to repay loans. As it became obvious that growth prospects in the region had been significantly reduced, as corporate financial problems began to manifest themselves, and as loan defaults began to mount, funds began to flow out of the region. According to the Bank for International Settlements, foreign banks had already pulled back 30 percent of all their loans in the region in the three months between April and June 1997. Stock markets now began to fall, and the outflow accelerated, making for downward pressure, and soon speculation on, local currencies. Central banks raised short-term rates to stem the outflow of capital and prevent their currencies from collapsing, but this caused financial institutions to go bankrupt, leading to a further collapse of asset prices and stock markets and thus more capital outflows.

At this juncture the IMF, directed by the US treasury, stepped in. The IMF might have attempted to get the international banks to agree formally to act together to keep their money flowing into Asia so as to counteract the panicky withdrawal of credit, for pouring in money is the normal remedy for a liquidity crisis. After all, the underlying problem facing Asian firms was, in the main, the insufficient international demand for their goods, not the inefficiency of their production, let alone their dependence upon (non-existent) government deficit spending. But the IMF was primarily concerned, as it had been during the Latin American debt crisis, to see that US, European, and Japanese banks would be repaid in full. Acting as an instrument of the US foreign economic policy, it also sought to exploit the opportunity to compel the region's economies to open up to foreign penetration and to liberalize their operation by reducing state intervention and further de-regulating finance so as to separate it from manufacturing. As a condition for the advance of "bridge" finance to these economies, it therefore called, in Hoover-like fashion, for the tightening of credit and the imposition of fiscal austerity, thereby radically exacerbating the domestic economic and debt crises, and inviting devastating depression. As part of the same packages, it also extracted agreement from local authorities to the adoption of wide-ranging plans for the reorganization of the affected economies along Anglo-Saxon lines.

The crisis in Asia, which broke out in the summer of 1997, steadily worsened over the following year. During the summer of 1998, it spilled over into the less developed world, catalyzing financial collapse in Russia and crisis in Brazil. The heartlands of capitalist development were now under threat, not only by a Japan barely emerging from recession, but a US economy at the peak of its boom.

The Japanese economy had sought to surmount its own problem of secularly reduced competitiveness in the face of world overcapacity in manufacturing by means of a profound reorientation of direct investment, trade, and bank finance to East Asia. But, the entire effort backfired in the face of the zero-sum game that had had increasingly prevailed in the struggle for the world market over the 1980s and 1990s. When Japan, with the help of the US and Germany, devalued the yen to pull itself out of its long recession, it could not but cut off the path to its own recovery. Thus, at the very moment when the falling yen was restoring competitiveness to Japanese exports and raising hopes of renewed growth, by catalyzing the crisis in East Asia it was destroying the very foundation for economic recovery. As Asian markets contracted and Asian currencies collapsed, Japan's growth motor once again stalled.

By the autumn of 1997, the Asian crisis had only just begun to unfold and the US economy was, as has been seen, at the zenith of its manufacturing-led and export-driven revival. Yet, even at this point, the rise of the dollar set off by the reverse Plaza accord was beginning to make itself felt, as downward pressure on prices internationally finally put a stop to the ascent of manufacturing profitability that had its origins in the mid-1980s.

When the Asian crisis hit, US producers not only had to face stepped up competition from their rivals in Japan, Germany, and elsewhere in western Europe who were enjoying falling currencies. They also had to confront the collapse of their hitherto dynamic East Asian export markets and the flooding of US domestic markets by cheap East Asian imports. During the course of 1998, the growth of US exports, an essential motor of the boom, collapsed, falling from an average annual rate of 17.4 percent in the third quarter of 1997 to –0.5 percent in the second and third quarters of 1998. US real imports, meanwhile, continued to expand rapidly. The US manufacturing sector was set for a fall, and the manufacturing profit rate declined by around 12 percent, compared to 1997.

*From Bubble to Boom?*

Between the end of July and the end of September 1998, as much of the less developed world entered into crisis, the US stock market fell by 20 percent, and, by October,

a liquidity crisis was unfolding. At this point, Federal Reserve Chief Alan Greenspan dramatically intervened, engineering the bailout of the LTCM hedge fund and, famously, raising interest rates on three occasions. This marked a turning point, for it gave a clear signal to equity markets that they would not be allowed to fall. The US Fed was clearly looking to rising equity prices to dynamize the economy by fueling consumption and, in that way, provide the basis for international economic stability. Equity prices not only rebounded, but resumed their skyrocketing trajectory, and the US economic boom was thus enabled to continue.

Nevertheless, it cannot be overstressed that, by this time, the manufacturing sector, and in particular manufacturing exports, had ceased to drive the US economy, as they had done through 1997, especially since neither the manufacturing profit rate nor manufacturing export growth at all recovered in 1999 from their major 1998 drop-offs. The ongoing expansion now depended for its vitality on exploding consumer demand, itself driven by an unprecedented explosion of household debt, which was ultimately rooted in — and in turn fueled — runaway equity prices. It had something of the character of a financial chain letter, but it made for continuing expansion. It should be added that, because the debt-driven growth of US consumption sucked in imports at a phenomenal pace, while the stagnation of much of the world's economy limited US export growth, record-breaking US trade and current account deficits were the inevitable outcome. But these deficits have kept the world economy turning over, and begun to produce a new upturn in both East Asia and Europe. In effect, a new form of artificial demand stimulus by means of *private* deficits — both corporate and consumer — made possible by the Fed's assurance to the stock markets, has been substituted for the old Keynesian public ones. By the same token, it has been mainly the stock market boom, buttressing the consumption boom, that has stood in the way of a new recession, and perhaps worse. On the other hand, if the scenario favored by US policy makers comes to pass, the export-led booms of the US's trading partners will stimulate their economies to a sufficient extent to allow the US economy to return to the export-oriented path from which it was obliged to detour after 1997. In that case, they hope, the world economy will have established the basis for a sustained upturn.

**Conclusion: Can the Boom be Sustained?**

There can be no doubt that the current US economic boom has real roots. Above all, the rate of profit in the manufacturing sector, long depressed, came back during the 1990s to its level at the end of the 1960s, and, though still significantly below its mid-1960s peaks, it has brought the rate of profit for the private business economy as a whole within shouting distance of its levels at the height of the postwar boom. Indeed, the *after tax* profit rate for the corporate economy as a whole, benefiting greatly from the tax breaks of the late 1970s and 1980s, has just about equaled its peak of 1965-1966. The recovery of the rate of profit has stimulated a significant increase in investment growth, starting around 1993, and this is perhaps the most irrefutable sign of the boom's power. It is also undeniable that, after experiencing an unimpressive expansion during the first half of the decade, the economy took off around 1996, and, during the past four or five years, all of the major macroeconomic indicators, including real wages, have been increasing rapidly, while unemployment has fallen to its lowest levels in 30 years. Most significant perhaps, manufacturing productivity growth seems to have leapt forward, and, since 1996, productivity growth for the economy as a whole has also been accelerating.

Amidst all the hype, the actual dimensions of the current boom must be kept in perspective. Overly impressed by his own work, US Federal Reserve chair Alan Greenspan recently crowed: "It is safe to say that we are witnessing, this decade in the US, history's most compelling demonstration of the productive capacity of free peoples operating in free markets." But this is far from the truth. The performance of the US economy in the 1990s as a whole did not remotely compare to that of the first *three* decades of the post-war era. Even during its supposedly epoch-making *four-and-a-half-year* economic expansion between 1995 and mid-2000, the business economy as a whole has been unable to match its *twenty-three-year* economic expansion between 1950 and 1973 in terms of the average annual growth of GDP (4.1 percent versus 4.2 percent), labor productivity (2.6 percent versus 2.7 percent) or real wages (2.1 percent versus 2.7 percent), or the rate of unemployment (4.7 percent versus 4.2 percent.) Of course, between 1950 and 1973, US economic performance did not come close to that of most of western Europe and Japan. Still, it cannot be denied that the economic expansion of the 1990s as a whole, when the burst of growth from 1996 is taken into account, did mark an improvement over that of the 1970s and 1980s, and the recent boom is indeed impressive. Will it continue?

From the standpoint that I have been attempting to argue, the answer to this question ultimately depends on whether systemic overcapacity and overproduction in manufacturing has been finally overcome. Have the deep recessions and crises of the 1990s — in Germany and Japan in the first half of the 1990s, then in Asia and elsewhere from 1997 — resulted in a sufficient shakeout of oversupplied lines, the elimination of redundant means of production so as to pave the way for their replacement by complementary ones, to create the basis for a powerful international cyclical boom and, beyond that, a new long upturn? Has the apparently dramatic reallocation of resources to newly developing high-technology lines that appears to have been made possible by the recent US investment boom contributed significantly to the same effect? It is no doubt too early to tell. But there are reasons for doubt.

According to a survey by the *The Economist* taken early in 1999, "Thanks to enormous over-investment, especially in Asia, the world is awash with excess capacity in computer chips, steel, cars, textiles, and chemicals.... The car industry, for instance, is already reckoned to have at least 30% unused capacity worldwide — yet new factories in Asia are still coming on stream." *The Economist* goes on to assert, along lines analogous to those argued here, that "None of this excess capacity is likely to be shut down

quickly, because cash strapped firms have an incentive to keep factories running, even at a loss, to generate income. The global glut is pushing prices relentlessly lower. Devaluation cannot make excess capacity disappear; it simply shifts the problem to somebody else." The upshot, it concludes, is that the world output gap — between industrial capacity and its use — is approaching its highest levels since the 1930s.[12]

It has, of course, been the aim of the US Federal Reserve and the Treasury Department to pump up US economic growth sufficiently to enable the world economy transcend the crisis of 1997-1998, and international overcapacity and overproduction more generally, by stepping up exports to the US. They have sought to achieve this end, as stressed, by driving up stock prices, with the goal of unleashing — through providing both consumers and firms with greater assets and thus better access to finance — both a consumption boom and an investment boom. In its own terms, the plan has succeeded gloriously on both counts. By Alan Greenspan's own reckoning, the rise in stock prices has been adding, via the "wealth effect," about one percent per year to GDP over the past four years. GDP has therefore been enabled to grow in this period by a full 33 percent more than it would have in the absence of the stock market boom, at an average annual rate of four percent. Moreover, since the average annual growth of domestic consumption has outrun GDP by a full percentage point in this period — to grow at an average annual rate of around five percent — imports from overseas have had to expand at the extraordinary annual average rate of 12 percent, making a pivotal contribution to the revival of economic growth on a world scale. Investment has simultaneously accelerated, making possible faster productivity growth and, through opening the way for rising profit rates, especially in the non-manufacturing economy, holding out the prospect of a self-sustaining investment expansion. The US authorities are thus hoping that US consumption demand will ultimately jumpstart a true boom in the world economy, allowing US exports and US investment to take over from consumption in driving the US economy forward. The fact remains that the by-product of this consumption-led burst of growth in the US and export-led growth abroad has been a series of "imbalances" that threaten to bring it to a brutal end.

Above all, the stock market boom has issued in a runaway bubble, in which rising stock values have made possible the assumption of increasing debt to buy stocks and drive the stock market still higher. Investors have been quick to note that Alan Greenspan's intervention in the credit markets as the international economic crisis threatened to envelope the US in autumn 1998 was not the first of his bail-outs of the financiers and the corporations. In October 1987, he had intervened to counter the stock market crash and in 1990-1991 he had reduced real interest rates to zero to rescue failing banks and deeply indebted corporations, in the wake of the commercial real estate and leveraged mergers and acquisitions debacles. Nor has it escaped their notice that the US Treasury Department went out of its way to rescue not only the international banks at the time of the Latin American debt crisis of 1982, but also US investors who stood to suffer huge losses as a result of the Mexican debt crisis of 1994-1995 and the international banks implicated in the Asian crisis of 1997-1998. They have therefore drawn the conclusion that Greenspan simply will not allow stock prices to fall too far, all the more so because they realize how dependent the current economic expansion has become on consumption and thus the bull market. Believing that the risks of holding stocks has been sharply reduced — that the Fed will intervene if equity prices fall too far too fast — they have continued to pile into the market with "irrational exuberance," even as equity prices have increasingly lost contact with the company profits that could justify them. Between 1982 and 1994, the rise of the S&P 500 Index and the New York Stock Exchange Composite Index did not very much outrun the rise of corporate profits. But, from that point on, the former entirely lost contact with the latter, and in Spring 2000, the S&P 500 price-earnings ratio was still above 30:1, in other words at or above the level of 1929. Even after the spring 2000 stock market drop off, equity prices are not much "corrected."

To make possible their consumption and their stock purchases, both individuals and corporations have assumed unprecedented levels of debt. As is notorious, US personal savings, already low by international standards and falling during the 1980s, plummeted to zero from seven percent during the 1990s. With their assets apparently rising sharply due to the appreciation of their stocks, individuals have been borrowing at a near-record pace, with the result, that, during the last four or five years the stock of debt accumulated by households as a percentage of GDP has reached its highest level in history.

Corporations have resorted to debt no less than have individuals. Taking up where they had left off during the leveraged mergers and acquisitions craze of the 1980s, they have done so, moreover, almost entirely for the purpose of buying stocks. The resumption of the mergers and acquisitions movement accounts for a good part of this purchasing. But, it reflects also the desire of corporate executives — who receive a good part of their income in stock options (and typically not in dividends) — to drive up company stock values by buying back company stocks, and to do so by resorting to debt. Indeed, 100 percent of corporations' net stock purchases during the second half of the 1990s were debt-financed: this means that corporations had to secure money above and beyond that which they accrued from retained earnings and depreciation to cover the cost of buying back their stocks, and this they did through resort to borrowing. Financial institutions, and especially the banks, have themselves massively increased their liabilities in order to get in on the business of lending to purchasers of stocks and consumption goods, making for a huge growth in the supply of money, which has been accommodated by a passive Federal Reserve Board. In short, a boom in stock prices entirely out of line with any reasonable estimate of potential earnings has fed upon itself, and now rests upon a tremendous pyramid of debt. Because of the debt build-up, there is a serious potential that, after a point, any decline in stock prices could snowball, as investors are forced to sell. Were such a fall to become at all serious, it would rein in

the runaway growth of US consumption, threatening to turn off the motor driving the world economy.

Because domestic spending has so outpaced domestic production, a significant proportion of the liabilities that have been incurred in the US have been to investors overseas. In 1999, the current account deficit as a proportion of GDP hit four percent, to exceed the previous record established during the Reagan administration. In effect, foreign investors have been helping to finance the US consumption boom in order to stimulate their own economies' export booms. During the period of crisis between 1997 and 1999, money flowed to the US as a safe haven. The low interest rates that have been adopted in recent years by governments in Europe and especially Japan to pull their economies out of stagnation and recession have also tended to drive money toward the US. The extraordinary success of US equity markets has, in addition, increasingly attracted overseas money. But, it is far from clear for how much longer it will continue to do so.

If we thus suppose that the economies of the US's trading partners are in fact able to expand so rapidly that their growing demand can enable the US economy to shift away from its dependence upon consumption in favor of exports and investment, it is difficult to see how the relative attractiveness of US assets can fail to fall, leading to what could be a significant reduction of the inward flow of foreign funds. In that case, the exchange rate of the dollar would fall. But this would make it more difficult to finance the enormous US current account deficit. The Federal Reserve would then have to raise US interest rates, but so doing could be very dangerous to highly overpriced equity markets already under pressure and an already slowing economy. Indeed, any really serious increase in interest rates could pose a mortal threat to US and world stability because it would make it so very difficult to finance the enormous *stock* of US debt outstanding held by foreigners. Put simply, the US could, conceivably, become subject to the same sort of financial meltdown as brought down East Asia, in which rising current account deficits come to appear impossible to finance as a consequence of the declining attractiveness of investment, generating an outward flight of capital, which precipitated mutually reinforcing falls in asset prices and the currency and in which rising interest rates only made things worse by virtue of their depressing effect on the domestic economy. Under conditions at least superficially analogous to those that currently obtain, in the fall of 1987 a falling dollar set off by a record-high current account deficit that was increasingly difficult to finance forced the Fed to raise interest rates, precipitating the October stock market crash.

In the last analysis, US economic policymakers are counting upon the US and the other leading world economies to mutually drive one another's export-led booms to new heights. On this basis, US profit rates, investment growth, and productivity growth would continue to grow, both reducing the US current account deficit and better justifying elevated US equity prices (that have perhaps in the meantime sustained a "correction," but have been prevented from crashing.) What is ultimately required for this to happen is that the hoped-for increases in export expansion internationally take place, in classic Smithian fashion, by means of mutually self-reinforcing growth, made possible by increasing specialization and the gains from trade. The products that each region places upon the world market would thus have mainly to complement one another rather than compete with and prove redundant with respect to one another even though such a pattern has proved elusive for at least a couple of decades. In other words, the systemic overcapacity and overproduction that has long made for stagnation and crisis will have had to be transcended. Whether it actually has been or not remains the ultimate question.

## Notes

[1] Thus, as I may not have made sufficiently clear, when I disparaged the idea of a "normal" growth path for capitalism, I was not, as Jameson (p.44) seems to have understood me as doing, denying the existence of recognizable patterns of capitalist development, but in particular the neo-classical notion of a more or less steady trajectory, ultimately determined by technology, from which the system deviates only as a consequence of external "shocks."

[2] For the record, I did not identify as Malthusian arguments that find the source of a squeeze on profits in the increasing power and pressure of workers leading to rising wage growth (or even declining productivity growth), but confined my use of that term to arguments attributing falling profitability to the decline of technological dynamism. Cf. Kaiwar, p.48.

[3] For an extended critique of the Regulation School, its theory and empirical propositions, see Brenner and Glick (1991).

[4] A further type of crisis theory, "underconsumptionism," finds the source of crisis and stagnation in insufficient investment of consumer demand. But no version of underconsumptionism has to my knowledge been directly applied to the postwar economic downturn. I offer a conceptual and empirical critique of one major form of underconumptionism, the theory of monopoly capital, in "Competition and Class: A Reply to Foster and McNally," *Monthly Review,* December 1999.

[5] The only counter-example is the East Asian NICs (and perhaps the ASEAN economies), which grew with extraordinary velocity through the length of the downturn.

[6] This is obviously not to deny the decisive role of imperial power, in the form of countless forceful political and/or military interventions by the US. These took place mostly in the third world, but also in Europe and Japan in the early years of the postwar epoch, with the objective of defending capitalist property relations and quelling various forms of socialist, labor, or nationalist resistance.

[7] Kaiwar is thus right to point out how the US and other economies of the capitalist core have sought to shift the burden of the long downturn to the LDCs by means of their own shift into financial activity. I would simply add the caveat that that activity has been, for the most part, of a highly speculative nature and generally ended in disaster. Thus, to be profitable, it has ultimately had to depend on the intervention of the core states in squeezing out by political means the money that could not, and did not, flow simply as a return to lending. That is, of course, the meaning of the famous "structural adjustment" programs.

[8] It should be noticed that, if as widely argued, the fall in profitability had actually been caused by an increase in worker's power and pressure, the immediately following reduction in workers' power and pressure issuing in sharply declining wage growth should have gone a long way toward resolving the profitability problem, more or less immediately reducing the pressure to cut back investment and thereby opening the way to the restoration of productivity growth.

[9] Surin unaccountably states that I miss the importance of the revaluation of the Asian currencies in setting off the crisis in East Asia. In fact, the revaluation of the yen, then devaluation of the yen and yuan, were at the center of my accounts of both the Asian boom from 1985 to 1995 and the subsequent crisis. I wrote, for example, that "It was thus reduction in the value of the yen…which propelled the Asian economies into their profound crisis…" (See *EGT*, pp. 258ff).

[10] For Japanese industrial restructuring in relationship to East Asia, see

Hatch and Yamamura (1996).

[11] In this, and the following paragraphs on the evolution from boom to crisis in Asia, I am especially indebted to Bevacqua (1998). I rely as well on Bello 1998a; Bello 1998b; Furman and Stiglitz 1998; Radelet and Sachs 1998; Wade 1998; Wade and Veneroso 1998.

[12] "Could It Happen Again?" *The Economist,* February 22, 1999.

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