**Andrew Kliman, Marxism 2012 talk on *The Failure of Capitalist Production*, July 9, 2012**

I want to talk about my book, *The Failure of Capitalist Production*. Its subtitle is *Underlying Causes of the Great Recession.* It’s much more about the Great Recession than about the financial crisis of 2007-08. A lot of people, in the mainstream and on the left, have analyzed the causes of the financial crisis and the Panic of 2008. Much of what has been written is very important and insightful. I realized that I didn’t really have anything to add to what had already been written about the financial crisis, so I decided to focus instead on the Great Recession, especially the long-term underlying conditions that led to it.

The book focuses on the United States, partly because much of it consists of a detailed analysis of data. The data that are available for other countries’ economies are not as complete and often not as reliable as data for the U.S. economy. So everyone––not only I, but also authors such as Gérard Duménil and Dominique Lévy––rely heavily on U.S. data. All of my data come from the U.S. government and other official sources like the World Bank. The other reason why I focus on the U.S. is that it was the epicenter of the latest crisis. It cannot be automatically assumed that the analysis of the U.S. case applies to other countries. But since the U.S. was the epicenter––the crisis first erupted in the U.S. and then spread––it is crucial to understand what happened in the U.S. in order to understand the Great Recession and its aftermath in general. Of course, even though the data are for the U.S., anything that happens anywhere in the world that affected the U.S. economy is reflected in these data.

I’ve referred to the financial crisis, the Panic of 2008, and the Great Recession. Let me start by distinguishing between these events. The *financial crisis* can be dated from the middle of 2007, when central banks began to provide funds to prop up the banking system. The crisis deepened, and became a Panic in September, 2008, especially after the U.S. government allowed Lehman Brothers to fail, and two weeks later the House of Representatives refused at first to pass TARP (the Troubled Assets Relief Program). But by the end of the year the panic had subsided and the crisis situation basically ended. A *recession*, in contrast, is a decline in economic activity––production, employment, income, and sales. The Great Recession officially began in the U.S. in December 2007, and it officially ended 18 months later. Economic activity began to increase once again––but not by much. The economy is still nowhere near back to normal. This situation is sometimes called “the new normal.”

The fact that this situation persists 4 ½ years after the recession began, and 3 ½ years after the original financial crisis ended, indicates that the economic slump is not due *only* to the financial crisis. As Paul Krugman and Robin Wells, noted mainstream Keynesian economists, noted two years ago, “If the fundamental problem lay with a crisis of confidence in the banking system, why hasn’t a restoration of banking confidence brought a return to strong economic growth? The likely answer is that banks were only part of the problem.” This idea is the starting point of my book. Just as more lay behind the Great Depression of the 1930s than the stock-market crash of 1929, more lies behind the Great Recession and the new normal than the collapse of the home-price bubble of the last decade.

For an example of how weak the recovery has been, take employment. There are still 5 million fewer jobs than at the peak in 2007, and the loss of jobs would be about 8 ½ million if we don’t count as employed the people who want full-time jobs but are only working part-time. And it’s now more than 4 ½ years later. The population has been growing. Just to keep up with population growth, an extra 6 ½ to 8 million jobs would have had to be created but haven’t been created. So in order to have the same percentage of the population employed full-time as was employed at the peak, there would now need to be 15 to 16 ½ million more full-time jobs than there actually are. That’s a fall from the peak of more than 10%. To eliminate this problem by the end of the decade, employment would have to increase twice as fast as population throughout the whole decade; even the most optimistic forecasters don’t expect that to happen.

Actually, the book isn’t something I set out to write. At the start of 2009, I was researching a rather narrow topic, and discovered something surprising. So I began to dig deeper. The more I dug, the more I found that was surprising. Eventually, I had uncovered so many surprising facts that I had material for a whole book, and a rather different account of the underlying causes of the Great Recession than those with which you might be familiar.

What I uncovered was surprising to me because it contradicts key pillars of the conventional account, on the left, of the economic history of the last several decades. To understand the significance of my findings that I’ll turn to in a moment, it helps to be familiar with the conventional left account. Here’s a kind of composite sketch of it, which draws on what several authors have written. According to the conventional left account, the turning-point of recent U.S. economic history was the early 1980s, the start of a new stage of capitalist expansion brought about by neoliberalism. The neoliberals, they say, succeeded in increasing the degree of exploitation. Workers’ share of income, and their real –– inflation-adjusted –– pay, declined, and this caused the rate of profit to rebound from the low point it reached in the recessions of the mid-1970s and early 1980s. So there was a lot of extra profit, and the economy *could have* grown rapidly, if the extra profit had been invested in production.

But according to the conventional left account, relatively little extra profit was invested in production, because of *financialization*, an important component of neoliberalism. Instead, profit was diverted from productive investment toward financial speculation. The slowdown in investment led to a slowdown in economic growth, which in turn led to a slowdown in the growth of income. And the slowdown in the growth of income led to rising debt burdens; it became harder for people, business, and governments to repay their debts. And this chain of events set the stage for the financial crisis and the Great Recession.

However, I uncovered several facts that contradict this account. First, the turning-point of recent U.S. economic history was the 1970s **–** *before* the rise of neoliberalism. I was kind of aware of this one already, but the other facts surprised me. U.S. corporations’ rate of profit never recoveredfrom the fall it experienced in the late 1970s and early 1980s. And their rate of accumulation, or investment in production, fell because their rate of profit fell, not because they diverted profit from production to financial markets. In fact, such diversion did not occur. And finally, U.S. workers’ share of income has been stable, and their real compensation has risen, during the last 40 years. This last fact is the one that surprised me the most. It was only three years ago that I published an article in which I wrote that “profitability has been propped up by means of a decline in real wages for most [US] workers.” Before I studied the data, I assumed that the fall in real wages was an unambiguous fact. Technically speaking, it is a fact, but it doesn’t mean what most of us think it means, as we’ll see.

Okay. I now want to consider some of my findings in more detail. The first pillar of the conventional left account is that the turning-point of recent U.S. economic history was the early 1980s, the start of a new stage of capitalist expansion brought about by neoliberalism. But I found that many major economic changes took place and long-term trends started in the 1970s or earlier, *before* the rise of neoliberalism. And rather than a new expansionary stage, what we experienced was relative stagnation. The economy never fully recovered from the recession of the mid-1970s.

In the U.S., 1969 was the start of the long-term rise in income inequality and the long-term fall in the growth rate of public infrastructure spending. The long-term rise in borrowing by the U.S. Treasury and households started around 1970. In 1971, the Bretton Woods gold-exchange system collapsed. This eventually led to a sharp rise in the price of oil, in terms of dollars, in 1973, and the higher price of oil led to the 3d World sovereign-debt crisis. Many countries in Latin America and elsewhere defaulted on their debt or had it restructured. The debt crisis did not emerge until the early 1980s, but the ground for it was laid in the 1970s.

The deep global recession of the mid-1970s marks the start of many other trends that have persisted ever since. The very sharp decline in the growth rate of GDP (Gross Domestic Product), in the U.S. and in the world as a whole, began in about 1974. In the U.S., the long-term fall in the growth of U.S. industrial production started around the same time, as did the long-term fall in the growth rate of workers’ pay and the long-run increase in people dropping out of the labor force. And the long-term rise in the average duration of unemployment started the next year.

I put my findings together in the following way. The persistent fall in U.S. corporations’ rate of profit led to a persistent fall in their rate of accumulation, or productive investment. This isn’t surprising; the generation of profit is what makes possible the productive investment of profit, so if profitability falls, we should expect the rate of investment in production to fall. The decline in the rate of accumulation led to a decline in the rate of economic growth, and the slowdown in growth is one main cause of increasing debt burdens. Another main cause is that the U.S. government and the Federal Reserve (Fed) again and again tried to counteract the fall in profitability, investment, and growth by means of policies that exacerbated the debt problems. They “kicked the can down the road,” covering over, or allowing private borrowers to cover over, bad debt with even more debt. And the rising debt burdens led to a series of debt crises and burst bubbles. I regard the recent financial crisis and recession as just the latest episodes in the series of debt crises and burst bubbles series, although they were by far the biggest ones.

For just one example of how the U.S. government responded to the relative stagnation with policies that made the debt problems worse, consider this graph. The solid line is the U.S. Treasury’s *actual* debt, as a percentage of GDP, prior to the recent crisis. It doubled between 1981 and 2007. But the rise can be attributed *entirely* to the fall in U.S. corporations’ rate of profit and the government’s response to that fall. Government revenue from taxes on corporations fell markedly. This was partly because the government reduced corporate income tax rates–– which allowed corporations to keep more of their profit for themselves––and partly because tax revenue from corporations was tending to fall in any case, because profits were falling as a percentage of GDP. But if those things hadn’t happened, what we would have had is the dashed line; the ratio of Treasury debt to GDP would not have doubled; it would have been substantially lower than it was in 1970.

The second pillar of the conventional left account is that neoliberal policies caused a substantial recovery in the rate of profit. But what I found when I measured profit as a percentage of the actual amount of money invested in fixed assets, minus depreciation––their historical cost––is very different. When we count as profit all of the income generated by corporations that their employees don’t receive, net value added minus compensation, U.S. corporations’ rate of profit continues to trend downward substantially during neoliberal period. (Ronald Reagan became president at the start of 1981.) If we exclude the portion of profit that is used to pay sales taxes and interest, we have before-tax profit. It also failed to rebound in a sustained manner during the neoliberal period and it was basically trendless.

Measuring profit against the actual amount of money invested has been criticized on the grounds that the rate of profit is then affected by inflation. That’s correct; you can see that the rates of profit rose during the 1970s, a period of economic weakness, because of accelerating inflation. But during the neoliberal period, this doesn’t make much difference. The top rate of profit here is the red line in this next slide. And the black line is the same rate of profit, but adjusted so as to remove the effect of inflation. The downward trend in the inflation-adjusted rate isn’t quite as steep, but there’s no doubt that it trends downward during the neoliberal period.

The rates of profit I’ve shown are for domestic corporations; they exclude U.S. multinational corporations’ foreign subsidiaries. But the rate of profit­­ of U.S. multinationals––after-tax profit received from their subsidiaries as a percentage of foreign direct investment in these subsidiaries––also trended markedly downward between 1983, the first year for which a rate of profit can be computed, and 2007. So it is clear that the overall­­––domestic plus foreign––rate of profit of U.S. corporations failed to experience a sustained rebound under neoliberalism.

I think this next relationship is the most important one. Another key pillar of the conventional left account is that the rate of accumulation, or productive investment, fell even though the rate of profit rose. What caused the fall in the rate of accumulation was supposedly financialization: a diversion of profits from production, toward financial uses. But the actual rate of profit––the rate of return on the money actually invested––in fact trended downward, as we’ve seen, if we define profit broadly, and fall in the rate of profit accounts for the entire fall in the rate of accumulation of U.S. corporations’ fixed assets. Since 1970, there has been a very tight relationship between the rate of profit and the rate of accumulation––the r-squared value is 0.83 ––and, importantly, movements in the rate of profit generally *preceded* movements in the rate of accumulation, which indicates that the fall in the rate of profit caused the fall in the rate of accumulation, not the reverse.

So why do some authors claim that profit was diverted from production under neoliberalism, and use this alleged fact to try to explain the fall in the rate of accumulation? They stress that the share of profit that is accumulated, invested in production, has fallen since the 1980s.

This is technically correct, but extremely misleading. At the start of the 1980s, there was a sharp fall in profitability, but investment didn’t fall at first. Changes in investment take time; as we saw, they lag behind changes in the rate of profit. So at the start of the 1980s, the share of profit that was invested in production was abnormally and unsustainably high. It was more than 100% of after-tax profit. U.S. corporations were investing more profit than they had! This couldn’t continue for long, so investment then fell as a share of profit. But when it fell, it returned to *normal* levels––levels similar to those that existed prior to the rise of neoliberalism and financialization––at least through 2001. Neoliberalism and financialization didn’t cause it to fall to sub-normal levels.

This next slide shows that the share of profit that was invested in production was actually greater during the first 21 years of neoliberalism, 1981 to 2001––the dark bars––than during the period between 1947 and 1980––the light-grey bars. This is the case for all four different definitions of profit depicted here. The investment share of profit then fell markedly, beginning in 2002, probably in response to events such as a very sharp decline in the rate of profit, the bursting of the dot-com bubble, the 2001 recession, the 9/11 terrorist attacks, wars in Afghanistan and Iraq, and a time lag between the recovery of profitability and the recovery in the rate of accumulation. In any case, almost all of the fall in the rate of accumulation took place *before* 2002. Neoliberalism and financialization certainly didn’t cause profit to be diverted from productive investment before 2002. So the fall in the rate of accumulation was certainly not caused by neoliberalism, financialization, or the nonexistent diversion of profit.

The reason why some economists claim that the rate of profit rebounded under neoliberalism is that they use the term “rate of profit” to refer to something that isn’t a rate of profit in any normal sense. What almost everyone––businesses, investors, Marx––means by “rate of profit” is the rate of return on investment, profit as a percentage of the amount of money *actually invested* in capital assets. That’s what business people care about, how much extra they get back compared to what they actually invested in the past. But these economists use the term “rate of profit” to refer to something very different, profit as a percentage of the amount of money that businesses would currently need to *replace* all of their capital assets.

This is what they call the “rate of profit,” using the broad definition of profit. It did rebound to some degree. But it’s not a rate of profit in any real sense, so the fact that it rose doesn’t matter. And the fact that it rose *while the rate of accumulation fell* is strong evidence that it doesn’t function like a rate of profit; businesses investment decisions aren’t based on it. And actually, this so-called “rate of profit” also stopped rising after 1984; it recovered from the recession of 1982-83 and was then trendless. So the story about neoliberalism restoring U.S. corporations’ rate of profit by means of increased exploitation is wrong even if we use this so-called “rate of profit.”

The final pillar of the conventional left account is the supposed stagnation of workers’ pay and decline in their share of income. But this graph, which is based wholly on U.S. government statistics––I didn’t “adjust” the figures in any way––shows that profit fell modestly as a share of U.S. corporations’ output between 1947 and 1970, and it has been trendless ever since. This implies that the share of output, or income, that the corporations’ employees receive has also been trendless since 1970.

In 2008, John Bellamy Foster and Fred Magdoff published an article in *Monthly Review* which showed that wages and salaries fell from 53% of gross domestic product in 1970 to about 46% in 2007. That’s the bottom line on the graph. There’s a similar fall in wages and salaries as a percentage of national income. Here again, we have statistics that are technically correct, but extremely misleading. Wages and salaries are only a part, and an ever-smaller part, of employees’ total compensation. In addition, they receive nonwage compensation––the private health and retirement benefits that many of them receive from their employers, and the taxes that all employers pay on their workers’ behalf. These taxes fund government health and retirement benefits that the workers receive when they retire. Since the U.S. population is getting older and living longer after retirement, and since health-care costs are rising especially quickly, these additional components of total compensation have increased faster than wage and salary income.

When we consider total compensation, wages and salaries *plus* the nonwage compensation, we see that workers’ share of national income was higher in 2007 than in 1960, and it fell only slightly after 1970. But in addition, the government pays working people a lot of “social benefits”: unemployment insurance, welfare, and veterans’ benefits, the health and retirement benefits, and so forth. The net social benefits––benefits minus the tax contributions that partly pay for them––have increased much faster than wage and salaries. So working people’s total income, total compensation plus net social benefits, was unchanged as a share of national income between 1970 and 2007, and it was a good deal higher than in 1960.

Now, it is possible in principle that regular workers’ share could have fallen drastically, but that the share of income that employees receive has remained constant because managerial employees have enjoyed whopping increases in pay.

But the available evidence suggests that this didn’t happen. Between 1985 and 2007, the hourly compensation of all private-sector workers, adjusted for inflation, rose by 24%. People in “management, business, and financial” occupations enjoyed a 29% rise. So there was some increase in inequality, but it wasn’t a huge increase. I estimated that regular workers’ share of corporate income probably fell by about one-half percentage point because of it.

I don’t mean to imply that U.S. working people are living well. They aren’t. But the reason they aren’t living well doesn’t have to do with the alleged, but nonexistent decline, in the share of national income they receive. It has to do with the relative stagnation of the economy. The fall in the growth of corporate employees’ compensation was almost exactly the same as the fall in the growth of corporation output.

So “share the wealth” struggles face strict limits. he wealth has not been there to share, and the latest crisis has of course exacerbated this problem. This doesn’t mean that struggles to protect and enhance working people’s standard of living are futile. I think thay *can* succeed. But we have to understand that they are gains won in these struggles are concessions, not solutions to the economic crisis. They’re not going to put the capitalist system on a new expansionary path. On the contrary, they will lower profitability further, making the system even less stable and prone to severe crises and recessions. They’re no way around this dilemma—there’s an opposition between what’s good for the capitalist economy and what’s good for the great majority—as long as we remain within the confines of this system.

Finally, I want to talk briefly about prospects for the future. One possiblity is that what will happen is full-scale destruction of capital value, such as that which took place during the Great Depression. There really aren’t any policymakers in any country who want this, but it might happen anyway. They’re ability to manage the crisis has limits. If a real meltdown does happen, it could lead, eventually, to a new boom, such as the one that followed the Depression and World War II. But it could instead lead to complete collapse before that happened. Or revolution before that happened.

What seems more likely to me, and what policymakers prefer, is more “kicking the can down the road” by papering over bad debt with more debt. They’ve been doing this for decades, and the scale on which they’ve been doing this during the last several years is remarkable. It prevents a real deep depression, but it doesn’t solve the underlying problems, as the recent crisis has made clear. So if they keep kicking the can down the road, we’re likely to experience continued economic sluggishness and recurrent crises. And this strategy has limits. As debt burdens mount, the ability of the U.S. and other governments, like Germany’s, to restore the confidence of the financial community declines. Complete collapse of the U.S. financial system was averted in 2008 because the U.S. government was able to restore confidence. But the ability of governments to restore confidence depends on the financial community’s confidence in these governments—confidence that they’ll be able to repay their debts and make good on debt guarantees. But the more that government debt and debt guarantees build up, the more the financial community’s confidence that this will take place declines.

Finally, there’s the socialism, as an alternative to the whole economic mess. I think the crisis has made it a real historical possibility again, and that it’s what we need to talk about as the only real way out of mess other than a deep depression or a long period of economic slugishness, the only way out that’s good for the great majority of people in the world.