

The nature of the current Long Depression

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I made a presentation to the Marxism Festival 2014 (<http://marxismfestival.org.uk/>). The presentation was called *The nature of the current Long Depression*. There were three things that I wanted to argue in that presentation.

First, I argued that Marx's law of the tendency of the rate of profit to fall was the underlying cause of the cycle of recurrent crises (booms and slumps) in modern economies, including the Great Recession. Suffice it to say that mainstream economics has no convincing explanation of recurrent crises. As Nobel economics prize winner Eugene Fama put it: "We don't know what causes recessions. I'm not a macroeconomist so I don't feel bad about that. We've never known. Debates go on to this day about what caused the Great Depression. Economics is not very good at explaining swings in economic activity ... If I could have predicted the crisis, I would have. I don't see it. I'd love to know more what causes business cycles."

Now Thomas Piketty, author of the best-selling economics book of the 21st century, called *Capital in the 21st century* (see my posts, <http://thenextrecession.wordpress.com/2014/04/23/a-world-rate-of-profit-revisited-with-maito-and-piketty/>) has been quick to dismiss Marx's law as plain wrong in fact. As Piketty puts it in his book, with the same title as Marx's 19th century version: "the rate of return on capital is a central concept in many economic theories. In particular, Marxist analysis emphasises the falling rate of profit – a historical prediction that has turned out to be quite wrong".

Unless replaced with a mode of production based on ownership in common and a democratically controlled plan for the world to meet the needs of people, capitalism will continue to engender poverty, inequality, recurrent (and ever increasingly destructive) crises in employment, income and health.

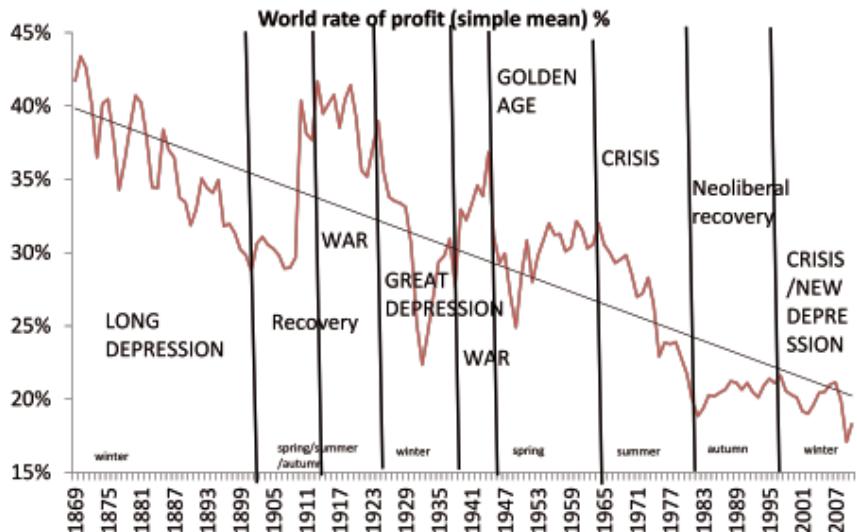
Well, in my presentation, I show the work of Esteban Maito (Maito, Esteban - The historical transience of capital. The downward trend in the rate of profit since XIX century) on what has happened to the rate of profit in an amalgam of 14 countries since Marx developed his law of profitability in the mid-19th century, arguing that it was the most important law of all political economy. Here is my version of Maito's data.

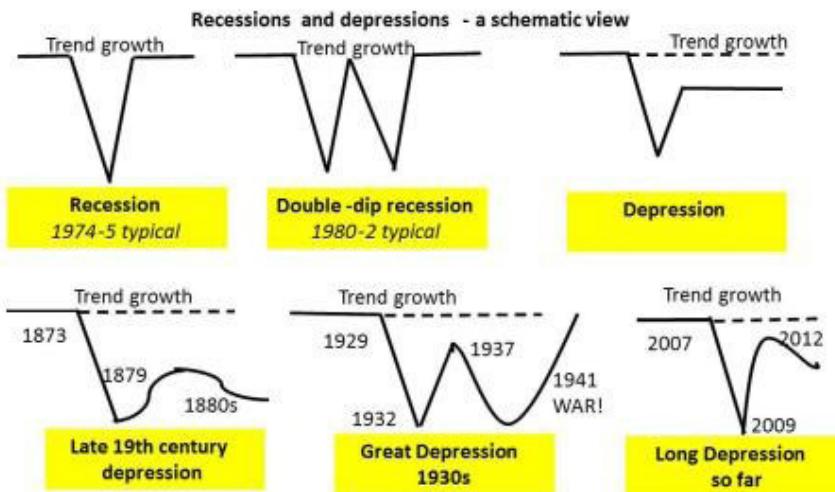
Marx's prediction has been confirmed. The global rate of profit has been in secular decline. But not straight down

because there have been periods of upturn when the counteracting factors to Marx's law dominated, if only for a while. Look at the neoliberal period from the early 1980s to the late 1990s – a period we are all familiar with. The rate of profit rose but really that rise was just a small interlude in the long decline in capitalist profitability. This persistent downward tendency in the rate of profit regularly creates conditions when capitalists stop investing with some going bankrupt and provoking financial panics and crashes and then causing a cascade into a slump of investment, output, employment and incomes.

The second point that I made was that sometimes this regular cycle of boom and slump is interrupted and a recession or slump turns into a depression. By a depression I mean that any recovery is weak and does not re-establish the previous rate of economic growth,

Graph 1





Graph 2

investment or employment. These ‘winter’ phases (see the *graph 1*) only come around every 50-70 years. And we are now in one.

The schematic *graph 2* shows the difference between a recession and a depression.

A recession can take the form of a v-shape before returning to trend growth or a w-shape as in a double-dip recession. But a depression is more a square-root shape as output never gets back to trend growth. There have been three depressions: one in the late 19th century, the Great Depression of the 1930s and the current one.

Do depressions come to an end and under what circumstances? That was the third point of the presentation. Well, clearly the first two did. As Marx said “there is no permanent crisis”. If sufficient value is destroyed in a slump or series of slumps (depressions contain more than one recession), eventually the profitability of the remaining capital is restored to levels that encourage a new round of accumulation. Then, as Marx put it, the whole ‘crap’ starts again.

Does it require a world war? Would the Great Depression of the 1930s have carried on forever if there had been no world war? Well, the 19th century Long Depression came to an end without any world war. So we can expect

that this current winter will come to an end – in my view – not through a world war. Failing a successful revolution in a major capitalist economy, capitalism will eventually enter a new ‘spring’ with a recovery in profitability and new investment growth based on new technologies already ‘discovered’ but just waiting for development.

Of course, each time, the system finds it more difficult to develop that new technology as it becomes more and more unproductive in the capitalist sense. Unless replaced with a mode of production based on ownership in common and a democratically controlled plan for the world to meet the needs of people, capitalism will continue to engender poverty, inequality, recurrent (and ever increasingly destructive) crises in employment, income and health. And it is fast destroying nature and through global warming generating ever more extreme weather and environmental disasters.