Pinning the blame on the system

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This is the first in a series of responses to Chris Harman's latest book, ***Zombie Capitalism: Global Crisis and the Relevance of Marx*****.**

When Chris Harman began work on *Zombie Capitalism* in late 2006 his goal was to criticise what he calls "the great delusion", the belief that "capitalism had found a new way of expanding without crisis".[1] At the time the task of persuading readers that this belief was delusional was formidable. "Even some Marxists spoke of a 'new long upturn'".[2] Others, in more guarded fashion, told us that capitalism "maintains a certain coherence over time. The homeostatic aspects must be balanced against the transformative, crisis-provoking ones. The term 'equilibrium'...has different meanings…and some of them are crucial to the Marxist enterprise".[3]

Of course, the economic crisis that erupted shortly thereafter made it unnecessary for Harman to persuade anyone of what had been his main thesis. Those who had proclaimed that "capitalism had found a new long-term stability [or had entered] a 'new long upturn'...were soon to look as foolish as those who forecast endless peace in the early summer of 1914".[4] And talk of capitalism's coherence, homeostatic aspects and equilibrium was replaced by the thunderous proclamation that "*the Marxist understanding of the inherent instability and progressive unworkability of capitalism has been vindicated*!"[5]

The focus of *Zombie Capitalism* thus shifted from prognostication to explanation. Why had the economic crisis erupted? Why was it inevitable? And most importantly, why will capitalism's crisis tendencies continue into the future? (If it recovers from the current crisis, which is not yet a sure thing in my view.) The downside was that Harman had to scrap about a third of what he had drafted and significantly recast the rest. The upside was that it is more pleasant to explain after the fact why one was right than to try to convince people before the fact that one will be proven right.

But having the opportunity to explain is one thing; having the explanations taken seriously by those whose perspectives have been disproved by events is another. To be sure, key proponents of free-market capitalism such as Alan Greenspan have admitted that their models and worldviews were wrong. Richard Posner, a chief architect of the conservative, market-oriented "law and economics" movement, has come out with a book on the crisis entitled *A Failure of Capitalism*. Yet as Harman recognises, such rethinking is ephemeral: "A few months when banks are not collapsing and profits are not falling through the floor and the apologists will [again] talk about the wonders of capitalism and the impossibility of any alternative—until crisis hits again".[6] Indeed, such talk is already well under way as I write this, even though no one knows yet whether the current economic slump has really ended or whether it will resume once the temporary government "stimulus" stops.

On the left there has been even less rethinking than on the right. This is because the crisis has the "form of appearance"—to use an apt Hegelian-Marxian expression—of being a crisis of free-market, deregulated capitalism and specifically a crisis emanating from the financial sector. In other words, it appears to be a crisis of things the left never celebrated (though those who spoke of a new long upturn tended to regard them as successful), and thus an ideological predicament only for the other guys.

The basic problem is that those who have not broken completely with capitalist ideology must always try, as Harman puts it, "to pin the blame on something other than capitalism as such".[7] They have only two alternatives to choose from—the free market and state intervention—and they veer wildly from one to the other. The Great Depression appeared to be a crisis of the free market, so they embraced various forms of statism. The global crisis of the 1970s appeared to be a crisis of the interventionist state, so they veered back to the free market and veered further when the collapse of the USSR and its satellites appeared to be the collapse of capitalism's "other" rather than of capitalism in one of its forms. And now they're veering back to various forms of statism.

The greatest virtue of *Zombie Capitalism* is that Harman will have none of this. He pins the blame on "capitalism as such". What makes this difference more than a rhetorical one is that his conclusions flow out of an analysis of "capitalism as such". When he discusses the trajectory and vicissitudes of the world economy during the past 90 years his primary object of analysis is the capitalist system itself, not only a variety of particular institutional arrangements and property forms.

In other words, in Harman's view (which I share), the system is not reducible to particular institutions and legal forms. They come and go, and differ from place to place, but amid this flux and variety there persist specifically capitalistic goals and processes: the drive to accumulate value; the operation of systemic laws, above all what Marx called "the law of value" or "determination of value by labour-time"; and competition for markets as well as "military competition"[8] between capitalist states, which compels individual units of capital either to accumulate and obey the system's economic laws or to perish. And, as a result of all this, there is a

drive to reduce costs and prices by adopting labour-saving technical innovations, a tendency for the rate of profit to fall, and recurrent economic crises and slumps.

The title *Zombie Capitalism* reflects Harman's focus on capitalism itself. Taking seriously Marx's theory of the "fetishism of the commodity", he characterises the system as a zombie, an undead creature. It is a system of things that have escaped the control of the workers who produced them and have come to dominate them. "Capital is labour that is transformed into a monstrous product whose only aim is to expand itself".[9]

The word "itself" is crucial. The notion that capital's only aim is "to expand itself" differs from the notion that its only aim is "to enrich the capitalists who own it". The latter are "themselves…subject to a system which pursues its relentless course whatever the feelings of individual human beings".[10] The "law of value" prohibits them from exploiting their workers significantly less, since doing so raises their costs, making them uncompetitive and unprofitable. Moreover, the dynamic of capitalism itself "hurl[s] the world in a direction that few people in their right mind would want".[11] One example of this phenomenon is climate change; another is the current crisis, which has "hurt big capitals and not just those who [labour] for them".[12]

Some of the losses and bankruptcies being suffered by capitalists are even results of conscious governmental decisions. As I argued in this journal a year ago, after the US government prevented Bear Stearns, Fannie Mae, and Freddie Mac from collapsing but caused their shareholders to be wiped out, these events:

Show [that] the government is not even intervening on behalf of private interests: it is intervening on behalf of the system itself. Such total alienation of an economic system from human interests of any sort is a clear sign that it needs to perish and make way for a higher social order.[13]

But this is clear only if one distinguishes between capitalists and capitalism itself. There has been much bemusement and anger in the US over the fact that the government has been quick and generous when bailing out financial institutions, but slow and stingy when confronted with the imminent bankruptcy of auto firms. These different responses can easily be explained without resorting to conspiracy theory: the US government's goal is to maintain the capitalist system itself, which would be severely threatened by a collapse of the financial sector but not by the collapse of US auto makers. Yet if the concept of "capital itself" is absent, the government is suspected of engaging in conspiracy, or at least of favouring "financial capital" over "productive capital". This makes people more receptive to proposed responses to the crisis that include allying with non-financial capitalists in a multi-class struggle against "financial capitalism" or nationalising finance,[14] and more receptive to the ubiquitous assurances that a future large-scale crisis can be prevented by increased regulation of the financial sector.

Just as Harman was convinced, before the crisis erupted, that another capitalist crisis was inevitable, he is now convinced that "new bubbles and periods of rapid growth in one part of the world or another…will only prepare the way for more burst bubbles and more crises".[15] The source of these convictions is his overall theory of the system's goals and processes—the drive to accumulate, the "law of value", competition, etc—that I discussed above. To put it in a nutshell, the value of existing capital (including financial claims) must again and again be destroyed so that value can then temporarily "self-expand" at a faster rate.

I read *Zombie Capitalism* as above all an effort to substantiate the view that capitalist crises are inevitable by explaining and defending this theory. In other words, Harman justifies his view not by pointing to the fact that he predicted the current crisis but by endeavouring to account for the crisis—and more importantly, to account for the major economic events and trends of the past 90 years, booms as well as busts, country-specific phenomena as well as global ones—in terms of the overall theory. How well the book succeeds is thus a matter of how much of this history the theory explains and how plausibly, without "ad-hockery", it does so.

In my view it succeeds admirably. I should caution, however, that I am biased and that economic history is not my particular area of specialisation.

I do have some differences with the book's account of recent economic history. I regard them as minor ones, since I think the book's principal conclusions hold up *better* on the basis of my reading of events. That is because my differences have to do with anomalies, facts that seem incompatible with the theory and that have to be "explained away". On my reading of the facts, little "explaining away" is needed; the fit between facts and theory is more obvious.

The main differences have to do with the boom that began with Second World War and persisted into the early 1970s, and the apparent long-term recovery of profitability since the early 1980s. With respect to the former, Harman and I agree that there was a "long boom" through to the early 1970s. We also agree that the boom can be explained on the basis of the theory by noting two of the theory's implications: the destruction of capital value during crises also sets the stage for the subsequent boom; and the diversion of profit from productive investment to other uses—in this case, persistent military build-up—slows down a falling trend in

the rate of profit. But Harman also believes, while I do not, that this period was almost free of slumps and that it lacked a persistent falling rate of profit trend.

He writes that, between 1939 and 1974, the US only experienced one brief recession (in 1948-9) "in which economic output fell";[16] "there was only one brief spell of falling output in the US (in 1949)".[17] However, according to the National Bureau of Economic Research, whose rulings the US government accepts as official, there were six recessions during this period. According to the Federal Reserve, industrial production fell in each of these recessions. And according to the US Bureau of Economic Analysis, real gross domestic product fell throughout the 1945-7 period and in 18 of the 104 quarters between 1948 and 1973. In 1949, 1953-4, 1957-8 and 1969-70 it declined for at least two quarters in a row. Perhaps there are definitions according to which economic output fell only once during this period but in any case this was not a slump-free era, at least not in the US.

My main remaining empirical differences concern trends in the rate of profit in the US. Harman says that "profit rates did not resume their downward slope" during the long boom,[18] and that there has been a partial recovery of rates of profit since the early 1980s. Bureau of Economic Analysis data I have recently analysed lead me to conclude, to the contrary, that there has been a persistent fall in the rate of profit—at least in the US corporate sector—throughout the whole post Second World War period (except that the nominal rate of profit did not fall, but temporarily levelled off during the 1960s and 1970s, because of that period's accelerating inflation).

To be precise: when fixed assets and depreciation are computed at historical cost, profit (or surplus value) is measured by subtracting employee compensation from value added (net of depreciation), and the rate of profit is measured by dividing profits by the cost of fixed assets, the rate of profit has had the following trajectory. Between the troughs of 1949 and 1961 it fell from 39.3 percent to 31.5 percent. It then fluctuated without trending upwards or downwards for two decades. In the trough year of 1982 it stood at 31.8 percent. In 1992, another trough year, it was 27.1 percent, and the trough after that was 2001, when the rate of profit was 23.3 percent. Thus half of the total fall occurred during the long boom and the other half occurred during the period in which profitability supposedly rebounded![19]

The differences between my profitability estimates and those of the Marxist economists and historians whose data Harman cites grow out of profound theoretical differences. I will address this issue presently, but I first wish to note how my estimates, and the data on US recessions cited above, affect the historical account he offers.

First, Harman's account places a heavy burden on the theory that a diversion of profit from productive investment to military uses causes the rate of profit to fall more slowly. This theory must explain why the rate of profit did not fall, and why the economy remained almost free of slumps, for a full quarter century after post-war reconversion. I agree with him that the theory is "impeccable",[20] but I am not convinced that the slowdown in productive investment had the massive counteracting effect that his account requires of it. The problem is partly empirical but also partly theoretical: a slowdown in productive investment can only cause a slowdown in, not a reversal of, whatever trend the rate of profit has, and it can halt the trend only if productive investment comes to a halt. But on my reading of the data, the anomalous facts that the theory needs to explain disappear, at least in the US case. (The lag between falling profitability and the crisis of the 1970s can be explained by noting that the rate of profit, though falling, remained relatively high, and that the credit system makes the relationship between falling profitability and crisis a very indirect one.)

Second, Harman argues against the notion that the financial and productive sectors of the economy have become uncoupled, and my rate of profit computations significantly strengthen his argument. The issue is a politically important one. Several prominent radical economists have attributed the current economic crisis to financial sector excesses that they portray as largely *unrelated to and separable from* profitability trends and other productive sector phenomena. Their key evidence is the supposed recovery of the US rate of profit since the early 1980s. Moseley, as well as Gérard Duménil and Dominique Lévy, claims that the recovery is now almost complete. In what I regard as characteristically British understatement Harman writes that this uncoupled economy thesis "risk[s] opening the door"[21] to the apologetic claim that the causes of the crisis are nothing deeper than financial sector irresponsibility and deregulation. If the uncoupled economy thesis were right, then, as he says, greater state control over the financial sector would be sufficient to prevent the recurrence of similar crises in the future. But my rate of profit computations, if accepted, would essentially put paid to the uncoupled economy thesis and the political consequences that flow from it.

So the question is: Are my computations acceptable? I don't think Harman will have trouble accepting them. In order to explain why not, and why my profitability estimates differ so markedly from those put forward by proponents of the uncoupled economy thesis, a detour into the theoretical part of *Zombie Capitalism* is necessary.

Harman and I subscribe to what has become known as the temporal single system interpretation of Marx's value theory. A key component of this interpretation is that inputs and outputs are valued temporally, not

simultaneously, in Marx's theory. Thus, for instance, the value or price of corn planted as seed at the start of the year can differ from the value or price of the same kind of corn harvested at year's end.

This is painfully obvious—or should be. But the models of orthodox economists typically assume that valuation is simultaneous, ie that the per-unit prices of inputs and outputs are the same. Since "the simultaneity of the theory is a myth", the conclusions they deduce from these models "bear little relation to really existing capitalism".[22] But slight variations on these models eventually became standard academic "Marxian economics" and, not surprisingly, they turned Marx's value theory and the falling rate of profit theory that results from it into nonsense—garbage in, garbage out. As a result it was almost universally accepted, even among Marxist academics, that his theories were logically inconsistent and therefore false, and that this had been proved definitively. More recently, however, proponents of the temporal single system interpretation "have been able completely to rescue Marx's position by challenging…the reliance on simultaneity".[23]

In the case of the falling rate of profit theory, simultaneous valuation does its damage in the following way. When labour saving techniques are introduced that raise physical productivity, commodities' values and prices tend to fall, and this tends to reduce the rate of profit. But if one values inputs and outputs simultaneously, one takes the decline in the prices of *outputs* that has occurred and retroactively lowers the prices of *inputs* (purchased at earlier dates) to the same degree. This procedure artificially lowers costs of production and the value of the invested capital, and it therefore boosts the rate of profit artificially. The upshot is that, contrary to what Marx argued, "viable" labour saving technical change does not and cannot cause "the rate of profit" to fall.

But this simultaneously determined "rate of profit" is not a rate of profit in any real sense. As Harman notes:

Investment…takes place at one point in time. The cheapening of further investment as a result of improved production techniques occurs at a later point in time. The two things are *not* simultaneous… When capitalists measure their rates of profit they are comparing the surplus value they get from running plant and machinery with what they spent on acquiring it at some point in the past—not what it would cost to replace it today… [The rate of profit] necessarily implies a comparison of *current* surplus value with the *prior* capitalist investment from which it flows. The very notion of "self-expanding values" is incoherent without it.[24]

Quite so.

But proponents of the uncoupled economy thesis, and simultaneist Marxist economists generally, do exactly what should not be done. The "rates of profit" they compute and put forward as evidence are nothing other than ratios of current surplus value to what it would cost to replace plant and machinery today—figments of the simultaneist imagination. (Although government agencies supply the data, they nowhere sanction taking one figure, dividing it by the other, and christening the result "the rate of profit".) My rate of profit figures, on the other hand, are ratios of current surplus value to what was actually spent to acquire the plant and machinery in the past (net of depreciation). This is why our empirical results are so different and why I think that, although Harman had to utilise their figures for want of an alternative, he is likely to accept the temporally determined figures and the conclusion that the rate of profit has not recovered at all since the early 1980s.

The issue of temporal versus simultaneous valuation bears upon an additional facet of *Zombie Capitalism* that I found very intriguing. Although the theory that the rate of profit will fall more slowly when profit is diverted from productive investment to military uses is impeccable, Harman writes that its logic "has escaped many Marxist economists".[25] It escapes them, he suggests, because they are "so bemused by the irrationality of what capitalists are doing as to try to deny that this is how the system works".[26]

I strongly suspect that simultaneous valuation models have also contributed greatly to their rejection of the theory, because the two things are incompatible. Thus proponents of simultaneous valuation cannot make sense of the theory. Here's why. When inputs and outputs are valued simultaneously, "the rate of profit" becomes a purely *physical* measure, basically the ratio of physical surplus to the physical capital invested.[27] A slower rate of productive investment does not alter this ratio, all else being equal. The physical capital grows more slowly, but this causes the growth of the physical surplus to slow down by the same percentage, so the simultaneously valued "rate of profit" remains unchanged.

In addition, the slowdown in productive investment is a non-equilibrium phenomenon. It has no effect in the imaginary "long run" of economists' static-equilbrium models. If, for example, the other factors that affect profitability are causing the rate of profit to fall from 40 percent to a long-run static equilibrium level of 20 percent, then (given enough time, and in the absence of any changes in these other factors) the rate of profit will ultimately fall to 20 percent whatever the rate of productive investment may be. It just falls toward 20 percent more *slowly* when the rate of investment is low than when it is high.[28] But when one assumes that inputs and outputs have the same per-unit prices, one in effect assumes that the long-run static equilibrium state has already been reached. (Prices are not changing and, since a change in anything else will cause prices to change, nothing else is changing either.) So simultaneous valuation models prevent their

proponents from recognising the effects of a slowdown in productive investment because the effects “only” take place in real time, which does not exist for them.

The present moment of crisis calls for some serious rethinking, not only on the right, but also on the left. I do not expect many intellectuals of my generation to engage in such rethinking but I have hopes that younger people and working people, less weighed down by tradition, will do so. Because *Zombie Capitalism* is comprehensive, has a direct style, and constantly brings fact and theory into contact with one another, reading this book is an excellent way for them to begin.

Notes

1: Harman, 2009, pp15-16.

2: Harman, 2009, p253.

3: Laibman, 2004.

4: Harman, 2009, p253.

5: Laibman, 2009, emphasis in the original.

6: Harman, 2009, pp8-9.

7: Harman, 2009, p292.

8: Harman, 2009, p200.

9: Harman, 2009, p84.

10: Harman, 2009, p37.

11: Harman, 2009, p11.

12: Harman, 2009, p300.

13: Kliman, 2008, p75.

14: I heard Pratnab Patnaik, an Indian Marxist economist, propose such an alliance in a 13 July 2009 colloquium at Kingston University. Fred Moseley, a US Marxist economist, called for nationalisation of finance in section seven of Moseley, 2009.

15: Harman, 2009, p304.

16: Harman, 2009, p68.

17: Harman, 2009, p166.

18: Harman, 2009, p166,

19: Kliman, 2009.

20: Harman, 2009, p130.

21: Harman, 2009, p299.

22: Harman, 2009, p42.

23: Harman, 2009, p49.

24: Harman, 2009, pp74-75, first emphasis in the original.

25: Harman, 2009, p131.

26: Harman, 2009, p132.

27: See Kliman, 2007, chapters five and seven.

28: Actually, an increase in unproductive capital expenditures makes the rate of profit fall more quickly, since they increase the invested capital without also causing surplus value to increase. From the vantage point of the national capital as a whole, state military spending does not differ in this respect from private unproductive capital expenditures on security personnel, but since the former is not part of the unproductive capital of the private sector, its rate of profit falls more slowly.

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