Jack Rasmus and systemic fragility

Jack Rasmus is an author of many books on the global economy, a broadcaster and an economic advisor to America's Green Party. In his new book, Systemic fragility in the global economy, Rasmus proposes a radical thesis that the world economy is engulfed in a 'systemic fragility' not seen before.

As is evident to most commentators, the world economy has made the weakest recovery after a slump in post-1945 history. And the last slump was an 'epic recession', as Rasmus named it in his previous book, Epic Recession: prelude to global depression. It was also truly global, spreading to Asia, Latin America and Africa, much more than even the Great Depression of the 1930s.

It is this phenomenon that Rasmus wants to explain in his new book. Rasmus cites nine fundamental economic trends that underlie what he considers caused this growing fragility. Basically, they consist of a massive injection of liquidity (money and debt) starting with central banks worldwide and spreading as debt through the financial system, households and government. *"In short, key variables of liquidity injection, debt, a shift to financial asset investing, a slowdown in real asset investment, disinflation and deflation in goods and services trends, financial system restructuring, labour market restructuring, and declining effectiveness of central bank monetary policy and government fiscal policies on historical multipliers and interest rate elasticities all together constitute the major trends underlying the long run deepening of fragility within the system" (*from Rasmus' summary of his book in The European Financial Review, February-March 2016, pp 13-20 – EFR from now on). These trends now interact with each other, creating a new systemic fragility in modern capitalism.

Rasmus reckons that mainstream economic theory has completely failed to account for this fragility; or forecast any crises like the Great Recession; or explain the ensuing depression. As a result, their policy responses: a monetary policy of low interest rates or 'quantitative easing'; and/or fiscal macro-management, have dismally failed to revive the world economy. Indeed, they may have retarded it. *"The conceptual toolbox of contemporary economic analysis is deficient. Anomalies in the global economy today abound and multiply, with insufficient explanation. Systemic Fragility is offered as an alternative conceptual framework for explaining how real and financial variables mutually determine each other and lead to instability and is the outcome of dynamic interaction within and between three fragility forms – financial, consumption, and government." (*EFR*).*

But Rasmus is not only damning about mainstream economics. He maintains that heterodox theories of crises in the post-1970s world economy have also been found wanting. The followers of Keynes and Marx come in for criticism. The Keynesians are at fault because they have lost the essence of Keynes' insight into the instability and uncertainty found in a monetary and financially-dominated economy.

Even Hyman Minsky, whose ground-breaking work in the 1980s on the role of debt in creating financial fragility would seem to pretty close to Rasmus' own thinking, did not fully grasp the nature of the modern financial economy. *"Minsky variables are incomplete. Level of debt alone is insufficient. Cash flow is too narrow a concept. And T&C is far more complex today than it was a quarter century ago. The dynamic interactions – i.e. the feedback effects enabled by transmission mechanisms – intensify the overall fragility effect. Moreover, the intensity due to interactions or 'feedback effects' varies with the phase and condition of the business cycle".* (EFR). For my view on Minsky, see here.

The Marxists (called the 'Mechanical Marxists' by Rasmus) also fall short because they see crises as originating in the 'real economy', in production through weakening profitability. They fail to see that crises now originate in the financial/credit sector and flow into production, not vice versa. "*Marxists should focus more on investment, aka capital accumulation, and not on the determinants of investment. Investment/capital accumulation is the crux of Marx's analysis, not the FROP."* (EFR) Indeed, modern Marxists have fallen behind Marx himself, who in his later years began to argue that the credit/financial system was key to crises rather than the level or movement of the profitability of capital in production.

As a ‘Mechanical Marxist’ myself, I would beg to differ. In my view, Marx did not change from his view that the law of the tendency of the rate of profit to fall was “the most important law of political economy”, contrary to the views of German Marxist Michael Heinrich, which Rasmus seems to accept.

Moreover, Rasmus reckons that Marx’s law of value is now an inadequate foundation for understanding the workings of modern capitalism. The ‘mechanical’ Marxist law of the tendency of the rate of profit to fall is out of date, or only ‘half-correct’, as a cause of crises because of *“fundamental structural changes that have occurred in the global financial system and in labour markets in the 21st century.”* (EFR) Marx’s law of profitability does not incorporate financial instability and the expansion of debt. So it cannot be a full and coherent explanation of crises in the 21st century – and indeed of the current long depression.

Again I would disagree. Marx’s law of profitability explains the role of credit and debt in a capitalist economy. Credit is clearly essential to investment and the accumulation of capital but, if expanded to compensate for falling profitability and to postpone a slump in production, it becomes a monster that can magnify the eventual collapse. Yes, financial fragility has increased in the last 30 years, but precisely because of the difficulties for global capital to sustain profitability in the productive sectors in the latter part of the 20th century.

According to Rasmus, Marx’s formula for capital accumulation M-C-M’ should be extended because the financial sector now generates extra profit (M-C-MM’) through value created by the financial sector. “*Marx in Vol. 3 raises the notion of secondary exploitation that occurs after production in the sphere of circulation. So when I raise that, it’s really in agreement with Marx. Marxists have to broaden their notion of exploitation”.*(EFR) But, in my view, this would mean leaving Marx’s value theory, which distinguishes between productive and unproductive labour. And that would be a step back in understanding capitalism. Profits from exchange are fictitious profits. They are real for the finance capitalists, but fictitious for the economy as a whole because they are a simple redistribution of profits from the productive value-creating sector.

Rasmus’ view is similar to David Harvey’s concept of the ‘secondary or realisation’ part of the circuit of capital as being key to crises. I have criticised this view in detail here and here and here. If we look for the causes of crises in the ‘secondary circuit’ of the financial sector (or in a ‘financialised’ capitalist sector), we shall miss the fundamental contradictions of the capitalist mode of production.

Is Rasmus right that the cause of modern capitalist crises is to be found in a ‘systemic financial fragility’? Or are the mechanical Marxists right that the cause of crises is still to be found in the contradictions within productive capital? There is a correlation between financial crises and profitability. But as Rasmus says, *“A correlation exists in the data, but what is the direction of causation? One could just as clearly argue that the acceleration of finance forms of capital is a causation of the decline of profitability from real production”.* (EFR).

To help decide, we need to look at the evidence. Rasmus provides the reader with a comprehensive account of the ‘financialisation’ of the major capitalist economies in the neo-liberal period after the crisis of the 1970s. But his account is descriptive rather than empirical. And it is difficult to test the validity of any theory, especially a new one, if there are no data to back it up. Moreover, there is plenty of empirical evidence to back the contrary view of the mechanical Marxists that it is profitability that drives productive investment and it is collapsing productive investment that causes slumps.

At the end of the book, Rasmus presents three important equations for this theory of systemic fragility. These equations could be filled in with data to test his argument. But, as Rasmus says, at the moment, his theory of systemic fragility is not a finished product but very much a work in progress. In the meantime, the book is certainly a thought-provoking contribution to an understanding of the fragility of modern capitalism. It’s a ‘must read’ in a year that is generating a whole new range of radical and Marxist books on capitalism and its laws of motion.