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L5I: The Third Great Depression: Richard Brenner discovers the long wave
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The Third Great Depression and the long wave: Richard Brenner has a rethink

Over the last five years Permanent Revolution have explained how globalisation represented a new upward long wave of capitalist development. The defeats of the working class in the imperialist heartlands, notably the USA and UK combined with the restoration of capitalism in the former Stalinist states between 1989-1995 enabled world capitalism to escape the stagnation that had characterised it between 1973-1989. [1]

Indeed we were expelled from our former organisation for arguing against the position of the Fifth International which asserted that;

"With the turn of the century, we have entered a new period. Globalisation - the latest phase of imperialism - has exhausted most of its economic dynamism. It has entered a period of stagnation." The Fifth International 2003

Wikipedia's section on the Fifth International explains that;

"In July 2006 the League expelled its Australian section, its sympathising group in Ireland and a large minority of its British section. The International Faction was planning to split the organisation on the eve of its Seventh Congress in Prague. In the previous two years, the International Faction (first as a tendency), had struggled against the perspectives and orientation of the League. In particular, they rejected the view that since the turn of the century there had been an intensification in class struggle, that the world economy was either "stagnant" or demonstrated a "tendency towards stagnation" in the imperialist heartlands, which the League had summarised as marking a "pre-revolutionary period". Instead, they argued that capitalism had entered on a "long upward wave" following the collapse of the Soviet Union and the defeats of the working class movement in the 1970s/80s and that the League had exaggerated the extents to which breaks had occurred in social democracy[2]."

Richard Brenner's Great Moderation

It is more than a little ironic therefore, that just three years after our expulsion Richard Brenner the leader of the L5I explains that the present recessions means that capitalism is entering a new period a crisis. A period he calls "The Third Great Depression," which is the end of globalisation otherwise known as the "Great Moderation";

"This is a cyclical crisis, but no mere cyclical crisis. It is the end not merely of the 2002-07 boom, but of a long period which opened in 1985 and is known to the economists of finance capital as the Great Moderation, in which the impact of neoliberal reforms such as the defeat of the Anglo-US unions, sharp rises in the working day, trade and capital markets liberalisation, the vast expansion of consumer credit, and above all the restoration of capitalism in the USSR, Eastern Europe and China created a global regime of accumulation in which recovery phases of the cycle were strong in the hegemonic imperialist US-UK bloc, while crises and recessions were of reduced intensity and duration."

Those in the know will understand the significance of Brenner pushing back the start of the long wave to 1985, upward long waves typically last 24 years until the inward dynamic of capital accumulation opens up a new period of crisis or stagnation.

Now that he thinks the long (newly acknowledged) upward wave is over Richard Brenner accepts the theory of the globalisation and the upward long wave. What is important for Brenner was not a scientific estimation of capitalism, but the assertion that capitalism is perpetually in crisis. During the period of boom Brenner said the economy was stagnant and in crisis. Now the economy is genuinely in crisis Brenner admits that the period of boom. Just to reinforce the point, the period of globalisation that he previously claimed as one of stagnation, which was indeed that of a pre-revolutionary period has been magically transformed into a "virtuous cycle";

"The long virtuous circle of the 1990-2007 period, in which cheap labour and cheap products from China created a rare situation combining both low inflation and low interest rates, is over; the recovery will not be able to reproduce this most fortunate of conditions for capital, and will demand sharp rises in central bank interest rates if serious inflation is to be avoided."[2]

Brenner's assertion that the world economy has entered a period of Great Depression would be unremarkable if he had not claimed until now that capitalism was already in one.

But what about now?

But that doesn't necessarily mean that he is necessarily wrong now. After all until the summer of 2008 the credit crunch was a relatively mild cyclical downturn as we had anticipated, but was transformed into a savage recession by the freeze on lending which followed the collapse of Lehmans in September 2008. I hadn't anticipated that. But life teaches. It has meant that the previous norm of neo-liberal credit based expansion dominant in the UK and US was binned pretty much overnight and that China as emerged as a real challenger to the US. The work of several years has been squeezed into four months. But given how rapidly the crisis has accelerated the incipient trends within the objective situation how to assess the parts of Brenner's theory that he has not appropriated for our Autumn 2006 journal?

Brenner's claims

Richard Brenner claims that "There is no sign as yet that this deflation (recession) is slowing." But is deflation recession? Its certainly an original definition as deflation is a fall in prices not output. Are there signs deflation is slowing? Plenty. The retail price index in the US started to rise in the first quarter, one in which the US economy contracted sharply. While in China prices continue to fall even as its economy recovers. What he means though is there are no signs that the recession is slowing so is he right?

Brenner points out – following the IMF – that the combination of recession and financial crisis has lead to a sharp slowdown. He claims that "April 2009 brought this to a sudden end with a raft of profit warnings from banks and non-financial corporations alike." Profits did fall in the first quarter, and will do so further, but they fell less than expected with a significant revival in financial profits and for the first time in a year most firms profits exceeded expectations. He says that "China's GDP growth rate has now fallen to an official level of just 6.1per cent in the first quarter, the worst quarterly figure since 1990, although the government's massive stimulus of spending may have some effect in raising this in the course of the year, promoting internal demand." In fact that's the annual figure reported on a quarterly basis. China's growth increased in the first quarter and JP Morgan forecast it to reach 10.8% in the second one.

He notes that South Korea has stopped declining on the back of China's recovery, but claims that "Singapore's economy is in freefall, declining an annualised 19.7 per cent last quarter." This was true of the first quarter but there has been a marked recovery of Singapore's exports, the main reason for its collapse, since the March.[3] For some reason he cites a forecast for India's growth at 3.4% when even the IMF believe it will be 6.3% and JP Morgan think 5.2%. He's back with the IMF for Latin America "the IMF now predicts a continental recession this year, with economies contracting 1.5 per cent because of cheaper commodity sales and falling demand for exports." He should have checked out JP Morgan they think Latin America will decline by –2.8%.[4]

But what about the Great Depression?

Brenner has described the recession but his claim is much bigger than that he asserts that this is "a new period: one which shows every sign of being a Third Great Depression."[5] So what's his evidence for that? Brenner says "Fundamental aspects of the present crisis express not merely the defects of bourgeois policy in the preceding period but the crystallisation of capital's inner limits."

Gotcha. But what does all that mean? He says;

"The banking solvency crisis, the bursting of the bubble of fictitious values in the credit and derivatives markets, the collapse of the credit system, deleveraging and the unavoidable necessity for capitalist states to nationalise and part-nationalise key banks exposes not merely the unsustainability of finance as the organiser and regulator of production, but present the real possibility and necessity of the expropriation and centralisation of the banks and their transformation into instruments of democratic planning."

So the nationalisation of the key banks and financial institutions proves that finance's role as an organiser and regulator of production is unsustainable? Come again?

Brenner says that this anticipates socialism. Fine and good. But what's that got to do with the Great Depression?

Brenner explains that "The speed and scale of devaluation currently in progress demonstrates" that there can be "a recovery". But it won't be for ages and when it comes it won't last long, although it may be strong, but then again maybe not. And more to the point - what's that got to do with the Great Depression?

No recovery before 2011 at the earliest

Brenner continues;

"Factors, which indicate that this destructive work is far from complete and that the end of the recessionary and stagnation phases preceding the next recovery is at least 18 months away…"

So a recovery is 18 months away?[6] Remember the date May 2009. According to Brenner there will be no recovery until November 2010 at the earliest. A bold claim given that the Chinese recovery has already begun and even Nouriel Roubini the most bearish of the bears thinks there will be a US recovery by the end of the year. JP Morgan are not so squeamish, in their latest May update they say "The global economy entered this year in dire straits, and a debate raged about how long the downturn would last. Less than six months later, it appears that the recession is about to end." [7]

So why is Brenner so sure? He says;

"1.Despite the longevity of the financial crisis, the recession has only just begun."

The US recession began in the winter of 2007. He continues;

"2.Despite some reduction of the Libor-Federal funds rate spread (the difference between central bank interest rates and the rates charged by commercial banks to one another) since January, credit markets remain extremely tight."
There remains some tightening of the credit markets but LIBOR[8] the measure of the cost of borrowing between banks has fallen from 484 points to 66 points a drop of 87%.

"3.The absence of a functioning credit system impedes recovery."
True, but the central banks have thrown unprecedented amounts of funding at the problem, $12.8 trillion in the US alone.

4. Alternative finance, such as hedge and private equity funds, cannot take up the slack immediately - private equity funds are hampered by tight credit lines - hedge funds are nursing massive losses.
See above.

"5. The model of credit based on financialisation of consumer debt is severely wounded. Sub-prime mortgages and the packaged-up debt based on them (CDOS, mortgage-backed securities) are dead; a whole array of securitised debt products (credit card, motor and other higher purchase and consumer loans) is only now beginning to unwind."
True and an important point.

"6. The current recessionary phase of the crisis massively weakens the market for wage goods, feeding back into the decline of manufacturing and services."
Not just wage goods but capitalist consumption and fixed investment too.

"7. The recently vaunted first signs of recovery in the US housing market represents a slowing of the fall in prices and a rise in the number of enquiries, not a significant rise in value or volume of transactions. A sustained recovery of house prices requires a significant rise in disposable income among the broad wage-earning section of the population, something undermined by the current phase of the recession."
There has been no recovery in the rate of fall of house prices.

"8. The near zero interest rate policy in the US and UK is crushing growth in the EU and Japan by making their exports uncompetitive - this is why Germany and Japan's projected GDP declines are so severe."
The collapse in exports was a product of falling raw materials prices destroying new markets particularly in the so-called emerging markets. It was not limited to Germany or Japan but was worldwide. This was exacerbated by the freeze on credit which meant shipping companies could not move their goods. The Baltic Dry Index a measure of prices for shipping dry raw materials like iron ore fell from over 11,000 to 630 in December 2008. It has subsequently recovered to 2,942. The pace of the decline meant that China, which may have been expected to offset the US recession was in the middle of a state managed contraction at the very moment when its export markets collapsed. In addition the higher cost of borrowing for large consumer goods like cars destroyed the ability of working class and middle class consumers to buy them, while the sub-prime collapse meant the end for mortgage equity withdrawal in the US and UK. This was very closely related to the growth of the balance of payments deficits in both countries over the previous five years[9]. Brenner is implying that low interest rates lead to a fall in the dollar so rendering Japanese and German exports expensive in fact the dollar rose against both the Euro and the Yen from September onwards notwithstanding low interest rates.
All in all Brenner's explanation for the new (but strangely familiar) period are a curious combination of relevant detail and off the top of your head stuff he's plucked out of the air some of which is certainly important to the current recession, but none of which tells us anything about the Great Depression or otherwise.

The Recovery will be weak....and frenetic

But we know that in spite of all this a recovery will happen. So what sort of recovery will it be? Brenner's next paragraph aims to explain he says; "The recovery will be unstable and weak…" and ends "Therefore, when it comes, the recovery could be frenetic."
So the same reasons that explain that the recovery will be weak also explain that it will be frenetic. Clear? Sure the frenetic recovery will be "short lived" but how long's that? For two decades Brenner has insisted that the world economies stagnant. He's now discovered that all the time it was in a virtuous cycle. Short lived could be anything between a couple of months and two decades. So what are Brenner's reasons for the recovery being both frenetic and weak? He says;

”The recovery will be unstable and weak, because:
"1.The crisis of public finances aggravated by the trillion-dollar bailout will impel tax increases and cuts in public services and employment, reducing the stimulus to demand.”
But we know that cuts in public services and employment were the motor for the “virtuous cycle” began by Thatcher and Reagan in the 1980s. Pay cuts increase profits for a Marxist and do not reduce aggregate demand. He says;

”2.The long virtuous circle of the 1990-2007 period, in which cheap labour and cheap products from China created a rare situation combining both low inflation and low interest rates, is over; the recovery will not be able to reproduce this most fortunate of conditions for capital, and will demand sharp rises in central bank interest rates if serious inflation is to be avoided.”
Until now stagnation theorists like Brenner have asserted that the low interest rates of the period after the hi-tech boom were not as a result of China’s surplus profits – to have done so would have been to admit that such profits existed – instead they claimed it was a policy error made by the Federal Reserve. Now that Brenner thinks China can no longer afford US treasuries Brenner admits they purchased them.
Whether they can continue to do so or not is far from clear at present - but so far they have done so. During the first quarter of 2009 foreign purchases of US treasuries reached around $60bn a month, easily covering the US balance of payments deficit of $30bn, which as a result of the collapse of imports has declined from 2005 -6% to 2009 -2.5%, it therefore requires much less financing that formerly, so this maybe, but we’ll have to see.
As for his point about deflation due to the collapse in raw materials prices Chinas producer prices have been falling and at an accelerating rate, by -6.6% in the year to April 2009.[10]
Brenner continues;
“3. It will not be possible to expand consumer credit or the derivatives market in the same manner as in 1985-2006.5”
That’s true but as a Marxist he should know that the financial sector only circulates profits, but does not create them. He continues;
“4. The gross expansion of the money supply overseen by the US and UK authorities will aggravate inflationary pressures, potentially to destabilising levels. This policy is common to Keynesians and monetarists alike and has deep ideological roots in bourgeois financial theory.6”
Maybe there will be inflation. But if there is it then it will cure Brenner’s debt problem and the crisis of public finances. Quantitative easing does just that. The state prints assets to a certain value say £225bn in the UK, $1.25 trillion in the USA and thereby reduce its debts by the same amount. He says;
“What will be the effect of the "quantitative easing" in which central banks have increased the money supply to stimulate investment and spending? If we were to assume that it is successful in stemming the scale of the recessionary devaluation, perhaps by relaxing credit to enable bankrupt businesses to avoid insolvency, then it will slow the recession's work, impeding the restoration of profit rate, which is the precondition for recovery.”
Not necessarily. If the fall in the rate of profit was due to an absence of credit and therefore an inability of banks and firms to circulate capital, a restoration of lending could well restore the rate of profit. As indeed appears to be happening. But of course, Brenner doesn’t think that quantitative easing, which alongside other steps to increase liquidity has reduced measures of financial stress by around 90%, can work. He says;
“If on the other hand, as we suspect (see Workers Power 334, April 2009) it has no appreciable impact in this respect, then it could nevertheless succeed in slowing the collapse of the dollar and sterling, sowing the seeds for an inflationary crisis in the recovery phase.”

But the recovery of the dollar happened long before quantitative easing and was a result of capitalists seeking a flight to quality. Brenner claims that nonetheless;

“It may appease demands of the Chinese and Middle Eastern holders of US treasury bonds who are increasingly unwilling to hold huge volumes of a depreciating asset and whose threat to dump their holdings could spell the end of the dollar as the primary means of exchange in world trade.”

Quantiative easing means that the owners of US/UK debt, mainly China, Japan and the oil exporters have just seen the value of their holdings massively reduced. China reacted to US quantitative easing by loudly calling for the creation of a new world currency to reduce its dependence on the lousy US dollar. Appeased? They were furious!
So as we can see Brenner really has no explanation of why the present crisis may anticipate a new Great Depression, other than the assertion that it must.

”Whatever the outcome, that the measures taken cannot resolve the crisis, which represents an historic shift to a new period in which upturns will be weak and recessionary and stagnation phases longer, more pronounced and intense: a period in which the curve of development is downwards. This opens a new phase of class struggle leading to increased incidence of wars and revolutions.”
Whatever the outcome capitalism remains in crisis for Richard Brenner. When it was a boom he said it was crisis. Now it is in crisis he acknowledges the boom. As it was so it shall be. Always.
Footnotes

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[1] http://www.permanentrevolution.net/files/7123421_36-45%20Economy%20corrected.pdf
“In short the globalised world economy today meets Trotsky’s description of, “. . . a number of cycles characterised by sharply delineated booms and weak, short-lived crises. As a result we have a sharply rising movement of the basic curve of capitalist development.”
The component elements of this can be summarised thus:

· Significant defeats imposed on working class of North America and Europe during the course of the 1980s and 1990s, allowing for lowering of real wages, improvement in productivity and increase in the rate of surplus value.
· The restoration of capitalism in China, Russia and central Europe, doubling the global labour force open to exploitation by foreign and domestic capital, massively lowering the organic composition of capital and hence improving profitability. At the same time this restoration has expanded the market for commodities and services of made by imperialist MNCs.
· Great leap forward in the centralisation of capital through aggressive merger and acquisitions in the 1990s, giving global reach and economies of scale to major industries.
· Restoration of US hegemony in the 1990s, enabling it to reconfigure multilateral institutions in a manner favourable to its economic policies.
· Roll-out of new technologies since the mid-90s (e.g. internet) which have developed new markets (e-commerce), allowed for
· Relocation of key service and hi-tech industries, cut transaction costs and speeded up the turnover time of capital.
· This has resulted in a sharp reversal in the decline in per capita output in the 1980s and a major improvement the rate of profit, significantly above the level of 1973-92. Since the mid-90s the level of accumulation (net investment) has revived.

Combined, these factors have produced a sustained – though not crisis-free – revival in capitalism, above all profitability. The fact that the rewards of this revival have not been “fairly” distributed between bosses and workers is entirely due to the weakness of the international labour movement as they emerge from significant defeats of the 1980s, or have yet to construct genuinely strong and independent fighting organisations out the debris of the planned economies.
The exhaustion of the factors that have boosted productivity, trade, output and profits is a certainty, but over what timescale is difficult to predict. But the gross social inequalities generated in this phase, and the determination of neo-liberal governments to entrench their gains over the working class, guarantee sharp clashes and with them the necessity to strengthen revolutionary organisation in the heart of the working class.”
Richard Brenner continues “Yet far from establishing a new and permanent paradigm, the equilibrium established in these neoliberal years was the result of the dynamic interaction of contradictory forces that were mounting in scale and intensity. This crisis is the culmination of that process and the breakdown of that equilibrium.” This is supposed to be another dig at us. But as the reader can see above it is essentially a quote from our article.
[2] He needs to tell Peter Main about the change of line “As to the supply of cheap labour, this is not, in itself, any guarantee of capitalist development, never mind a development without cyclical booms and slumps.” http://www.fifthinternational.org/index.php?id=210,1445,0,0,1,0
[3] http://www.bloomberg.com/apps/quote?ticker=SIEXPNO%3AIND
[4] https://mm.jpmorgan.com/servlet/OpenPubServlet?skey=TU1SQy01MDgzOTYtMSw0MjAsT1ZFUlZJRVcyX0ZFRUQ%3D&Name=MMRC-508396-1.pdf
[5] Just like the old period.
[6] “Manufacturing activity in the central Atlantic region rebounded sharply, according to the Richmond Fed's May survey. The index of overall activity expanded for the first time in 12 months behind strong increases in shipments and new orders.”
http://www.richmondfed.org/research/regional_economy/surveys_of_business_conditions/manufacturing/2009/mfg_05_26_09.cfm

“Confidence among U.S. consumers jumped in May by the most in six years, fueling speculation the economy will recover later this year.”
http://www.bloomberg.com/apps/news?pid=20601103&sid=arayDGpmRFZU&refer=news
[7] http://www.jpmorgan.com/pages/jpmorgan/investbk/research/global_economic_research JP Morgan Global Data Watch May 22 2009
[8] http://www.bloomberg.com/apps/quote?ticker=US0003M%3AIND
[9] http://bp1.blogger.com/_pMscxxELHEg/R9w6lrWRZGI/AAAAAAAABsQ/w2sS2vd1blE/s1600-h/TradeDeficitGDP.jpg
[10] http://www.bloomberg.com/apps/quote?ticker=CHEFTYOY%3AIND
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