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Joseph Choonara Marxist accounts of the current crisis ISJ 123: Review

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In ISJ 123 Joseph Choonara provides a round up of the various Marxist explanations of the current crisis, critiquing them from what has become the orthodoxy of the ISJ tradition;

"However, it was possible to see the outlines of a potential crisis from a different starting point. *International Socialism* published a remarkably prophetic article in summer 2007, which, by coincidence, came out just in time for the onset of the credit crunch. This saw the growth of finance originating in the decline of profit rates during the post-war boom and the failure to sufficiently restore them from the low levels they had reached by the 1980s. This led to a scramble for alternative outlets for profits."

Choonara points to what he calls a "dividing line" between two explanations of the credit crunch;

"Some emphasise the internal logic of "financialisation" and tend to see the financial crisis as impinging upon the "real" economy from the outside; others, while recognising the importance of the financial dimension, emphasise the underlying problems in the "real" economy that drove the expansion of finance and paved the way for the crisis."

This division does reflect a real split in opinion within Marxist orthodoxy. Those Marxists like Choonara, Harman, Brenner etc. consider the crisis is a symptom of stagnation and low profits. They argue that there has been a perpetual over-accumulation of capital for close on 40 years, indeed its been going on pretty much continuously since the end of the post war boom. The question might be for these Marxists not why there is a crisis now, but why there hasn't been a crisis non-stop for the last four decades?

Choonara contrasts this school with those Marxists who point to the impact of the financial crisis have analysed real changes in the operation of financial crisis, they have broken to an extent with the Choonara's stagnationist orthodoxy.

But what these Marxists signally fail to account for is why financialisation had such an impact. For like the stagnation theorists what they leave out of their account is the restoration of capitalism in the former Stalinist centrally planned economies of Eastern Europe, the ex-USSR and China.

Robin Blackburn and Peter Gowan

Choonara begins his summary by looking at the work of Robin Blackburn and Peter Gowan, sure enough both theorists describe the rise of the financial sector and point out how changes too it were decisive preconditions for the crisis. But Blackburn, without any empirical data to support his assertion claims that the rise of the financialisation was ;

"Low levels of past profitability do not stop capitalists imagining that there are miraculous profits to be made in the future and in sucking surplus value from all over the world to be ploughed into projects aimed at obtaining them."

But what if rates of profit weren't low? In the period under discussion from 2003-2007 rates of profit soared.

Costas Lavipitsas

This is a major advantage in the work of Costas Lavipitsas in contrast to the stagnationlist orthodoxy he "is reluctant to root this in a long-term crisis of profitability" instead Lavipitsas explains that;

"It is not so much that real accumulation does not generate enough profitable avenues for banks to lend. Rather, productive capitals can increasingly meet their financing requirements either by retaining profits or by borrowing directly in open markets... Banks have been edged out of this business, and have to seek other avenues of profitability."

An crucial distinction, for while profit rates across the major developed economies grew very rapidly between 2003-2007, there was a notable differentiation between the sectors. Paradoxically in this age of financialisation, financial profits declined as a proportion of total profits, as non-financial capitalists did not need banks in order to finance their capital requirements, instead they went directly to financial markets.

As a result financiers had to find alternative sources of profit, sub-prime, securities, credit and so on, using sources of finance which arose from the re-cycled surplus profits of notably China but also the oil exporters. This meant financiers could offer very low rates of interest to sub-prime and non-traditional borrowers and as a result banks now directly exploit consumers through provision of financial services;

"He has argued that banks are now involved in the "direct exploitation" of consumers to make profits."

Choonara criticises Lavipitsas on the grounds that for a Marxist surplus value and therefore exploitation refers to the creation of surplus value, something that cannot occur in the sphere of circulation, as this merely redistributes profits already made. But Lavipitsas point is however, that by directly lending to consumers, banks increase the rate of surplus value by effectively cutting wages, as workers pay an ever increasing proportion of their income in interest and mortgage payments. This is indubitably correct it could be called the direct exploitation of working class consumers by financiers, as Lavipitas does or the indirect exploitation of non-financial capitalists by financial sector the result is however, the same in either case.

David McNally and Andrew Kliman

Choonara then moves onto David McNally who breaking with the orthodoxy has recognised the rise in profit rates with globalisation;

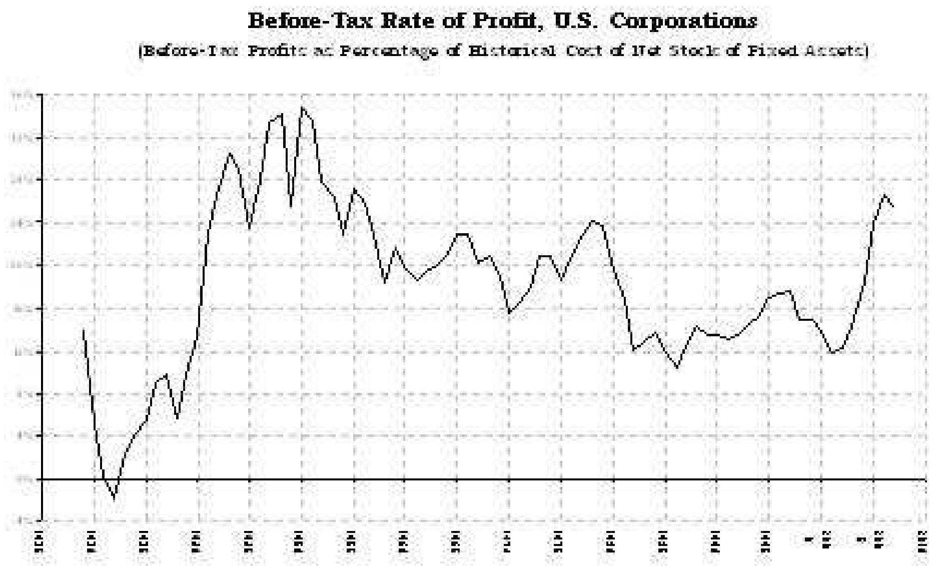
“He substantiates this by referring to Fred Moseley’s figures showing a restoration of profit rates.[54] However, there are different estimates of profitability. According to the method used by Robert Brenner, in the US the return on fixed capital has oscillated around 10.5 percent since 1974, down from an average of around 14 or 15 percent in the preceding period.[55] Other major economies such as Japan and Germany also seem to have witnessed similar falls.[56] Andrew Kilman gives average rates of profit in the US of 28.2 percent for 1941-1956, 20.4 percent for 1957-1980 and 14.2 percent for 1980-2004.[57]”

Choonara seeks to discredit Moseley by counterposing to him Brenner and Kliman. and he is right to do so for profit rates are the nub of the argument. The key to Choonara’s entire theory is that profit rates and output stagnated in the period up to the Great Crash of October 2008. According to Choonara, falling profit rates, explain falling investment the move into debt, the bubbles and the burst.

But what if profit rates weren’t falling? What if Moseley was correct?

Robert Brenner’s calculation of stagnating profit rates is based on non-financial profits. Non financial profits trebled between 2003-2007 but even so this excludes all of the new sources of profit that have grown alongside globalisation critically foreign profits, executive remuneration and financial profits, sources of profit which now account for 50% of the total. Unsurprisingly if you exclude half of profits from your calculation of the rate of profit then it will be on the low side. And Robert Brenners calculation sure enough shows that profit rates have not changed that much since the 1970s.

Andrew Kliman is a different matter however his calculation of profit rates includes all of those sources of profits missing in Brenner. If Kliman substantiates Choonara then the stagnation theorists may have a point. Certainly according to Kliman profit rates stagnated in the period up to 2004 just like Choonara says but what about the period after 2004? What about the period which lead up to and created the present crisis?



Source: [Andrew Kliman The destruction of capital and the current crisis]

Kliman[1] shows, confirming McNally, Moseley and our own calculations that there was a truly dramatic recovery in the rate of profit from 2004 to 2007. According to Kliman’s calculations the rate of profit more than doubled rising to its highest level since 1950.

This is frankly at odds with Kliman’s own account of the crisis, which in the same piece stresses the “incomplete destruction of capital” in the period after the post war boom accounts for stagnating profit rates, that may have been true up to 2004, but this crisis arose due to developments after 2004. It was a result of the surge in profit rates between 2003-2007. Kliman’s theory is odds with the empirical data he presents.

It is this rise in profit rates and how that rise in profits lead to crisis that needs explaining if we are to understand the credit crunch.

Choonara and the stagnationists entire theory is simply wrong. It seeks to explain the crisis as a result of stagnant or falling profit rates. But profit rates, according to the very data upon which they base their theory, doubled in the period under consideration.

The typical Marxist syllogism asserts that if crises are caused by falling profits then if profits are rising there will be no a crisis.

And sure enough in the period under consideration 2003-2007 there was no crisis, but rather a very rapid expansion of world capitalism, in a period that the Economist magazine described as the strongest period of growth in world history.

After 2007 profit rates peaked and began to fall but remained at elevated levels, hence the anticipation that this crisis, coming against the backdrop of a greatly restored profit rate would be relatively mild. Clearly experience confounded this prognosis. Kliman's graph doesn't include the period after 2007 as the annual data only goes up to 2007, but this reveals a key point, this crisis was not fundamentally caused by the over-accumulation of capital, profit rates even now remain high, but is the result of the combination of a typical end of business cycle slow down with a colossal financial slump. The total closure of the financial system from September 2008 onwards proved that even while the body was relatively healthy if the blood of finance could not flow around it then it would quickly die.

This crisis is fundamentally a financial one, but that does not mean it did not arise out of developments in the real economy. The recovery of profit rates after 2003 was so dramatic, not just in the USA but worldwide and particularly in the emerging market economies of China and the oil exporters that a glut of profits there was exported to the USA and developed world. This drove down interest rates providing the cash with which financiers could speculate their way to higher profits, which in turn enabled the sub-prime bubble to develop, the bubble was not a sign of falling profits and investment, world investment as a proportion of GDP grew very rapidly after 2003 according to IMF data,[2] but a consequence of the financial sector being squeezed out of the profits boom. The financiers desperate attempts to generate new sources of profits lead to the creation of fantastically complex financial instruments which ultimately proved of such a scale that the jeopardised the existence of the system itself.

The striking conclusion is not that there were insufficient profits or that the rate of profit was too low, but that there was such a glut of profits that they system could not cope. This is almost the inversion of the stagnation theorists narrative. But it has one critical advantage of them it fits the facts.

Choonara points to some of the weaknesses of McNally's account, while missing its central error. The main problem with McNally's account is a mistake he shares with Choonara, their adherence to the theory of state capitalism means that they don't notice the change from one mode of production to another in states covering a third of the world's surface and including half its population. That's a pretty remarkable oversight for a couple of Marxists unfortunately they're not the only ones.

The Monthly Review School and Robert Brenner

The Monthly Review school of underconsumptionist Marxism and Robert Brenner's account underpin the ISJs own theory;

"In many ways the pioneering analysis of *Monthly Review* (MR) paralleled that of *International Socialism* (IS), as developed by Tony Cliff, Mike Kidron, Chris Harman and others, and a greater interaction between these two traditions would strengthen both."

And its fundamentals are shared with Robert Brenner;

"There are many similarities between Brenner's framework and the IS tradition, particularly his emphasis on low rates of profit."

In fact Robert Brenner is pretty much the only economist in the world who has done any type of empirical research, who claims that profit rates remained stagnant. The reason he can do so as previously explained, is that he excludes around half of profits from his calculation. It is a fatal weakness in his theory.

Schema is plain wrong

Choonara's entire whole schema is plain wrong if profit rates aren't falling. Choonara tries to tie all the ends together in his conclusion, but the problem is really basic, his data is plain wrong. As Andrew Kliman, Fred Moseley, Dumenil and Levy, Goldman Sachs, PR, Morgan Stanley and just about everyone else who has looked at the question have shown, profit rates were rising and very fast too in the critical period which laid the basis of the present crisis up to the beginning of the present slowdown in 2007. Choonara tries to blend these various insights into a theory. He does quite well. It reads like he knows what he's talking about. Trouble is it is just not true.

[1] Kliman basing himself on Maddison's Total Economy Database produces figures, which try to show the stagnation of world capitalism in the period from 1973-2003 compared with the post war boom. The trouble is these figures take no account of the restoration of capitalism in the non-capitalist Stalinist states after 1991. Therefore they measure the political expansion of world capitalism into these states as a decline of capitalist production. No account is made for the one off addition to world capitalism which resulted from the transformation of planning into capitalism and as a result the collapse of the Stalinist central plan is measured as the collapse of capitalism rather than the creation of it. That Kliman should fail to see the distinction between two different modes of production is all the more surprising as he has written a book on Marxist value theory, which propounds the temporal single system. This shows how in a capitalist economy values are related to prices and change through time. In the centrally planned economies of the USSR etc. values were not related to prices, they were decided by central planners in advance and therefore did not change through time. None of the conditions that Kliman analyses as necessary for a capitalist economy applied there. Yet in the case of the Stalinist states this appears to make no difference. They must be capitalist due to some other criterion other than their non-capitalist economies. Trouble is that this mistake means that an understanding of globalisation, which was after all, predicated on the expansion of world capitalism across the entire globe is impossible.

[2] IMF WEO April 2009

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