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ISJ 124: Kliman and Choonara review

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The SWPs International Socialism Journal (ISJ) claim that capitalism is stagnant and has been for nearly four decades now. Throughout the period of globalisation they say, capitalism has seen declining production and investment, overcapacity and low, stagnant or falling profit rates. The digital age, internet revolution and Nintendo Wii Fit are all manifestations of capital's inability to revolutionise the productive resources. The latest ISJ 124 features articles by Andrew Kliman and Joseph Choonara, re-treading this well worn road….writes Bill Jefferies…

Andrew Kliman

Andrew Kliman is an American academic Marxist from a broadly speaking similar theoretical tradition to that of the ISJ. He is an expert on value theory and a key proponent of the Temporal Single System Initiative (TSSI). This theory asserts that in a capitalist economy prices systematically diverge from values but may change through time as a result of revolutions in productivity and so on. Kliman also asserts that the non-capitalist former Stalinist centrally planned economies of the USSR, Central and Eastern Europe and China before 1991, where none of these conditions applied were also capitalist. This may at first glance seem a bald contradiction. But its relevance will become clear shortly.

Kliman's piece "Pinning the blame on the system" is a review of Chris Harman's latest book "Zombie Capitalism: Global Crisis and the Relevance of Marx." In fact it is a thinly veiled polemic against those Marxists specifically including ourselves in Permanent Revolution (PR), who have demonstrated that the period of capitalist globalisation has been anything but stagnant.

The integration of the former Stalinist centrally planned economies in the world market doubled the working class that could be exploited by capital. What's more capital inherited masses of means of production, entire cities, road systems, ports, docks, hydro schemes and so on at no cost.

As a result the world organic composition of capital fell sharply and profits rose. The ICT revolution, abolition of trade barriers and consolidation of the defeats inflicted on the working class and labour movement in the 1970s/80s, particularly in the US/UK, raised manufacturing productivity, increasing the relative and absolute rates of surplus value and created a whole new technological basis for capitalist production in the mid to late 1990s. This further reduced labour costs, further increased productivity, slashed the circulation time of capital and resulted in a strong recovery of the rate of profit, particularly in the period 2003-2007.

But not according to Andrew Kliman.

Kliman shares the Harman, Choonara and the ISJ's view that capitalism already existed in the former centrally planned economies of China, Russia and Central Europe. Therefore for him there was no capitalism to restore. So the impact of the non-existent restoration of capitalism was non-existent.

Kliman explains that "'Harman's book wants to attack the great delusion', the belief that 'capitalism had found a new way of expanding without crisis'" he goes on "Even some Marxists spoke of a 'new long upturn'". Kliman is referring to PR's 2006 article "Capitalism's Long Upturn". Of course he does not admit it. But then again neither does Harman's book that he is referring to, so you can hardly blame him for that.

If our article had claimed anything of the kind then it clearly would have been deluded. But it did not. In fact it concluded that; "Combined, these factors have produced a sustained – though not crisis-free – revival in capitalism, above all profitability."

Downhill from there

Unfortunately for Kliman after getting his opening gambit wrong it is all downhill from there. Kliman claims that the basic problem with those who disagree with Harman is they "have not broken completely with capitalist ideology" and that therefore they "must always try, as Harman puts it, "to pin the blame on something other than capitalism as such". Some might think that this was an attempt to shut down the debate, heaven forbid, but fortunately, unlike these sad apologists, "The greatest virtue of Zombie Capitalism is that Harman will have none of this. He pins the blame on "capitalism as such"."

Good for Harman, "The title Zombie Capitalism reflects Harman's focus on capitalism itself." Allegedly Harman by "Taking seriously Marx's theory of the "fetishism of the commodity", he characterises the system as a zombie, an undead creature."

Now "Return of the Living Dead" may have many attributes, not least as it enabled George A Romero, who inspired but did not produce the original film, to perfect the genre over a number of sequels, but its relationship to Marx's theory of alienation has been until now an undiscovered quality. Kliman says that;

"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."

And it is a good job that Harman does not rely on his predictions for the crisis to support his theory. Harman did not predict the crisis. In fact quite the opposite, he strenuously refused to make any predictions about the direction of the world economy at all. And still doesn't. In not a single article written before the credit crunch will you find anything but the vaguest assertion that everything will go bad at some point around a corner. That corner may be near or far or somewhere in between. Harman may have been certain that it was at least probable, at some point, that with a certain combination of some more or less unspecified events, probably involving a bubble, something may happen, but as to when, well that remained to be seen.

Harman was no better in October 2008 after the world recession had begun. The Winter 2008 issue of ISJ Harman's article "The slump of the 1930s and the crisis today", opens with another unattributed quote "We are on the edge of the abyss. One slip and we will be into depression like that of the early 1930s." Harman claims that this sums up the mood of the bosses at the time. In fact it is what he thought just a couple of months before. The article is a write up of Harman's speech to the November 2008 ISJ crisis day school, where immediately following the debacle of Lehman's, Harman prognosticated that the world capitalist economy faced either the Great Depression or on the best case scenario a world wide Japanese style stagnation lasting a decade. But Harman's an old timer. He's not about to write any of that down. So by the time it went to press he concluded "There is a natural desire for people to want to know exactly how serious this crisis is going to be. But this is one thing Marxists cannot predict."

As for Harman explaining booms and busts from the last century on in his little book, well he does not do that either.

Kliman's quibbles

Kliman points out some disagreements, albeit minor he thinks, with "the book's account of recent economic history." Kliman explains that;

"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."

Kliman says that Harman claims "…between 1939 and 1974, the US only experienced one brief recession (in 1948-9) "in which economic output fell"; "there was only one brief spell of falling output in the US (in 1949)". This is part of Harman's myth making around the long boom. Harman exaggerates its crisis free character in order to contrast it with the post 1960s stagnation, in fact as Kliman explains "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."

There were deep recessions in the post war boom, but unlike the period from 1973-89 crisis did not characterise the period as a whole. Profits, output and employment quickly recovered after them. They were pauses in a general upward trend.

Kliman goes further however; he says that;

"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)."

Kliman tries to prove too much. By wanting to demonstrate that profit rates have not recovered with globalisation, he actually shows that they rose in the 1970s compared with their levels in the 1960s boom, particularly after the oil crisis of 1973. It effectively destroys profit rates as a guide to the health of the capitalist economy or otherwise.

Kliman bases these assertions on his estimates of the rate of profit. He explains his calculation like this "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."

Marxists and the rate of profit

Of course this is not a Marxist theory of the rate of profit. Marx explained that the rate of profit was s/c+v, where s = surplus value and c = fixed and circulating constant capital or raw materials and v = wages. Kliman's excludes wages and circulating constant capital from that calculation.

The mass of profits may indirectly reflect the cost of wages and raw materials as increased expenditure on them will lower it, but leaving them out of the equation means that an accurate measure of profit rates cannot be established. This explains why the 1970s which saw ever rising oil prices raising the organic composition of capital and therefore causing a fall in the rate of profit, particularly after 1973, are according to Kliman's graph a period of boom. This is particularly important for theories of the business cycle, 10 of the last 11 recessions have been immediately preceded by a boom in raw materials prices.

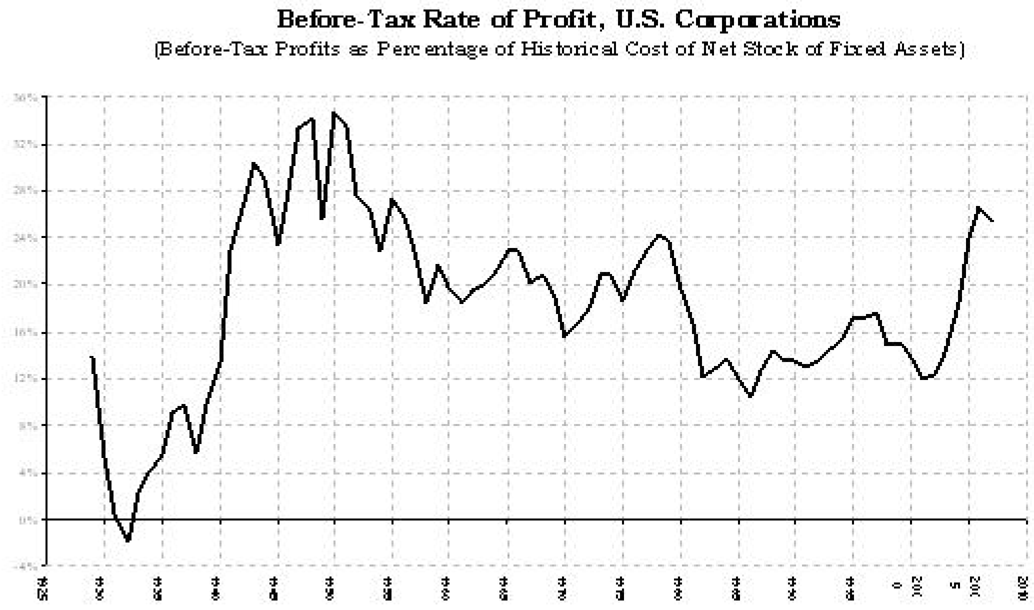
There is also a debate amongst Marxists economists, as to whether to use historical or current cost of fixed assets when determining the value of assets in the calculation of the rate of profit. Kliman thinks it is correct to use historical cost. Marx on the other hand explained that as the socially necessary labour time required for the cost of capital production changed so would the value of fixed assets. If a capitalist buys an expensive machine it may be working fine, but if a new cheaper machine is invented that is no consolation to him (probably it's a bloke). He cannot insist that his machine cost him hard money and he wants it back. The capitalist will simply be unable to sell his now expensive and out of date product. Instead the cost of the capitalists historic investment will be devalued immediately to the level of the most efficient competitor i.e. its current replacement cost. Historic investments will be written down to their present cost of reproduction, i.e. the socially necessary labour time they cost now.

Nevertheless in spite of these criticism, Kliman's measure of profit rates does produce some interesting results. Kliman continues;

"… 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!"

Kliman would claim that he ends his series in 2001 as this was the trough of the last recession. The problem with that is we are attempting to establish the reasons for the recession in 2008 not 2001. If we want to know why there was a recession in 2008 we need to know the direction of profit rates then not seven years before.

There is much debate about how to establish an accurate rate of profit amongst Marxist economists. Dumenil and Levy, Fred Moseley, supported by Costas Lavitpitsas and this journal using various different calcualtions have all demonstrated the recovery of US profit rates with globalisation. But what about Andrew Kliman. What about Kliman's estimates for the period after 2001? The period which preceded the present crash and which explains it? Did profits rates fall then or were they



stagnant?

"The Destruction of Capital" and the Current Economic Crisis

Andrew Kliman January 15, 2009

Kliman's own graph demonstrates that after 2003 there was a dramatic recovery in the rate of profit to levels not seen since the peak of the post war boom. Kliman says that he agrees with Harman that the rate of profit has not recovered. Yet according to his own calculations this is demonstrably not the case. Even after the sharp fall in profit rates at the end of 2008, profits remained well above their lows of the 1980s and have recovered much faster through 2009 than any of the most optimistic bourgeois commentators – never mind the Marxists – anticipated.

Joseph Choonara and Goldman Sachs

This sets the scene for the second article in this issue of ISJ. Joseph Choonara, attempts to refute calculations from the investment bank Goldman Sachs article "The Savings Glut, the Return on Capital and the Rise in Risk Aversion", Global Economics Paper No: 185.

These calculations demonstrate a similar pattern to Kliman's, showing that rates of return have recovered world wide with globalisation and particularly strongly in the USA, Europe and above all China. Goldman Sachs say that "far from declining…the global return on capital…has trended up over the past decade or so. Even in 2008, by which stage the financial crisis had begun to hit profits materially, the global [return on capital] remained above its long-term average."

So why have profits rates recovered? Goldman Sachs explain, "The integration of the BRICs into the global economy resulted in a sharp increase in the world's effective labour supply and, with it, an increase in global growth. Given that capital stocks are relatively fixed in the short run, this had the effect of boosting the global return on physical capital."

They go on;

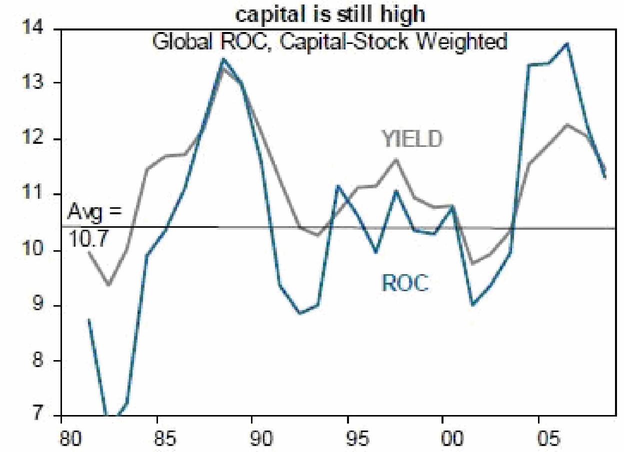
"Labour-intensive, high-saving emerging markets and their effect on global profitability and interest rates

Imagine you'd been told, in the early-to-mid-1990s, that the world was about to see two big structural shifts: first, a period of rapid productivity growth in the emerging world, newly unshackled from central planning but still with low levels of invested capital, relative to its workforce; and, second, the opening up of capital markets between these fast-growing new markets and the capital-rich economies of the developed world.

Because faster productivity growth and scarcer capital (relative to labour) both raise investment demand, one would normally expect the general level of yields and (ex-ante) asset returns to rise." (p11)

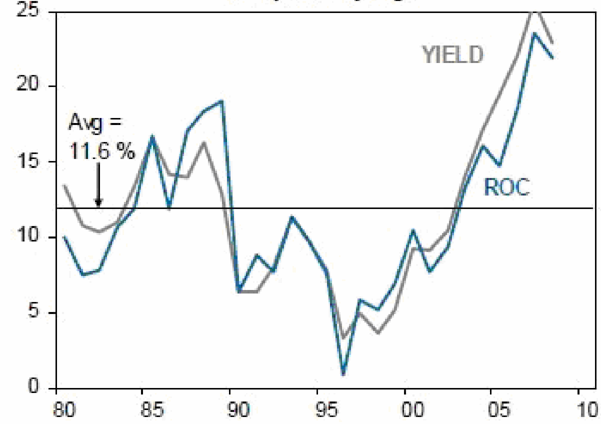
In other words Goldman echo the arguments of this journal amongst others, that the destruction of capitalism in the former Stalinist centrally planned economies lowered the global organic composition of capitalism raising profit rates worldwide, the diametric opposite of the stagnation thesis proposed by Harman, Kliman and Brenner. And a quick look at the graphs makes it quite clear why Goldman's calculations are fatal to the stagnation theorists. The US return on capital rose from 1984 5% to 2007 16% before falling to a recession low of 9%. Still twice its 1980s level and well above the trough of previous recessions. China's increase in profitability is even more dramatic. The return on capital rising from 1996 2%, a year after capitalist restoration, to 2007 22%. A figure which has barely fallen with the crash. The European ROC has gone from 1984 7% to 2007 11% and the global figure from 1982 6% to 2007 14% before falling to 11% with the recession.

Figure 9: The global return on physical capital is still high



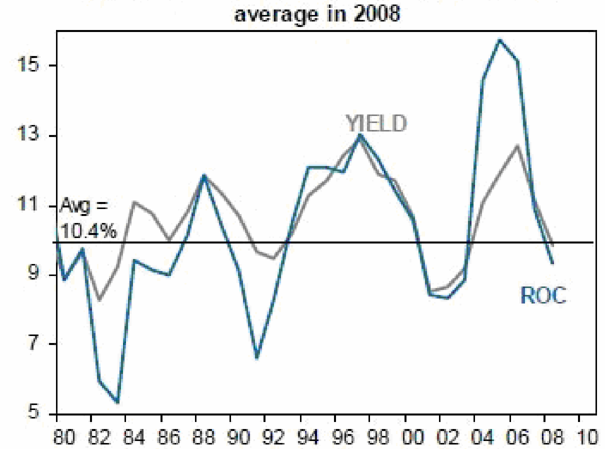
Source: Goldman Sachs estimates based on nat accts

Figure 10: China's return on capital is exceptionally high



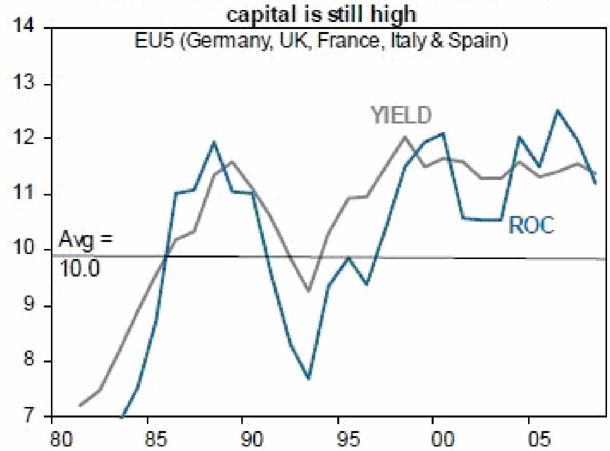
Source: Goldman Sachs estimates based on nat. accts.

Figure 11: US return on capital edged below average in 2008



Source: Goldman Sachs estimates based on nat accts

Figure 12: The European return on physical capital is still high



Source: Goldman Sachs estimates based on nat accts

What is more these startling increases are matched by the yield on investment in every case except that of the USA. So it is no surprise that Choonara seeks to refute the Goldman Sachs physics and maths PHDs, even if it is by questioning their… maths. Choonara says;

“The authors of the GS paper in fact provide two measures of the return on capital. The first, which they call the “yield on capital”, is calculated using a method similar to that of the Marxist theorist Robert Brenner, who argues that capitalism has faced a long-term crisis of profitability.[4]”

Robert Brenner claims that the rate of profit in the USA and all major imperialist nations has stagnated since the mid 1970s onwards. His calculation of profit rates excludes financial profits, foreign profits and executive remuneration. Together these sources of profit, which have grown very fast with globalisation, now account for half of US profits. It is no wonder therefore that Robert Brenner’s calculation grossly underestimates profit rates. But Goldman’s yield measure does the same thing. They explain;

“We have taken a number of steps to ensure comparability of the ROC measures across countries. For example, we focus on Non-Financial Corporations where the measurement of profits and capital stocks is most accurate; we have adjusted for differences in the treatment of imputed labour income of the self-employed across countries; and, we adjust for differences across countries in depreciation assumptions." (p8)

Unsurprisingly therefore, the USA the major imperialist power in the world, chronically dependent on foreign and financial profits for the health of its economy, shows a particularly low Robert Brenner rate of profit or GS yield, as both these measures exclude the majority of the profit from their calculation. Choonara continues;

“However, the GS paper’s authors would not agree with Brenner’s conclusion. They argue that the genuine return on capital has to be formed by adding a second quantity, the “capital gain”, to the yield on capital. So, we have: Return on capital = yield on capital + capital gain.”

Is Choonara right?

But is Choonara right should we accept his distinction between the validity of the GS yield measure and rejection of the GS return on capital measure? Choonara says that;

“The capital gain is measured by the “fractional changes in real capital prices” over a given period, relative to the changes in prices of goods consumed by households.5 They seek to justify this through the argument that we must “consider a representative household…facing a choice of consuming” a quantity of capital “or investing it”, and that we must look at the total return the household receives through “forgoing consumption”. But capital stock is not capital derived by households abstaining from consumption.6 In the real world capitalists tend to expand investment by using profits obtained from previous production, and ultimately from the exploitation of workers, or by borrowing money gathered together by banks. In neither case is the cost of capital goods relative to household consumption goods especially relevant.”

In their explanatory text Goldman state that;

“The first term in the RHS of equation (1) represents the net yield on capital, while the second term represents the real capital gain (loss) from holding a representative piece of capital from the start to the end of period t. is expressed in percentage terms.” (p8)

Choonara’s essential complaint is that households by which he means working class households do not own capital and therefore do not make returns on it. GS by treating all households as capitalists have therefore ignored the existence of capital as social relationship of exploitation between capitalists and workers. This is absolutely true. But Choonaras mistake is simply the opposite. GS treat all households as capitalists. Choonara treats all households as workers. A large proportion of assets held by “households” consist of capital held by capitalists, in fact a disproportionately large amount of the total. As we do not have access to the GS database we cannot know what that proportion is. But we can know that capital gains will affect the rate of profit, just not by how much.

Conclusion

Andrew Kliman and Joseph Choonara have mounted a standard defence of the stagnation school. The trouble is Andrew Kliman’s own figures demonstrate his assertion of falling profit rates is wrong in the key period between 2003-2007. And Choonara’s defence is no better. A key component of his theory is that European, Chinese and world profit rates have stagnated through globalisation. Even if Choonara’s critique of the limitations on the GS paper and preference for their yield measure is correct, then profit rates measured in yield have still risen through globalisation. He is wrong even if he is right.

Fri 16, October 2009 @ 09:39