Understanding the Unevenness of Capitalist Development

A Reply to Robert Brenner

by Mary C. Malloy and Charlie Post

WHAT HAS ALWAYS distinguished serious economic analysis from mere ideological cheerleading is the effort to understand the general economic laws that govern capitalist societies, and how these laws have manifested themselves through capitalism's historical development.

Unquestionably, capitalism is the most productive system ever to exist. As Marx and Engels noted in The Communist Manifesto in 1848, the bourgeoisie in its first century of rule had "created more massive and more colossal productive forces than all preceding generations together." But as we know, this unprecedented development has brought with it equally unprecedented economic, social and environmental destruction.

The history of capitalism is a tale of both the development of the productive power of labor, and the massive destruction of this same productive power through economic crisis and recovery. Historically, what Schumpeter called the "creative destruction" of capital, while extremely painful for workers and some owners, lays the basis for the further advance of the productive forces.

Accounting for the unevenness of capitalist development, particularly the causes of crisis, recovery and expansion, has always been the main task of political economy.

Robert Brenner's study "Uneven Development and the Long Downturn: The Advanced Capitalist Economies from Boom to Stagnation" (New Left Review 229, May-June 1998) is a serious attempt to develop a rigorous theoretical explanation of the long-term movements of the capitalist world economy in the last fifty years.

For Brenner the transition from post-war boom to the long downturn that began in the early 1970s is the result of the decline of the aggregate rate of profit in the United States in the late 1960s. He sees the decline in profitability as the result of the intensified intercapitalist competition between the U.S., Germany and Japan that led to overcapacity and overproduction, particularly in the manufacturing sector.

Excess capacity in U.S. manufacturing, Brenner states, stemmed from "the introduction of lower-cost, lower price goods into the world market, especially in manufacturing at the expense of already existing higher-cost, higher price producers." (8) The continued global economic stagnation is the result of the inability of the United States and the rest of the capitalist world to reduce and reallocate productive power so as to overcome overcapacity and overproduction in manufacturing lines, and thereby restore profitability.

Roots of Crisis and Recovery

While Brenner's analysis rightly focuses on profitability as the driving force of economic growth and stagnation, and on the process of creative destruction as essential to the restoration of profitability, his analysis is both theoretically and empirically flawed.

Three major problems plague Brenner's analysis. First, his theory of "over-competition" leading to a systematic and long-term fall in profitability suffers from the same inadequacies he identified in the "profit squeeze" thesis.

Second, Brenner's historical account of the onset of the crisis in the late 1960s is flawed empirically. Finally, Brenner's analysis of the conditions for capitalist recovery lacks comprehensive historical grounding. Because his theory of recovery is based on a truly exceptional case-the post-World War II period-he is unable to understand the roots and importance of the recovery of profitability and competitiveness in U.S. manufacturing since the late 1980s.

Theoretical Issues

Brenner correctly argues that while rising wages and decline in worker effort may result in short-term falls in profitability, these factors cannot account for long-term generalized drops in profitability. Capitalists' ability to substitute machinery for workers prevents rising unit labor cost from causing a long-term and systematic fall in the rate of profit.

Yet Brenner's own alternative explanation of falling profitability based on "over-competition" can only be temporary and sectoral, and not as he maintains long-term and systematic.

Similarly, there is no question that capitalist competition, in particular the emergence of new "regulating" firms in a given industry (for example, German and Japanese manufacturers between 1965 and 1971), can lead to short-term sectoral drops in profitability. The old, "non-regulating" firms must "use up" fixed capital before adopting the new conditions of production, reducing capacity or abandoning one branch of production for another. [See note 1]

However, these effects on profitability also can only be temporary and sectoral. Just as rising unit labor costs lead capitalists to replace labor with capital, so must sharpened and generalized competition lead older capitalist enterprises to adopt the latest techniques of production, reduce excess capacity or shift investment to new branches of production.

Thus the revival and recovery of U.S. industrial profitability and competitiveness since the 1980s is based precisely on the ability of U.S. firms to combine the latest "conditions of production" with an intensification of the work process, and to enter strategic alliances through mergers and acquisitions to achieve economies of scale and scope. It is no accident that the greatest wave of mergers and acquisitions in capitalist history has taken place in the 1990s.

Empirical Issues

To support his "over-competition" theory of falling profitability, Brenner presents data on manufacturing net profit rates from 1950 to 1996 for the United States, Germany and Japan. Brenner's explanation of the systemic economic downturn starting in 1970 hinges on an observed fall in U.S. manufacturing profitability in the period 1966-71 as the result of intensified international competition in manufacturing.

There are two serious problems with his evidence. First, the 45% fall in U.S. profitability between 1950-51 and 1958-59 is almost as steep as the 50% fall between 1966 and 1971. Had Brenner chosen to begin his data set at the post-war peak of 1945 rather than 1950, the fall in U.S. profitability would have been greater in the 1950s, when Japan and German were yet to rebuild their economies, than in the latter half of 1960s, when they began to confront the United States as manufacturing competitors.

Second, the fall in U.S. profit rates from 1945 to 1959 would have been even greater had Brenner adjusted his data for capacity utilization rates. This correction smooths out the ups and downs of profit rates resulting from fluctuations in demand (as opposed to competitive pressure). Thus the post-war recession of 1946-48 led to low levels of capacity utilization, which would lower actual rates of profit but would raise capacity-adjusted rates.

Similarly, the hefty rise in actual profit rates in the mid-1960s, during the peak of the post-war boom, would be lower if adjusted for capacity utilization. The fall in the rate of profit 1966-1971, which is the crux of Brenner's thesis, would be unremarkable compared to earlier phases if he adjusted his data for the effects of fluctuations in demand.

If in fact this adjusted rate of profit falls continuously throughout the post-war period, Brenner's claim that intensified inter-capitalist competition between 1966 and 1971 caused the global crisis is open to question. From our perspective, both manufacturing and aggregate profitability fall from 1947 as a result of the increasing capitalization of the productive process. [See note 2]

Conditions of Recovery

The most serious problem is Brenner's failure to correctly delineate the historical conditions for global capitalist recovery and expansion. Brenner asserts that both a massive devalorization [lowering or destruction of value-ed.] of fixed capital and a prolonged period where different national capitals do not have to confront one another in "head to head" competition are necessary conditions for capitalist recovery and expansion.

While these conditions-the global depression of 1929-1933 and World War II-produced the economic growth of the 1950s and 1960s, they were exceptional in the history of capitalist development.

The global capitalist recovery of 1894-1905 took place without the benefit of either a catastrophic depression or a world war that would provide relief from head to head competition. There is evidence that the increase in aggregate profitability since 1981 is comparable to that in the recovery of 1894-1905. [See note 3]

In both periods profit rates benefitted by the sharp rise in the profit-wage ratio. It is our contention that pressure on wages and working conditions become central to the process of recovery when war or `30s-style global depression are not options.

From Brenner's perspective, continued pressure on wages and failure of capitalists to expand capacity by investing in new plant and equipment since the early 1980s are evidence that the global stagnation continues. This flows from his confusing the recovery of profitability with the expansion of productive capacity.

From our perspective, the recovery of profitability requires capitalists both to depress wages and working conditions and to increase productivity without increasing the capitalization of production.

Firms mechanize, but they don't do so randomly. They hesitate to put massive amounts of capital in place until profitability improves markedly or competition compels them. The ongoing competitive war requires both investing in new technique and eliminating excess capacity and planning against its reemergence.

Brenner concedes that U.S. manufacturing has reversed its relative decline as against Japanese and German firms, and has experienced some recovery in profit rates. However, he tends to underestimate the importance of U.S. capitalists' restructuring of production: their shedding of less productive operations ("downsizing") and adapting the most advanced means of production and forms of the capitalist labor process ("lean production"). [See note 4]

Instead, Brenner argues that much of the current revival of U.S. manufacturing can be attributed to the suppression of wage growth and devaluation of the U.S. dollar in the 1980s and 1990s. But capitalist state austerity policies-what he labels "monetarism"-have had little effect on U.S. industrial production. Rather, budget cutting and tax relief for capital has fueled the growth of a speculative, unproductive financial sector.

The U.S. recovery remains transitory, Brenner concludes, and its gains have come at the expense of Japanese and German producers. As a result, the current economic conjuncture remains unstable; the Asian crisis and the financial turbulence of Fall 1998 are the most visible symptoms of the continuing global crisis.

Again, Brenner's empirical claims about the current situation in the U.S. and global economy are open to question. As we argued in some detail in the pages of Against the Current in 1995,[See note 5] the revival of U.S. industrial competitiveness is rooted in a radical, capitalist restructuring of production.

The long boom in the stock market, fueled by corporate mergers and acquisitions, has promoted this productive restructuring by easing the devalorization of less efficient plant and equipment and the movement of capital to more profitable branches of production.

Capitalist state fiscal austerity, what we called "free market industrial policy," has limited price inflation and forced U.S. capitalists to adapt the latest methods of production ("lean production") in order to reduce costs and compete successfully at home and abroad. Studies of unit labor costs, held constant for currency fluctuations, in the advanced capitalist countries indicate that U.S. currency devaluation has not been the main determinant of the recovery of U.S. manufacturing competitiveness.

We would argue, in contrast to Brenner, that the long downturn in the global economy after 1965 was rooted in the most basic dynamic of capitalist accumulation-the increasing capitalization of production and the resulting fall in the rate of profit.

Profit rates fall during both long upturns and long downturns. Extended crisis begin, as in 1965-66, when the rate of growth of investment falls below the rate at which profit rates decline, causing a stagnation in the mass of profit. Recovery of profitability requires a devalorization of capital and labor-i.e. the drastic reduction of value of assets through the closing of inefficient firms, the reorganization of work and reduction in labor costs.

The radical restructuring of capitalist production in the United States has brought a recovery of profitability since the mid-1980s, a recovery which fueled an increase in strategically placed investments in the 1990s and the greatest secular bull market in the twentieth century. From 1982 to the present the Dow Jones Industrial Average rose over 1100%, exceeding the 970% climb from 1942 to 1966.

Despite the increasing internationalization of production-often mislabeled "globalization"-this recovery remains restricted to the United States. Neither Japanese nor German capital, much less capital in the so-called "third world," has restructured successfully yet. As a result, the current economic conjuncture remains filled with both dangers and opportunities for capitalism in the U.S. and internationally.

The effects of the current Asian economic crisis, rooted in falling profits rates that plague the once seemingly invincible Japanese economy, have so far been muted by the strength of the U.S. recovery. There is a possibility that a new downturn in East Asia could engulf the world in a global recession. Yet there is an equally strong possibility that the opening of the East Asian economies, under IMF pressure, will allow U.S., German and Japanese capitals to buy up plant and equipment at "fire-sale" prices, restructure production and spur a global recovery of profitability.

Similarly, the strength of the U.S. recovery has contained the turbulence on Wall Street and the world financial markets in Fall 1998. In all likelihood, the stock market correction signals a U.S. recession, but probably shorter and less disruptive than the recessions of the late 1980s and early 1990s.

However, the failure of German and Japanese capitalist states to overcome working class and capitalist resistance to the complete adaptation of U.S.-style "free market industrial policy" make their economies the "weak links" of the global economy, making future economic turbulence a near certainty.

Whatever the outcomes of the Asian economic crisis or the current instability in the global financial markets, the key to continued U.S. and future global capitalist recovery is a deepening restructuring of production.

Without continued fiscal austerity, industrial "downsizing" and the generalization of "lean production" globally, the capitalist recovery cannot continue or spread. This means that capital must continue its global assault on the living standards and working conditions of working people internationally-not merely depressing wage growth, but increasing competition on the labor market (welfare cuts, growth of part-time employment) and sharpening speedup and mechanization.

The most important potential obstacle to capitalist restructuring remains working class resistance, as recently manifested in mass political strikes in France, Canada and Denmark and in a "mini-strike wave" in the United States (UPS, GM, Telecommunications, Airline pilots). Such resistance more than any other factor could spell the end to the recovery of profitability in the United States and globally.

Notes

For a more complete discussion of the Marxian theory of capitalist competition, see H. Botwinik, Persistent Inequalities: Wage Disparity Under Capitalist Competition (Princeton: Princeton University Press, 1993), Chapter 5.

A. Shaikh, The Current Economic Crisis: Causes and Implications (Detroit, MI: Against the Current Pamphlet, 1989), Figure 13, p. 13; Appendices A and B, 23-25.

Mary C. Malloy, "The Great Depression: A New Interpretation", New School for Social Research: Ph.D. Dissertation, 1994, Chapter 5.

Our understanding of "lean production" is based on the work of Mike Parker and Jane Slaughter, Working Smart: A Union Guide to Participation Programs and Reengineering (Detroit, MI: Labor Notes Books, 1994), Part II; and Kim Moody, Workers in a Lean World: Unions in the International Economy (London: Verso, 1997), Part I.]

Mary C. Malloy, "Finance and Industrial Capital in the Current Crisis: On Brenner's `Politics of US Decline'" ATC 57 (July-August 1995), 27-32.

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