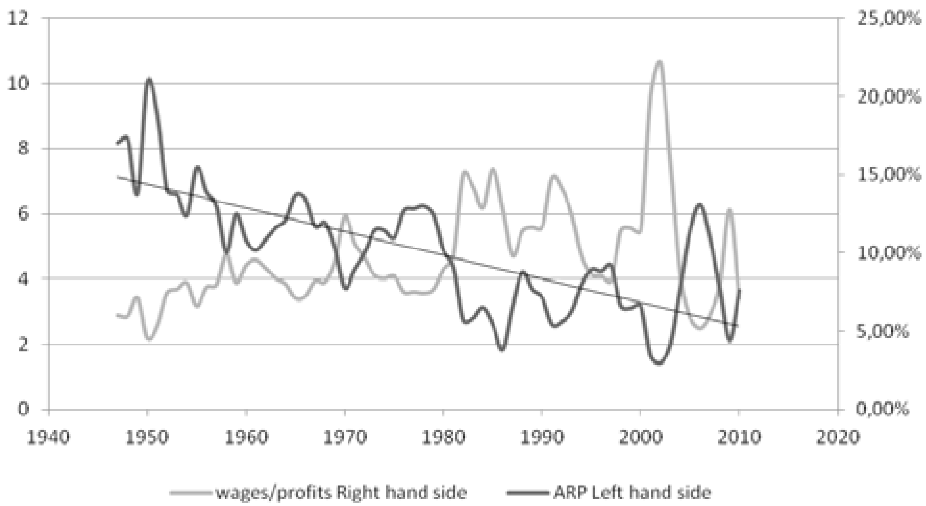
Chapter 3: The Decline of Capitalism since the 1970s

The steady increasing monopolisation and the monopolies drive to increase their profits can only be understood in the context of capitalisms' tendency towards stagnation and decline. In Lenin's conception of capitalism in the epoch of imperialism, there is a constant tension between the development of the productive forces, and the tendency to decline. As Lenin said imperialism is "*parasitic or decaying capitalism.*"

Of course this tendency towards stagnation and decline must not be understood as a gradual, one-way process. It is rather a dialectical process since the capitalist economy proceeds in economic cycles. In addition to this even the epoch of imperialism knows longer phases of upswing. But all in all and *over the long run* capitalism is in decline and the average rate of profit tends to fall – a fact which becomes also evident if one looks at the development of world capitalism in the past half century.

Figure 5: Average Rate of Profit (ARP) in the US Productive Sectors, 1948-2010 [66]



[66] Guglielmo Carchedi: Could Keynesian Policies end the Slump. An Introduction to the Marxist Multiplier, July 6, 2012, http://marx2010.weebly.com/could-keynesian-policies-end-the-slump-an-introduction-to-the-marxist-multiplier.html

Since we have dealt with these questions in other documents we will only present some summary statistics to give our readers an overview. [67]

The Marxist economist Guglielmo Carchedi, amongst others, demonstrated in a number of works the validity of the Marxist theory that the average rate of profit has the historic tendency to fall and is the underlying cause for capitalism's decline. Figure 5 shows the long-term decline of the profit rate in the US productive sector.

A similar analyzes which shows that the tendency of the rate of profit to fall is the deep cause of capitalism's decline, is provided by Andrew Kliman, another Marxist economist. (See Figure 6)

In the next Figure 7, which we take from another work of Carchedi, we can see the rising organic composition of capital, i.e. the share of variable capital (labor) – which is the only source of new surplus value – of total capital is historically declining while the share of constant capital (machinery, raw material, infrastructure etc.) – which does not create any new value – of total capital is historically rising. This is the main reason for the tendency of the average rate of profit to fall.

Andrew Kliman also emphasizes in his recent book *The Failure Of Capitalist Production* that the decline of the profit rate in the USA since WWII was mainly due to the rising organic composition of capital: "*Almost all the decline in the rate o f profit during the 60-year period, 89 percent, can therefore be attributed to the rise in the value composition of capital.*" [68]

As a result we can see the declining dynamic of the capitalist world economy and the sharpening of its contradictions on various levels. If we take the broadest and most used indicator by the bourgeois economists – the Gross Domestic Product (GDP) – we can already see the worldwide declining dynamic (despite the many inaccuracies of this bourgeois category which includes not only production but also the parasitic or non-productive sector of the economy). In Table 2 we can see the declining dynamic of the GDP, from an annual average of +3,8% in the 1970s to +3,2% (1980s), +2,6% (1990s) to +2,48% (2000s).

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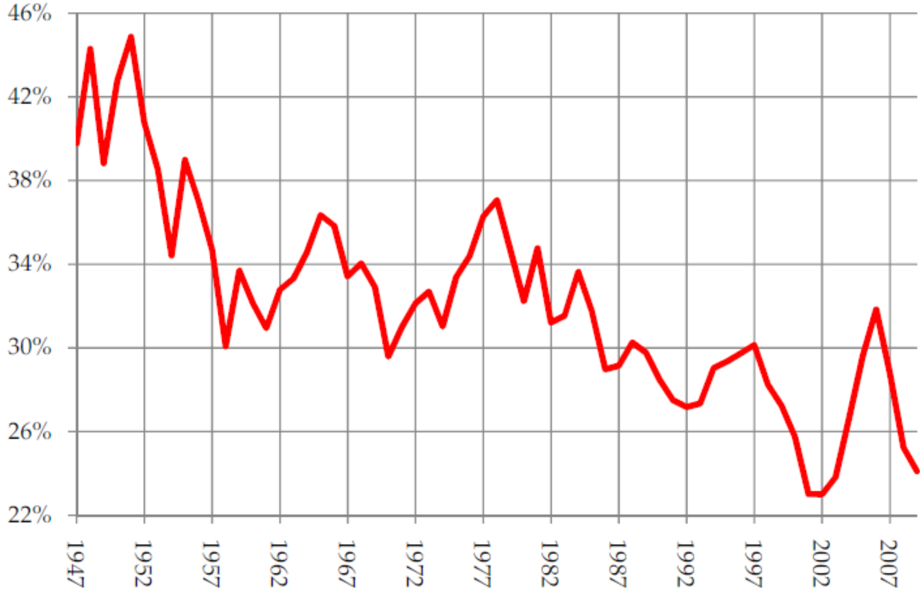
[67] See for example Michael Pröbsting: Vor einem neuen Wirtschaftsaufschwung? Thesen zum marxistischen Konzept des Zyklus, dem Verhältnis des gegenwärtigen Zyklus zur Periode der Globalisierung sowie den Aussichten und Widersprüchen der künftigen Entwicklung der Weltwirtschaft (2010), in: Revolutionärer Marxismus 41, Februar 2010, http://www.arbeitermacht.de/rm/rm41/wirtschaftsaufschwung.htm; Michael Pröbsting: World economy – heading to a new upswing? (2009), in: Fifth International Vol 3, No. 3, http://www.fifthinternational.org/content/world-economy-%E2%80%93-heading-new-upswing; Michael Pröbsting: Imperialismus, Globalisierung und der Niedergang des Kapitalismus (2009), in: Revolutionärer Marxismus 39, http://www.arbeitermacht.de/rm/rm39/rm39imperialismus.htm; Michael Pröbsting: Imperialism and the Decline of Capitalism (2008), http://www.fifthinternational.org/content/imperialism-and-decline-capitalism

[68] Andrew Kliman: The Failure of Capitalist Production. Underlying Causes of the Great Recession, London 2011, p. 130

Figure 6: Rate of Profit of US Corporations, 1947-2009 [69]



This tendency becomes even more obvious if we look to the industrial sector which is a better indicator because it is the core of the capitalist value production. As Table 3 shows, industrial growth has declined in the imperialist centers from a plus of 5-13% in the 1960s down to industrial decline in the 2000s.

The basis for this decline is the increasing structural over-accumulation of capital and the related tendency of the profit rate to fall. It is increasingly difficult for the capitalists to invest their capital profitably so they move more and more of their capital into the sphere of speculation etc. As a result the rate of accumulation of productive capital is more and more slowing down. This can be seen in Table 4 which shows the growth rate of Gross Fixed Capital Formation in the imperialist metropolises for the years 1961-2010. While the growth rate of capital accumulation in USA, Japan und EU-15 was between 5% and 15% in the 1960s, it declined to 2% and 5% in the decades after. In the 2000s there was outright stagnation or even decline (between +0.3% and -1.9%).

[69] Andrew Kliman: A Crisis of Capitalism (not neoliberalism, "financialized capitalism," or low wages), 2010, p. 4. We shall also refer here to Michael Roberts' thoughtful studies on the rate of profit like his book "*The Great Recession. Profit cycles, economic crisis. A Marxist view*" (2009), as well as various articles like "*The US rate of the profit – the latest*" (2012), http://thenextrecession.wordpress.com/2012/11/25/the-us-rate-of-the-profit-the-latest or "*The rate of profit is key*" (2012), http://thenextrecession.wordpress.com/2012/07/26/the-rate-of-profit-is-key and many other on his blog http://thenextrecession.wordpress.com.

Figure 7: Average Rate of Profit (ARP) and Organic Composition (C/V) in the US Productive Sectors, 1948-2009 [70]

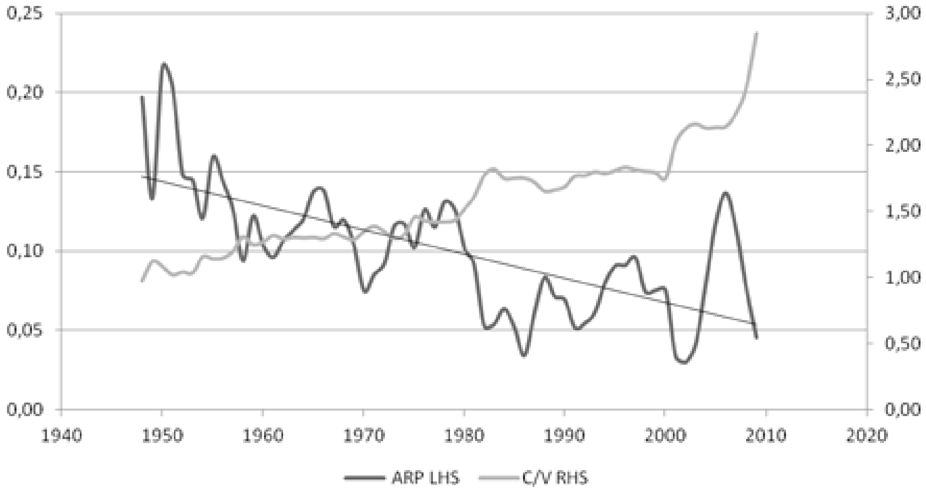


Table 2: Growth Rate of the worldwide Gross Domestic Product 1971-2010 (in % p.a.) [71]

1971-1980	+3.8%
1981-1990	+3.2%
1991-2000	+2.6%
2001-2010	+2.48%

[70] Guglielmo Carchedi: Behind the Crisis, Paper presented at Marxism 2011, London, July 2, 2011, p. 9, http://marx2010.weebly.com/behind-the-crisis1.html

[71] For the years 1971-2000 see World Bank: Global Economic Prospect 2002, p.234; for 2001-2010 see United Nations: World Economic Situation and Prospects 2008, pp. 1-2 as well we World Economic Situation and Prospects 2011, p. 5. The figures between the years 1971-2000 are based on the World Bank calculations of GDP at constant 1995 prices and exchange rates. The figures for 2001-2010 are based on the UN calculations of GDP at constant 2005 prices and exchange rates. The 2.48% is the arithmetic mean for the figures for the years 2001-2010 (+1.6%, +1.9%, +2.7%, +4.0%, +3.5%, +4.0%, +3.9%, +1.6%, -2.0% and +3.6%)

Table 3: Growth Rate of Industrial Production in USA, Japan and EU-15, 1961-2010 (in % p.a.) [72]

	USA	*Japan*	*EU-15*
1961-1970	+4.9%	+13.5%	+5.2%
1971-1980	+3.0%	+4.1%	+2.3%
1981-1990	+2.2%	+3.9%	+1.7%
1991-2000	+4.1%	+0.2%	+1.6%
2001-2010	-0.3%	-0.4%	-0.3%

Table 4: Growth Rate of Gross Fixed Capital Formation in USA, Japan and EU-15, 1961-2010 (in % p.a.) [73]

	USA	*Japan*	*EU-15*
1961-1970	+4.7%	+15.7%	+5.9%
1971-1980	+3.9%	+3.5%	+1.8%
1981-1990	+3.0%	+5.7%	+2.7%
1991-2000	+6.4%	-0.6%	+2.2%
2001-2010	-1.1%	-1.9%	+0.3%

Figure 8: Manufacturing Capacity Utilization in USA (in %) [74]

[72] European Commission: Statistical Annex of European Economy, Spring 2012, p. 53. Since there are no figures for the EU-15 for the years 1961-70 and 1971-80 in these EU statistics, we have used for these years the arithmetic mean of the figures for Germany, France, Great Britain and Italy.

[73] European Commission: Statistical Annex of European Economy, Spring 2012, p. 69

[74] John Bellamy Foster and Robert W. McChesney: The Endless Crisis (2012), in: Monthly Review, May 2012, http://monthlyreview.org/2012/05/01/the-endless-crisis

This over-accumulation of capital and declining profit rates result in an increasing proportion of industrial productive capacity that is not utilized. This can be seen in Figure 8 which shows the long-term slide in capacity utilization in manufacturing in the biggest capitalist economy, the USA.

In comparison to the old imperialist metropolises the capitalistically backward countries in the South have a relatively higher rate of capital accumulation, as the overview in Table 5 shows. This is an expression of the lower organic composition of capital and the higher average rate of profits in these countries (and hence the drive of the monopolies to export capital to them).

Table 5: Capital Accumulation: Growth Rates of Fixed Capital Stock, 1960-2000 (in %, p.a.) [75]

	Industrial Countries	*Korea*	*China*	*India*	*Brazil*
1960s	+5.0%	+8.9%	+1.9%	+4.5%	+5.8%
1970s	+4.2%	+14.6%	+7.2%	+4.1%	+9.6%
1980s	+3.1%	+11.2%	+8.4%	+4.9%	+4.1%
1990s	+3.3%	+9.6%	+10.9%	+6.2%	+2.2%

We have explained that imperialism is parasitic capitalism, something which is disputed by the Cliffite SWP/IST tradition. Thus the late SWP/IST leader Chris Harman criticized Lenin's theory of imperialism with the following arguments:

"Lenin was scathing about the trend in Hilferding's politics, describing him as an 'ex-Marxist'. But he took over the term finance capital and puts it at the centre of his own theory. In doing so he left his own work open to ambiguous interpretations. His intention was to insist that the tendency towards monopoly meant that the core capitals in each country were driven to imperialist policies of dividing and redividing the world. For this reason, he criticised one of Hilferding's definitions of 'finance capital' as 'capital controlled by banks and employed by industrialists' as 'incomplete':

It is silent on one extremely important fact: the increase of concentration of production and of capital to such an extent that concentration leads, and has led, to monopoly ... The concentration of production; the monopolies arising there from; the merging or coalescence of the banks with industry – such is the history of the rise of finance capital and such is the content of this term.

But the phraseology of certain other parts of the pamphlet has allowed people to interpret him as saying, rather as Hobson and Kautsky did, that financial interests and the banks were mainly responsible for imperialism. This was especially so when, basing

[75] Andrew Glyn: Capitalism Unleashed. Finance, Globaliszation, and Welfare, New York 2006, p. 101

himself on Hobson, he insisted on the 'parasitic' character of finance capital, writing of 'the extraordinary growth of a class, or rather of a social stratum of rentiers, i.e. people who live by "clipping coupons", who take no part in any enterprise whatever, whose profession is idleness. The export of capital, one of the most essential economic bases of imperialism, still more completely isolates the rentiers from production, and sets the seal of parasitism on the whole country that lives by exploiting the labour of several overseas countries and colonies'. This stress on the 'parasitism' of finance capital allowed some people who supposedly based themselves on his work to claim in the decades after his death that it was possible to form anti-imperialist alliances with sections of industrial capital against finance capital – that is, to fall back precisely into the Kautsky policy that Lenin attacked so bitterly.

It also seemed to make the whole theory of imperialism rest upon the key role of the banks in exporting financial capital. But this did not fit with the picture even when Lenin was writing, let alone in the decades afterwards. The export of finance – and of the rentiers – was a central feature of British capitalism in the two decades before Hobson wrote. But Britain no longer 'showed the future' to other capitalist countries, as it had in Marx's day. Its new competitors, like Germany and the US, had leapt over Britain when it came to the concentration and monopolisation of industry. In the German case it was the industrial combines, especially those in heavy industry, that sought to expand beyond national frontiers by the establishment of colonies and spheres of influence. Moreover, the characteristic feature of the US and Russian economies in this period was not the export of capital but the inflow of funds from other capitalist countries (although here there was some re-export of capital). On a strict reading of Lenin's <u>Imperialism</u> these would seem not to be imperialist states at all at the time of the First World War, even though both had joined in the partitioning of the rest of the world in the previous quarter of a century.

This focus on financiers is even more problematic when we come to the quarter of a century after Lenin wrote. Britain began to go down the German road with the formation of its own great industrial near-monopolies (ICI, Unilever, etc.), while it was heavy industry that played the key part in pushing the redivision of Europe in Germany's interests in the 1930s. And, as Tony Cliff pointed out, Japanese imperialism followed a policy of industrialising parts of its Taiwanese, Korean and Manchurian colonies as an extension of its own economy. Overall Cliff noted, 'While in the years 1860 to 1914 the quantity of capital invested abroad by the advanced capitalist countries grew almost uninterruptedly, from 1914, by when imperialism had reached maturity, the quantity of capital invested abroad never rose above the level of l914 and even declined below it'.

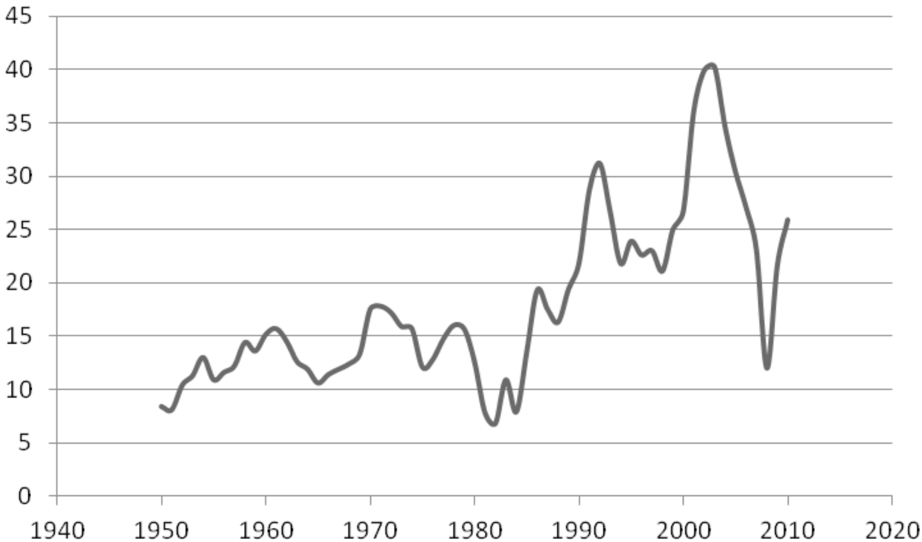
What is more, far from the imperialist powers becoming deindustrialised parasites living to an ever increasing extent off incomes obtained from production elsewhere in the world, they experienced the expansion of new industries in the years between the wars, which increased the gap between them and most of the rest of the world. Yet they also remained intent on imperialist expansion, with Britain and France grabbing most of the Middle East and the former German colonies, Japan expanding into China, and Germany then beginning to carve out a new empire in Europe.

Lenin, by leaning excessively on Hobson's interpretation of Britain before 1900, damages his own argument." [76]

It is difficult to suppress one's amusement about this statement. Lenin in 1916 was able to see the *tendency* of the monopolies to move their capital from the production to the speculative sphere – and he always stressed that this is a tendency (as it is a tendency that the profit rate falls, which doesn't mean for any reasonable Marxist that the profit rate permanently goes down). However while Lenin could recognize this in 1916, the Cliffites are not able to see this very obvious fact even in the year 2003!

It is exactly because of the increasing difficulties for realising sufficient profit rates in the productive sector that capital is increasingly moving into the unproductive and speculative sector. In Figure 9 we can see this tendency in the US economy. There has been a huge shift – especially since the 1980s – to a shift in the economy from production to speculative finance. This speculative sector is often called FIRE (finance, insurance, and real estate). According to official BEA data for the US economy this purely speculative FIRE sector was responsible for 21.1% - i.e. more than a fifth –- of GDP in 2010. [77]

Figure 9: Financial Profits as a Percentage of Total Profits, US Corporations (in %) [78]

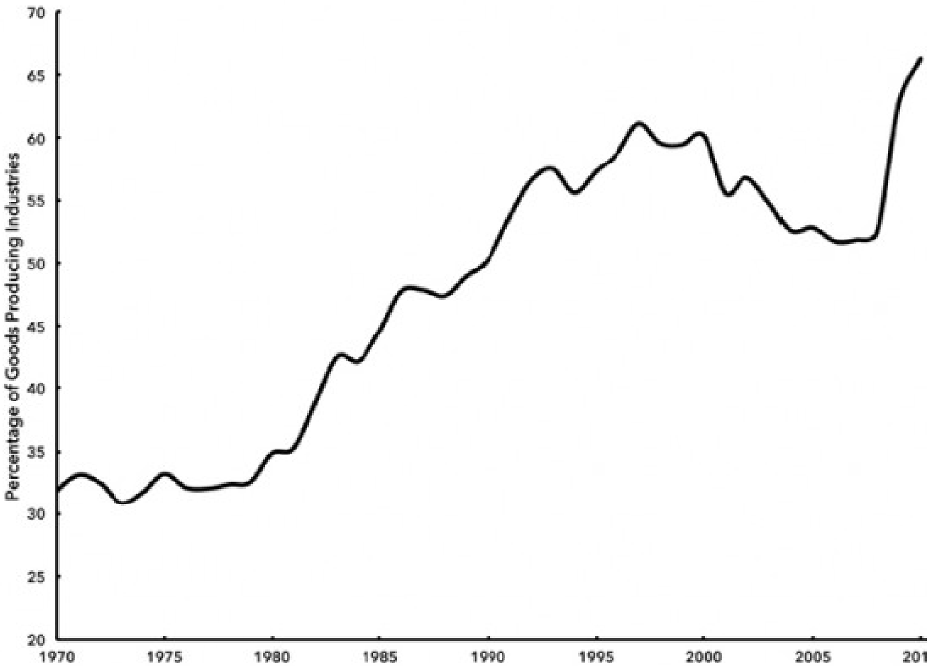


[76] Chris Harman (SWP): Analysing Imperialism (Summer 2003); in: International Socialism 2:99, p. 14 http://pubs.socialistreviewindex.org.uk/isj99/harman.htm

[77] Ron Baiman: Unequal Exchange and the Rentier Economy (2011), Chicago Political Economy Group (CPEG), p. 4

[78] Guglielmo Carchedi: From the Crisis of Surplus Value to the Crisis of the Euro, August 15, 2012, p. 4, http://marx2010.weebly.com/from-the-crisis-of-surplus-value-to-the-crisis-of-the-euro.html

Figure 10: Share of GDP Going to FIRE (Finance, Insurance, and Real Estate) as Percent of Total Goods-Producing Industries Share in USA (in %) [79]



Carchedi showed in a recently published working paper the massive rise of the financial profits as a percentage of total profits in the USA since the 1950s. (See Figure 9)

If one compares the weight of this speculative FIRE sector with the sector of goods production one can see that the FIRE portion of national income expanded from 35% of the goods-production share in the early 1980s to over 65% in recent years. (See Figure 10) The Marxist economists John Bellamy Foster and Robert W. McChesney from the US journal *Monthly Review* remarked correctly: "*The so-called economic booms of the 1980s and '90s were powered by the rapid growth of financial speculation leveraged by increasing debt, primarily in the private sector.*" [80]

The following Figure 11 shows another aspect of the parasitic character of US imperialism. While the USA gained huge profits from its capital export abroad (see the "income from assets held abroad" for the years 1946-2008), it increasingly became a net importer of commodities as the rising deficit in

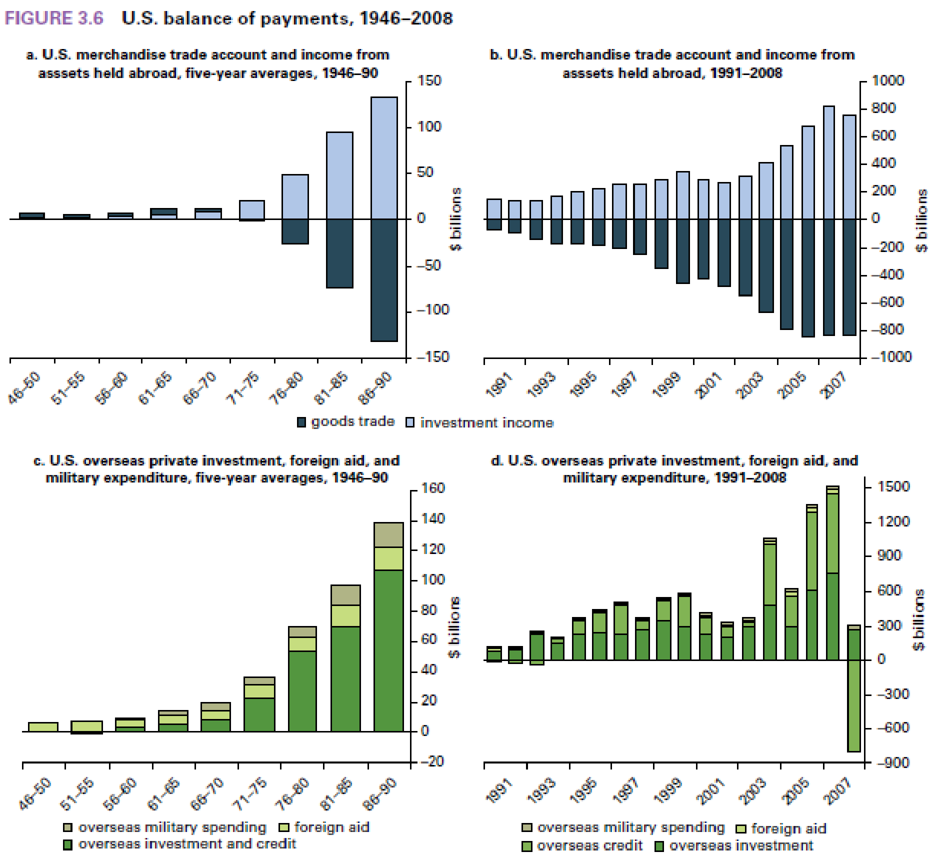
[79] John Bellamy Foster and Robert W. McChesney: The Endless Crisis (2012), in: Monthly Review, May 2012, http://monthlyreview.org/2012/05/01/the-endless-crisis

[80] John Bellamy Foster and Robert W. McChesney: The Endless Crisis (2012), in: Monthly Review, May 2012, http://monthlyreview.org/2012/05/01/the-endless-crisis

merchandise trade shows in the same Figure. In other words, US capital invests less and less in productive investment at home (see for this also Table 4 about the declining growth rate of capital formation). At the same time it invests more capital in other countries where it expects a higher rate of profit. As a result it has to cover the economy's need for commodities by a permanent trade deficit since its own productive capacities cannot satisfy these needs.

Against this background of declining and increasingly parasitic capitalism the monopolies are increasing the exploitation of the working class and the super-exploitation of the semi-colonial countries and they are sharpening the rivalry against each other.

Figure 11: U.S. Balance Of Payments, 1946–2008 (in Billion US-Dollars) [81]



[81] World Bank: Global Development Horizons 2011. Multipolarity: The New Global Economy, p. 137