

Is the world economy facing a new upswing in the economic cycle?

Theses on the Marxist concept of the cycle, the relationship of the current cycle to the period of globalization and the prospects of future development and contradictions of the global economy

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1. In the bourgeois media reports of an upturn that began in the global economy are piling up. The task of Marxists is a scientific investigation of this question. In doing this Marxists must neither take a dogmatic schematistic position believing recognising cyclical movements - including a cyclical upturn – would contradict the Marxist analysis of declining capitalism. Nor must they have an eclectic impressionist view which takes the assessments of bourgeois economists at face value. What is rather needed is the rigorous scientific investigation of the short-and long-term tendencies of the capitalist world economy from the standpoint of the working class, that is the point of view, which reveals the cyclical pattern of world economic trends on the internal collapse of capitalism and the impact of this on the proletarian class struggle. In the following we focus our investigation on the imperialist metropolises which are the heart of the global economy. However, it is necessary to point out that although the world economy is dominated by imperialist capital, but it is of course far more extensive. In particular, countries like China play a growing role in the global economy.

A brief sketch of the theory of the capitalist cycle of Marx

2. Let's start with a brief recapitulation of the Marxist theory of capitalist economic cycle. The starting point is the recognition that there is the "*fundamental contradiction, whence arise all the contradictions in which our present-day society moves, and which modern industry brings to light.*" in the following: "*Production has become a social act. Exchange and appropriation continue to be individual acts, the acts of individuals. The social product is appropriated by the individual capitalist.*"¹ This contradiction between the social character of the productive forces and production and the private, capitalist nature of the ownership of the means of production and the appropriation of the production results is the foundation on which the laws of development of capitalism and their inner contradictions develop. Production for profit leads to steady accumulation of capital, a gradual replacement of living labour by dead labour, of human labour by machines. However, since only the social work of the wage labourer creates value and thus also creates surplus value for the capitalist, there is a steady decrease in the proportion of variable capital and the increase in the proportion of constant capital (increasing organic composition of capital) and thus the long-term tendency of the profit rate to fall. The contradiction between the social character of production and the capitalist nature of ownership leads to periodic crises of over-accumulation of capital and the consequent overproduction. The inevitability of cyclical crises, therefore, their cause in a contradictory, crisis-ridden nature of the capitalist economic system itself

¹ Friedrich Engels: Die Entwicklung des Sozialismus von der Utopie zur Wissenschaft; in: MEW 19, S. 227, <http://marxists.org/archive/marx/works/1880/soc-utop/ch03.htm>

3. According to Marx, the cycle is divided into several phases - the phase of recovery, prosperity, the overheating of the economy at its height, and finally the crisis and then the stagnation or depression at the bottom of the cycle. ("*state of inactivity, mounting revival, prosperity, over-production, crisis, stagnation, state of inactivity, etc.*")²

4. The *crisis* is the starting point of the cycle. It is based on the over-accumulation of capital, so there is a surplus of capital, which can not be profitably invested. This leads to a decrease in the rate of profit. The result is a crisis of overproduction, that is a huge surplus of commodities, which exceeds the consuming power of society (i.e. the wages of the workers and that part of the surplus value of the capitalists, who is not accumulated) and can not be sold. Parallel to this we have a fall in prices, halt of circulation of credit, crisis on the stock markets and slump in the trade. The valorisation process of capital falters, lower utilization of industrial capacity is the result. Therefore, wage cuts, many companies perish, massive increase in unemployment. "*It is no contradiction that this over-production of capital is accompanied by more or less considerable relative over-population. (...) , an over-population of labourers not employed by the surplus-capital...*"³ In short, the crisis leads to an enormous destruction of productive forces. Through such a destruction of capital the contradictions will be temporarily reduced and a new phase of capital accumulation can begin. "*The crises are always but momentary and forcible solutions of the existing contradictions. They are violent eruptions which for a time restore the disturbed equilibrium.*"⁴

5. In the phase of *depression*, the industrial production is stagnant, prices remain at a low level and trade is developing weak. Interest on loans remain at a relatively low level, companies are cautious in accepting new loans. Furthermore mass unemployment continues. In this phase of depression, however, the conditions for the subsequent recovery are also created. The capitalists try to increase the profits by reducing the production costs. For this they on one hand increase the exploitation of workers, either by further reduction of wages or by increasing the labour intensity. On the other hand, however, there is now - first with the strongest, biggest, monopoly businesses - new investment, i.e. a renewal of fixed capital and introduction of technical innovations. This shall allow a profitable production despite the fall in prices and the diminished purchasing power of society. With a renewal of fixed capital, the production of means of production is revived, hence the need for raw materials and materials of all kinds, hence the need for labour, hence the demand for consumer goods, etc. Gradually, the depression goes into the phase of the expansion in economic activity over.

6. In the phase of *conjuncture revival*, the production increases again, and with it the prices, the accumulation of capital is accelerating, the rate of profit rises. Hence an increase in demand for loans as the confidence in profitable investment opportunities for capital rises, the trade is intensifying, as is the speculation on the exchange. The expanded reproduction of capital sets in. The revival goes into the upswing.

² Karl Marx: Das Kapital, Band III, MEW 25, S. 372; <http://marxists.org/archive/marx/works/1894-c3/ch22.htm>. In Volume I of Capital Marx describes the development of the cycle in the following way: „ *periods of average activity, production at high pressure, crisis and stagnation*“ (Karl Marx: Das Kapital, Band I, MEW 23, S. 661; <http://marxists.org/archive/marx/works/1867-c1/ch25.htm#S3>).

³ Karl Marx: Das Kapital, Band III, MEW 25, S. 266, <http://marxists.org/archive/marx/works/1894-c3/ch15.htm>

⁴ Karl Marx: Das Kapital, Band III, MEW 25, S. 259, <http://marxists.org/archive/marx/works/1894-c3/ch15.htm>

7. In the phase of *recovery*, there is a significant growth in values production, the level of production prior to the crisis in the previous cycle is exceeded. Capital accumulation is accelerating dramatically, the capitalists make massive expansion investments and increase the capacity utilization. General optimism is spreading, new companies are founded. General, accelerating growth of turnover, prices, loans, the stock market speculation. Wages rise again, and unemployment is falling.

8. Now it comes to the *stage of overheating of the economy, the overproduction*. The earlier investments now need to bring appropriate profits to service the existing loans, to make further investments, etc. The accumulated capital needs to be valorised profitably. Logically, all capitalists want this. The result is a production of commodities which far exceeds the consuming power of society. This leads to an overproduction of commodities but does not yet come to an open crisis. It still seems that marketing opportunities grow, by speculation prices are rising and thus create prospect for more profitable investment opportunities. Due to the limitless supply of loans by banks and other financial institutions - which in turn want to valorise the accumulated, non-productive money capital - to the industrial capitalist overproduction is hidden and enables an artificial expansion of production. At a certain point, however, the accumulated contradictions lead to a violent expression, and the over-accumulation of capital opens the crisis. The capitalist cycle again moves into its crisis phase.

9. The material basis of this cyclic motion is the movement of the accumulation of productive capital. Capitalist accumulation is the accumulation of capital in order to create surplus value, respectively profit. Accumulation does not occur in a vacuum, but under the conditions of competition between the capitalists. Therefore, the capitalists are forced to continually increase the productivity of labour, in order to get a competitive advantage over their competitors by cheaper production. In addition to the depressing of wages, extension of working hours (an increase of absolute surplus value), this is done via the expansion and improvement of the machinery set in motion by a worker (increase of relative surplus value). The valorisation process of capital, therefore always includes also the process of replacement of machinery, the fixed component of constant capital. The reproduction of social capital therefore takes place as a rule, always on an expanded basis. Since accumulation of capital always takes place for the purpose of creating surplus value, the process of renewal of fixed capital does not take place gradually but jerkily. During the period of prosperity and the overheating of the economy, the capitalists hope to achieve the highest possible rate of profit by the highest possible utilization of fixed capital employed. Only the crisis and the consequent devaluation or destruction of fixed capital creates the conditions for a new round of investment. Marx had already pointed out that in the second volume of *Capital*: "*This much is evident: the cycle of interconnected turnovers embracing a number of years, in which capital is held fast by its fixed constituent part, furnishes a material basis for the periodic crises. During this cycle business undergoes successive periods of depression, medium activity, precipitancy, crisis. True, periods in which capital is invested differ greatly and far from coincide in time. But a crisis always forms the starting-point of large new investments. Therefore, from the point of view of society as a whole, more or less, a new material basis for the next turnover cycle.*"⁵

The current historical crisis as a result of the previous period

⁵ Karl Marx: *Das Kapital*, Band II, MEW 24, S. 185f., <http://marxists.org/archive/marx/works/1885-c2/ch09.htm>

10. The cyclical crises of capitalism do not represent a repetition of the valorisation process of capital on an equal basis. Precisely because the reproduction of social capital always takes place on an expanded basis, just because the valorisation process of capital leads to increasing accumulation and related to this to the growth of the constant capital - and especially the fixed component - and the declining of the share of the variable capital, just because by this it changes the organic composition of capital and the rate of profit tends to decline, because the gap between the mass of accumulated capital and - relative to it - the increasingly impoverished mass of the population, for that reason the capitalist cycles has a tendency to exacerbate the crisis and ultimately its collapse. In this sense, Marx completed the first volume of Capital with the chapter "*Historical Tendency of Capitalist Accumulation*" and writes: "*This expropriation is accomplished by the action of the immanent laws of capitalistic production itself, by the centralization of capital. One capitalist always kills many. Hand in hand with this centralization, or this expropriation of many capitalists by few, develop, on an ever-extending scale, the co-operative form of the labor-process, the conscious technical application of science, the methodical cultivation of the soil, the transformation of the instruments of labor into instruments of labor only usable in common, the economizing of all means of production by their use as means of production of combined, socialized labor, the entanglement of all peoples in the net of the world-market, and with this, the international character of the capitalistic regime. Along with the constantly diminishing number of the magnates of capital, who usurp and monopolize all advantages of this process of transformation, grows the mass of misery, oppression, slavery, degradation, exploitation; but with this too grows the revolt of the working-class, a class always increasing in numbers, and disciplined, united, organized by the very mechanism of the process of capitalist production itself. The monopoly of capital becomes a fetter upon the mode of production, which has sprung up and flourished along with, and under it. Centralization of the means of production and socialization of labor at last reach a point where they become incompatible with their capitalist integument. Thus integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated.*" ⁶

11. In this famous quote Marx anticipated the era of imperialism as the highest and the last stage of capitalism in its history – the epoch of his decline and transition to socialism. Later Lenin elaborated the character of imperialism as the last stage of capitalism and summarised it in the following word: „*We have to begin with as precise and full a definition of imperialism as possible. Imperialism is a specific historical stage of capitalism. Its specific character is threefold: imperialism is monopoly capitalism; parasitic, or decaying capitalism; moribund capitalism. The supplanting of free competition by monopoly is the fundamental economic feature, the quintessence of imperialism.*“ ⁷ The historic character of the imperialist epoch transition lies therefore in the fact that capitalism has advanced the productive forces and the socialization of production so far that it causes such a sharp clashes with the bourgeois relations of production that this puts the collapse of the capitalist mode of production time and again (of course, not permanent) on the agenda, so that human race is more and more faced with the alternative of socialism or barbarism. The current dramatic economic crisis, coupled with the growing rivalry between the superpowers and the ecological disaster confirms fully the validity of Lenin's the theory of imperialism.

12. The development of the fundamental contradiction between the social character of productive forces and the private, capitalist nature of the ownership of the means of production has resulted in

⁶ Karl Marx: Kapital Band I, MEW 23, S. 790f., <http://marxists.org/archive/marx/works/1867-c1/ch32.htm>

⁷ W. I. Lenin: Der Imperialismus und die Spaltung des Sozialismus (1916); in: LW 23, S. 102 (Hervorhebung im Original). <http://marxists.org/archive/lenin/works/1916/oct/x01.htm>

the history of capitalism is such a concentration and centralization of capital, that free competition between the capitalists – which characterised capitalism till the end of the 19th Century – has been replaced by the dominance of monopoly capitalism and the domination of a few imperialist powers over the world's population. By monopoly capital, the spontaneous enforcement of the law of value can be temporarily modified or restricted. Also the monopoly capital due to its hegemony, its degree of organisation and its fusion with the bourgeois state apparatus, can easier off-load the consequences of capitalist crises on the working class, the petty bourgeoisie, the middle classes and the weaker sectors of the capital. But all these modifications can affect the actual course of development of the law of value, but at the same time, they aggravate the capitalist contradictions and eventually lead to a trend of deepening capitalist crisis. (Note: The enforcement of the law of value is modified by the monopoly. It is not really limited, because even as the law of value is realized only through its partial negation. See for example the value-price transformation. Similarly the monopoly price. Thus is the monopoly price is nothing "external" to the law of value, but at a certain level of development of capitalism it is the necessary form through which the law of value must be realized).

13. Cycles therefore always take place in the history of capitalism. Concrete economic and political factors, the balance of power between the classes, etc. can play an important role in the actual course of development of the cycle. But the most important, most fundamental factor that determines the dynamics of the cycle does not depend on conjunctural issues, but from the historical era or period in which capitalism is. Trotsky put it in his article about the capitalist curve of development that cycles evolve very differently depending on whether they take place in a historical period (curve) of capitalist boom, stagnation or decline. Trotsky writes on this: *"But capitalism is not characterized solely by the periodic recurrence of cycles otherwise what would occur would be a complex repetition and not dynamic development. Trade-industrial cycles are of different character in different periods."* ⁸ For this reason, the Communist International has emphasized the idea of analyzing the cycles in the context of the historical epoch or period. *"But if the pace should slow down and if the current economic crisis would be followed in a larger or smaller number of countries by a period of boom, this fact would in no way mean the beginning of the organic 'era. As long as capitalism exists, cyclical fluctuations are inevitable. They will accompany him in the agony, as she accompanied him in his youth and at maturity."* ⁹

14. The current cycle is in fact a clear proof for this. Although the working class has put forward very little resistance the offensive of the bourgeoisie and that therefore the cost of the crisis could pass largely on the backs of the working class and even while the bourgeoisie mobilized huge sums of money for rescue and stimulus packages, these measures were by no means sufficient, to allow for a robust revival of the economic cycle. Much too big are the structural problems of over-accumulation of capital as they could be adjusted by cyclical measures.

15. The specific characteristics of the period of globalization which we have repeatedly discussed could not remove the essential characteristic of our epoch - the imperialist, the highest and final stage

⁸ Siehe Leo Trotzki: Die Kurve der kapitalistischen Entwicklung (1923); in: Die langen Wellen der Konjunktur. Beiträge zur Marxistischen Konjunktur- und Krisentheorie, Berlin 1972, S. 126; Leon Trotsky: The Curve of Capitalist Development (1923), in: Leon Trotsky: Problems of Everyday Life, p. 275, <http://marxists.org/archive/trotsky/1923/04/capdevel.htm>

⁹ Thesen zur Weltlage und die Aufgaben der Kommunistischen Internationale. Resolution des III. Weltkongreß der Kommunistischen Internationale, in: Die Kommunistische Internationale, Manifeste, Thesen und Resolutionen, Band II, Köln 1984, S.29 (Translated from German by the Author)

of capitalism: the basic contradiction of capitalism - the growing antagonism between the social character of the productive forces and the private character of its acquisition - leads in particular in the era of monopoly capitalism to the fact that the steady expansion of commodity production and thus the valorisation of capital on an ever higher scale, gets into ever sharper contrast to the shackles of the capitalist appropriation of profit. The capitalists are trying to increase the productivity of labour and thereby increasing their profits by producing cheaper than the industry average production costs which are decisive for the average rate of profit. In this way, they hope to gain a competitive advantage over their competitors. Thus fewer and fewer workers are encouraged to use more and more machines, in other words, the share of value-creating human labour - the variable capital - on the total capital decreases and the share of only a value-transmitting (but not value-creating) machines, raw materials, real estate - the constant capital - is rising. This rising organic composition of capital leads to a long-term trend of the profit rate to fall.

16. Especially the increasing socialization and internationalization demonstrates the historical obsolescence of capitalism, where private property prevent a rich and sustainable development of the productive forces. Lenin was quiet right in writing: „ *It is clear why imperialism is moribund capitalism, capitalism in transition to socialism: monopoly, which grows out of capitalism, is already dying capitalism, the beginning of its transition to socialism. The tremendous socialisation of labour by imperialism (what its apologists, the bourgeois economists, call "interlocking") produces the same result.*“¹⁰ Und an anderer Stelle: „*The epoch of capitalist imperialism is one of ripe and rotten-ripe capitalism, which is about to collapse, and which is mature enough to make way for socialism.*“¹¹

17. The consequent difficulties to profitable invest capital - the tendency of the profit rate to fall - result in that the capitalists are investing less and less of its surplus value in the expansion of productive capital - i.e. the expansion of the capital stock - and more and more in speculation, unproductive sectors etc.. The capitalists have to spend an increasing share of the profits for dividends or to repay debt, to repurchase its own shares (and by this to get to the casino of speculation going etc.).

18. The severe recession in 2007-2009 can only be understood as the result of the accumulated contradictions of previous capitalist period. The current cycle takes place in the epoch of declining capitalism, of capitalism in his old age. As we have already said many times the era of globalization was characterized by a broad offensive of the bourgeoisie: a massive attack on the working class, destruction of nearly all the degenerated workers' states and increased subjugation and exploitation of the semi-colonial world. Through these attacks, the bourgeoisie was able to increase both the rate of surplus value (mainly through the increase of absolute surplus value) and the imperialist extra-profits from the semi-colonies. But the historic declining tendency of capitalism has as its foundation that the organic composition of capital (i.e. the ratio of only value-transmitting constant capital to value-creating variable capital) is rising to such a degree that it is increasingly difficult for capital, to halt the declining rate of profit by counteracting measures. For this reason, only a relative small share of the increased gross profit - indeed an even increasingly smaller share - enters into the accumulation of

¹⁰ W. I. Lenin: Der Imperialismus und die Spaltung des Sozialismus (1916); in: LW 23, S. 104 (Hervorhebung im Original), <http://marxists.org/archive/lenin/works/1916/oct/x01.htm>

¹¹ W. I. Lenin: Der Opportunismus und der Zusammenbruch der II. Internationale; in: LW 22, S. 108, <http://marxists.org/archive/lenin/works/1916/jan/x02.htm>

capital. To a larger – and increasingly larger – share the profits have moved into the realm of speculation and debt repayment. The result of the period of globalization was that the bourgeoisie not only failed to revive the capitalist accumulation, but that they prevented a massive decline in the global economy only by dragging increasingly greedy and shortsighted of its future reserves. In other words, they brought a certain stability in the global economy by accumulating massive debts and by a huge artificial inflation of the speculative sector, artificial profits and “prosperity” created. The contradictions of the present for some time have been glossed over by the inflation of the contradictions of the future.

19. The enormous mass of money capital, which migrated into the highly speculative world of currency markets and the hedge funds, has been referred to many times. The following table for the U.S. in the period 1947-2007 also shows the vast, growing share of dividend payouts and share repurchases on profit before tax.

Table 1: Share of dividend distributions and share buybacks at the profit before taxes in the U.S., average in the respective business cycles 1949-2007 ¹²

Beginning of the Business cycle	Share of dividend distributions and share buybacks at the profit before taxes
QII 1949	16.7%
QIII 1953	19,9%
Q IV 1957	23.5%
QIII 1960	13.9%
QI 1970	16.7%
QI 1974	35.7%
QI 1980	66.5%
QI 1990	62.3%
QII 2001	89.1%

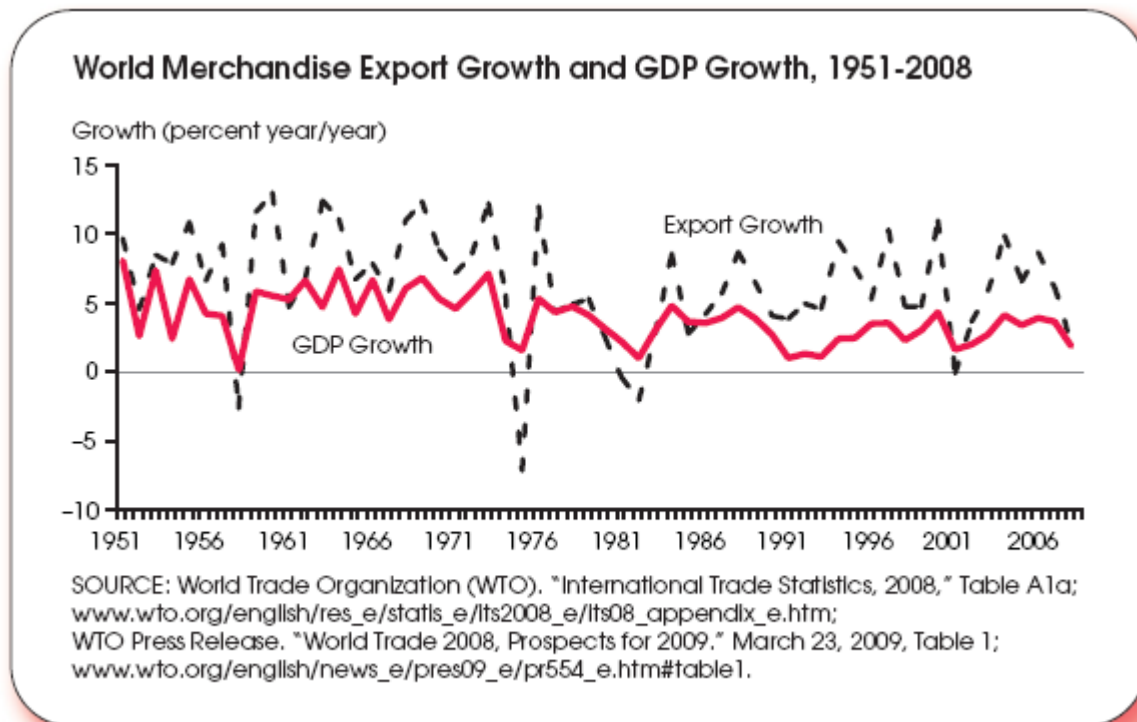
20. The over-accumulation of capital, the falling rate of profit, the tendency to aggravation of the crisis - all this characterizes the global economy for decades. The long boom created amongst bourgeois and many leftist theoreticians the illusion that capitalism had found a way to escape its tendency to breakdown. In fact, the long boom was due to exceptional circumstances, namely the massive destruction of capital through two world wars and the severe depression after 1929 and the enforcement of a political world order led by an imperialist power respective the (temporary) stabilizing settlement with the Stalinist bureaucracy in the USSR. Since the early 1970s the world economy is characterized by the over-accumulation of capital and the related tendency to stagnation. This tendency towards stagnation could not be reversed by the capitalist offensive in the period of globalization, quiet the opposite it became even stronger. (see Table 2) However, this tendency towards stagnation was very uneven because at the same time an accelerated accumulation of capital took place in parts of the world which are backward from the standpoint of capitalist development but nonetheless important. (China, India)

¹² Christian E. Weller and Amanda Logan: Investing for Widespread, Productive Growth, Center for American Progress, December 2008, p. 18

Table 2: Annual Growth of World Gross Domestic Product 1971-2009 ¹³

1971-1980	+3.8%
1981-1990	+3.2%
1991-2000	+2.6%
2001-2009	+2.3%

Graph 1: Annual Growth of World Gross Domestic Product and commodity exports 1951-2008 ¹⁴



21. This in the period of globalization worsening tendency of over-accumulation of capital was reflected in the fact that in the largest national economy in the world – the USA – the capitalists because of the lack of profit expectations invested to an increasingly lesser degree their surplus value in the expansion of its capital stock. This slackening off of the capital accumulation process is reflected in a declining level of net investment (i.e. the expansion investment, in contrast to those investments that only replaces the physical or moral worn-out capital). Table 3 shows clearly that the slackening off of the capital accumulation process arising from the difficulties in the valorization process of capital have not become less, but sharpened in the period of globalization. The same picture emerges for the European imperialist powers. The growth rate of net capital stock in the EU-15 countries

¹³ For 1971-2000 see World Bank: Global Economic Prospect 2002, S. 234; for 2001-2009 see United Nations: World Economic Situation and Prospects 2008, p. 1 bzw. World Economic Situation and Prospects 2009 - Update as of mid-2009, p. 2. The figures between 1971-2000 are based on the World Bank calculations of GDP at constant 1995 prices and exchange rates. The figures for 2001-2009 are based on the UN calculations of GDP at constant 2000 prices and exchange rates. The 2.3% is the arithmetic mean for the figures for the years 2001-2009: 1.6%, 1.9%, 2.7%, 4.0%, 3.4%, 3.9%, 3.7%, 2.1 and -2.6%.

¹⁴ Federal Reserve Bank St. Louis: International Economic Trends, August 2009, S. 1

gradually reduces: from an annual average of 4.2% (1961-73), 2.7% (1974-85), 2.4% (1986-1990), 2.1% (1991 -- 1995), 2.2% (1996-2000) and finally 2.0% (2001-2005).¹⁵

Table 3: Net investment as a share of gross investment in the U.S. average in the respective business cycles 1949-2007¹⁶

Beginning of the Business cycle	Net-Investment as a share of Gross-Investment
QII 1949	37.4%
QIII 1953	37,7%
Q IV 1957	31.8%
QIII 1960	40.5%
QI 1970	40.4%
QI 1974	35.7%
QI 1980	31.8%
QI 1990	26.9%
QII 2001	18.9%

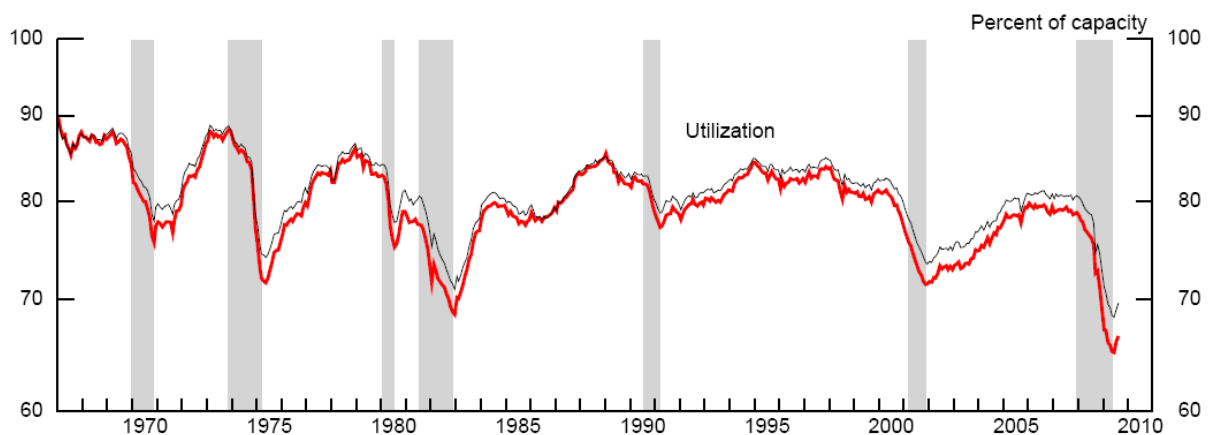
22. The increasing valorization problems of capital are reflected in a growing proportion of surplus, unused capital. A clear indicator for this is the declining capacity utilization in industry. The highlights of capacity utilization in U.S. industry were in the business cycle in the 1980s 85.1%, in that of the 1990s 84.9, and since 2000 it never once crossed the 81% mark. The lows on the other hand in these three cycles were 78.7%, 73.5% and in June 2009, the capacity utilization rate reached a historic low of 68%.¹⁷ In short: mid-2009 almost 1/3 of productive capital were not utilized for the valorization process in the United States! So we see here too that the period of globalization, not only was it not possible to solve the contradictions of capitalism, but they even increased. Graph 2 gives a clear picture of the declining tendency of capital accumulation in the United States from 1967 until today.

¹⁵ EUROPÄISCHE KOMMISSION: Statistischer Anhang zu "Europäische Wirtschaft", Frühjahr 2009, S. 216

¹⁶ Christian E. Weller and Amanda Logan: Investing for Widespread, Productive Growth, Center for American Progress, December 2008, p. 11

¹⁷ FEDERAL RESERVE statistical release: Industrial Production and Capacity Utilization, July 15, 2009, S. 1

Graphik 2: Kapazitätsauslastung in der US-Industrie 1967-2009 ¹⁸



23. From this faltering, crisis-ridden capital accumulation process followed a growing exodus of surplus value on one hand to the speculative sector (2007 41% of all US profits derived from the financial sector!), on the other hand into export of capital abroad. The result is a downward momentum of expanded reproduction of capital, reflected by declining rates of growth of commodity production in the period of globalization. While in the 1960s industrial production in the imperialist centers grew by an average of 5 to 13% per year, this trend slowed in the 1980s to 1.7 to 4% and amounted on average in the 2000s generally only between 0.5 and 1 %

Table 4: Annual Growth of Industrial Production in the imperialist metropolises 1961-2008 ¹⁹

	Annual Growth of Industrial Production (in % p.a.)		
	USA	Japan	EU-15
1961-1970	+4.9%	+13.5%	+5.2%
1971-1980	+3.0%	+4.1%	+2.3%
1981-1990	+2.2%	+4.0%	+1.7%
1991-2000	+4.1%	+0.2%	+1.6%
2001-2008	+0.6%	+0.7%	+0.8%

Is the world economy facing a new upswing in the economic cycle?

24. We can recognize now that the world economy reached its preliminary bottom of the recession which began in late 2007 in the USA in the first quarter of 2009. Since then, the recession has weakened or moved into individual countries in a slight upswing. Overall, we do not expect a sharp upturn. Whether there will be a slight recovery or whether there will be a second recession – similar as it happened in 1980-82 – depends on various factors. In any case, the current recession despite its historically profound nature could not solve any of the fundamental problems of the capitalist order, let alone solve it. This applies both to the economic contradictions – the over-

¹⁸ FEDERAL RESERVE statistical release: Industrial Production and Capacity Utilization, 16. September, 2009, S. 4

¹⁹ EUROPÄISCHE KOMMISSION: Statistischer Anhang zu "Europäische Wirtschaft", Frühjahr 2009, S. 57. Because there are no figures for the EU-15 for the years 1961-70 and 1971-80 in these EU statistics, for these years we have used the arithmetic mean of the figures for Germany, France, Great Britain and Italy.

accumulation of capital and the crisis of the profit rate – as well as the political contradictions – the growing rivalry between the imperialist powers.

25. The cyclical movement of the global economy can be measured by various indicators, which in one form or another reflect the development of value production. The following indicators show that the capitalist world economy is still in the phase of stagnation, or at the very beginning of the phase is the cyclical upturn. These economic figures indicate a growth in gross domestic product in Japan, Germany and France in the 2nd respectively they predict it for the 3rd quarter of 2009.

Table 5: Growth of Gross Domestic Product in the imperialist metropolises 2008-09 ²⁰

GDP growth in the G7 economies ¹									Year-average growth in 2009	
	Annualised quarter-on-quarter growth								EO85	Implied
	08Q1	08Q2	08Q3	08Q4	09Q1	09Q2	09Q3	09Q4	projection ²	projection ³
United States	-0.7	1.5	-2.7	-5.4	-6.4	-1.0	1.6 (+/-1.9)	2.4 (+/-2.4)	-2.8	-2.8
Japan	3.9	-4.3	-3.9	-13.1	-11.7	3.7	1.1 (+/-2.9)	-0.9 (+/-2.8)	-6.8	-5.6
Euro Area	3.1	-1.5	-1.5	-7.1	-9.2	-0.5	0.3 (+/-1.3)	2 (+/-1.6)	-4.8	-3.9
Germany	6.5	-2.2	-1.3	-9.4	-13.4	1.3	4.2 (+/-2.2)	1.8 (+/-2.3)	-6.1	-4.8
France	1.8	-1.9	-0.9	-5.5	-5.3	1.4	1.6 (+/-1.3)	1.9 (+/-1.7)	-3.0	-2.1
Italy	2.0	-2.2	-3.1	-8.3	-10.3	-1.9	-1.1 (+/-1.7)	0.4 (+/-2)	-5.5	-5.2
UK	3.2	-0.2	-2.9	-7.0	-9.3	-2.6	-1 (+/-1.2)	0 (+/-1.2)	-4.3	-4.7
Canada	-0.7	0.3	0.4	-3.7	-6.1	-3.4	-2 (+/-1.6)	0.4 (+/-2.1)	-2.6	-2.5
G7	1.4	-0.5	-2.5	-7.3	-8.4	-0.1	1.2 (+/-1.8)	1.4 (+/-2.1)	-4.1	-3.7

1. GDP releases and high-frequency indicators published by 2nd September 2009. Seasonally and in some cases also working-day adjusted. Associated standard errors are in parentheses.

2. Finalised in June 2009.

3. The implied projection is calculated by mechanically extending the GDP outturn data up to the second quarter of 2009 with the indicator model projections for the third and fourth quarters. This means that differences between the column "EO85 projection" and "Implied projection" reflect both revisions in historical data and the Q3 and Q4 GDP projections.

26. More meaningful than the GDP however is the data for industrial production that correlated with value production. Again we see here – albeit weaker than with the GDP – a certain revival of industrial production in the imperialist centers, first in Japan, and later also in the U.S. and the EU. Here we see a sharp drop in industrial production in 2008 till the 1st resp. the 2nd Quarter of 2009. In recent months, however, there is a slight upturn in industrial production. In Japan, this revival has already begun in March, in the U.S., however, only in July.

²⁰ Jorgen Elmeskov (OECD): What is the economic outlook for OECD countries? An interim assessment, 3rd September 2009, p. 3

Table 6: Growth of Industrial Production in the imperialist metropolises 2006 – 2009 ²¹

	Growth of Industrial Production (in %)		
	USA	Japan	EU-16
2006	+1.8%	+4.5%	+4.0%
2007	+1.8%	+2.8%	+3.2%
2008	-6.7%	-3.4%	-2.4%
***	***	***	***
2008 Q2	-	-1.3%	
2008 Q3	-	-3.2%	-2.2%
2008 Q4	-13.0 %	-11.3%	-9.0%
2009 Q1	-19.0%	-22.1%	-16,9%
2009 Q2	-10.5%	-8.3%	-16.6%
***	***	***	***
2009 January	-	-10.1%	-1.6%
2009 February	-0.8%	-9.4%	-2.3%
2009 March	-1.6%	+1,6%	-0.9%
2009 April	-0.6%	+5,9%	-1.2%
2009 May	-1.1%	+5,7%	+0.1%
2009 June	-0.4%	+2,3%	-0.6%
2009 July	+1.0%	+1,9%	
2009 August	+0.8%		

27. This slight increase in industrial production takes place at a very low base. In all imperialist countries, the most dramatic drop in industrial production and investment occurred since the depression of 1929. In the United States the level of gross domestic investment was at the end of the 1st Quarter of 2009 26.8% below the level of the 3rd Quarter of 2007, when the recession began. ²² If one keeps in mind the dramatic extent of decline in industrial production, one would actually expect a sharp upturn. In fact, however, we see only a slight recovery in recent months. The reason is that there has not been a real recovery in capital accumulation. The bourgeoisie has prevented the collapse of capitalism by investing enormous conjunctural and bank saving aid packages in all major countries. These state capitalist measures have resulted in the arrest or the consolidation of the money-capital sector and created some incentives to stimulate demand for consumer goods such as cars (scrapping premium). But these measures are partly time-limited and could not prevent many companies to go bankrupt. The capitalists therefore don't have optimistic expectations for increasing the rate of profit. Still, the economy is characterized by a massive over-accumulation. The in accordance with the capitalist laws of motion continuously rising organic composition of capital – that a steadily rising share of constant capital at the expense of variable capital – requires ever larger, more destructive

²¹ Figures for the USA are taken from: FEDERAL RESERVE statistical release: Industrial Production and Capacity Utilization, 16. September, 2009, p. 7; Figures for the Euro-Zone are taken from: EZB Monthly Bulletin, September 2009, p. 149; Figures for Japan are taken from: Research and Statistics Department, Economic and Industrial Policy Bureau, Ministry of Economy, Trade and Industry: Indices of Industrial Production (Preliminary Report), July 2009, p. 6. All figures for years and quarters are related to the figures in the year before. The monthly figures are related to the month before.

²² Ted H. Chu (Lead Economist and Director of Global Industry Analysis, General Motors): Economic and Auto Industry Outlook, June 5, 2009, p. 8

annihilation of fixed capital in order to trigger a new cycle of capital accumulation. Quite obviously, despite the enormous destruction of values – up to 45% of global wealth have been destroyed by the crisis within one and a half years! ²³ - no sufficient destruction of capital has taken place to enable a strong economic recovery.

28. This slackening off of the capital accumulation can be measured by various indicators. The over-accumulation of capital has reached such enormous proportions that in the U.S. and the Euro area, the utilization of industrial capacity is still at historic lows and about 30% of capacity fallow. In Japan, where the 1st Quarter 2009 of an incredible low point of only 50.4% was reached, the recovery started earlier. ²⁴ In any case, the relevant figures indicate that the capitalist world economy still is in the phase of stagnation respectively at the very beginning of a slight recovery.

Table 7: Industrial Capacity Utilization in the imperialist metropolises (in %) ²⁵

	Industrial Capacity Utilization (in %)		
	USA	Japan (2000 = 100)	EU-16
2006			83.1%
2007		104.1	84.1%
2008		88.6	81.8%
***	***	***	***
2008 Q2			83.3%
2008 Q3		100.4	82.2%
2008 Q4	74.2%	87.1	78.1%
2009 Q1	70.4%	63.4	72.5%
2009 Q2	68.5%	71.4	69.9%
***	***	***	***
2009 February	70.6%		
2009 March	69.5%	61.0	
2009 April	69.2%	67.2	70.3%
2009 May	68.5%	72.6	
2009 June	68.3%	74.3	
2009 July	69.0%		69.5%
2009 August	69.6%		

29. This is also again evident when we look at the development of gross fixed investment, which reflect the dynamics of capital accumulation. A decline in investment in all the imperialist countries

²³ See Megan Davies and Walden Siew: "Stephen Schwarzman says 45 per cent of global wealth written off by financial crisis", Reuters, March 11, 2009, <http://www.theaustralian.news.com.au/story/0,25197,25170415-12377,00.html>

²⁴ See Taro Saito: The Worst May be Over for Japan's Economy— Short-term Economic Forecast (Fiscal 2009-2010), Economic Research Group of the Nippon Life Insurance Company, Juli 2009, p. 4

²⁵ Figures for the USA are taken from: FEDERAL RESERVE statistical release: Industrial Production and Capacity Utilization, 16. September, 2009, S. 7.; Figures for the Euro-Zone are taken from: EZB Monthly Bulletin, September 2009, S. 150; Figures for Japan are taken from: Bank of Tokyo-Mitsubishi: The Outlook for the Japanese Economy, August 2009, S. 20 (Figures for Japan relate to an Index, where the figure in the year 2000 is 100)

has also occurred in the 2nd Quarter of 2009, even though he has slowed down compared to previous quarters.

Table 8: Growth of Gross Fixed Investment in the imperialist metropolises 2006 – 2009 (in %) ²⁶

	Growth of Gross Fixed Investment (in %)		
	USA	Japan	EU 16
2006	+2.0%	+0.5%	+5.5%
2007	-2.0%	+1.1%	+4.3%
2008	-3.5%	-4.6%	+0.7%
***	***	***	***
2008 Q3	-1.7%	-2.7%	-1.4%
2008 Q4	-4.7%	-4.1%	-3.4%
2009 Q1	-9.9%	-6.0%	-5.3%
2009 Q2	-2.0%	-2.6%	-1.3%

30. What is the reason for the reluctance of capitalists to start investing in large scale to make and by this to open a new cycle of reproduction of capital on an expanded scale? It ultimately lies in the fact that the rate of profit has fallen and the prospects for a substantial growth of it are low. This should not obscure the changes in the last few months. In fact, there has been here an important trend reversal. The fall of the mass of profit was halted and a process of growth has begun. But this growth is curbed and given the huge debt, the huge excess capacity etc. so the capitalists will use these profits only to a limited extent for new investments.

Table 9: Development of corporate profits 2007 – 2009 (in %) ²⁷

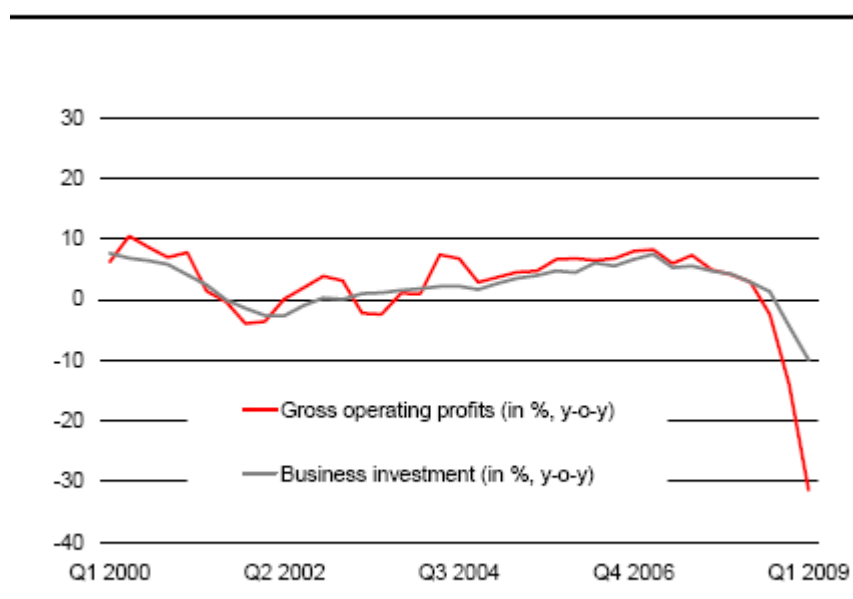
	Development of corporate profits (in %)	
	USA (Q-Q)	Japan (J-J)
2007	-4.1%	-40.9
2008	-11.8%	-19.2%
2008 Q3	+3.6%	
2008 Q4	-22.8%	-64.6%
2009 Q1	+5.3%	-70.1%
2009 Q2	+5.7%	-62.7%

²⁶ Figures for the years 2006-2008 for all countries are taken from: IMF: World Economic Outlook, April 2009, p. 191; Figures for the Quartiles for all countries are taken from: Eurostat news release, 2 September 2009, http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-02092009-BP/EN/2-02092009-BP-EN.PDF. All figures for years relate to the year before and for Quartals to the Quartal before.

²⁷ Figures for the USA are taken from: BEA: Gross Domestic Product: Second Quarter 2009 (Second Estimate), Corporate Profits: Second Quarter 2009 (Preliminary Estimate), 27. August, 2009, S. 12; Changes in relation to the period ahead. Figures for Japan are taken from: Taro Saito: The Worst May be Over for Japan's Economy – Short-term Economic Forecast (Fiscal 2009-2010), Economic Research Group of the Nippon Life Insurance Company, Juli 2009, p. 8. The figures for USA and Japan can not be compared. In the case of the USA they are for Corporate Profits. The figures for years relate to the year before and for Quartals to the Quartal before. In the statistics for Japan the category „Ordinary Profits“ is used and the figures for the Quartals relate to the Quartal before.

Graph 3: Gross Profits in the Euro-Zone 2000-2009²⁸

INVESTMENT IS A DRAG ON LONGER MATURITIES



Source: ECB, Eurostat, UniCredit Research

31. Since profit expectations are low, the over-accumulation of capital is burdensome (industrial overcapacity, debt, etc.), the reproduction of social capital on an expanded scale takes place haltingly. Despite a certain revival of production therefore no new jobs are created, on the contrary, unemployment rises and wages are falling. We therefore see in recent months an increase in unemployment around the world. Overall, a rise in unemployment is projected in the imperialist countries alone (the OECD countries) between the peak of the last economic cycle and projections for next year by more than 25.5 million people. In the U.S., unemployment has soared already to 9.3% in 2009 and is even projected to rise to 10.2% in 2010.²⁹

Tabelle 10: Growth of Unemployment in the imperialist States between 2007-2010³⁰

Growth of Unemployment between high-point of last business cycle 2007/2008 till 4th Quartal 2010 (in thousands)										
Kanada	Frankreich	Deutschland	Irland	Italien	Japan	Spanien	UK	USA	G-7	OECD
733	1.019	1.833	232	1.124	1.239	2.706	1.388	8.698	15.747	25.487
Unemployment rate (in %)										
At the high-point of last business cycle 2007/2008										
6.1%	7.9%	7.5 %	4.5%	6.2%	3.8%	8.0%	5.3%	4.7%	5.4%	5.6%
Projections for the 4th Quartal 2010										
9.8%	11.3%	11.8%	15.1%	10.5%	5.8%	19.8%	9.8%	10.1%	9.6%	9.9%

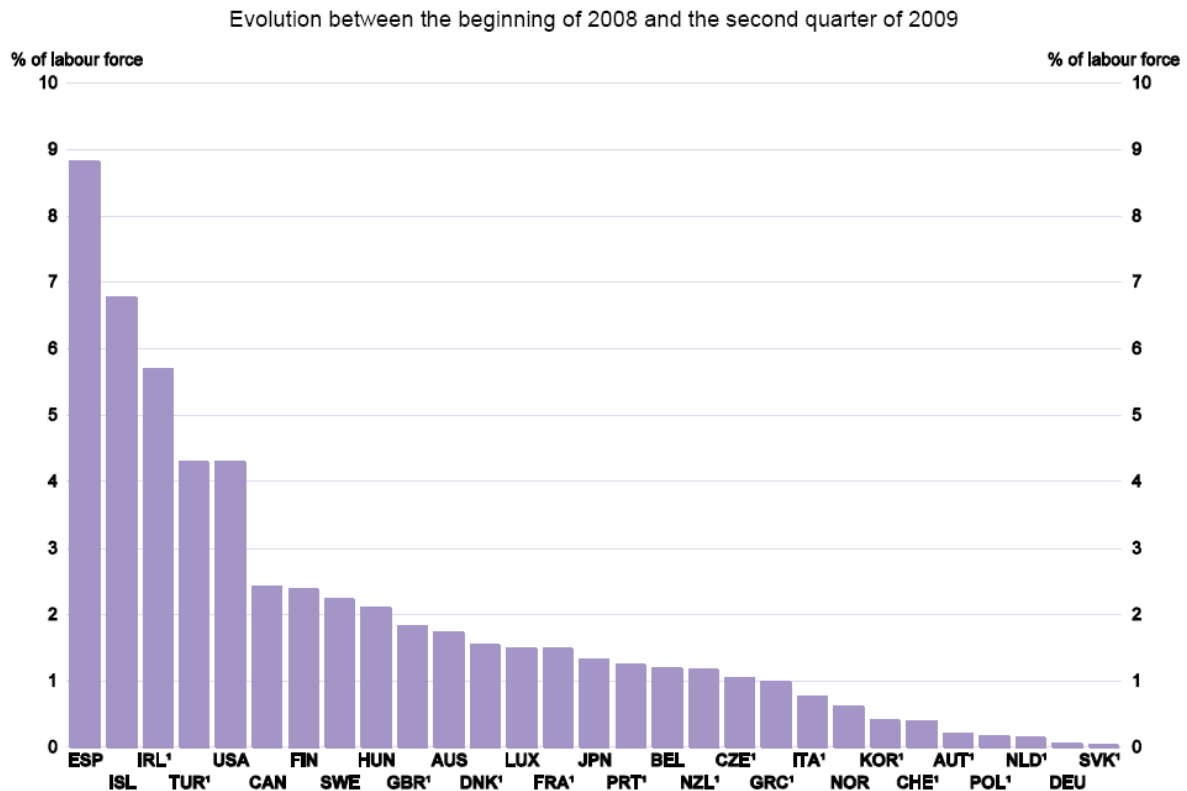
²⁸ UniCredit - What is the eurozone growth potential, Juli 2009, p. 21

²⁹ See Congress Of The United States, Congressional Budget Office: The Budget and Economic Outlook: An Update, August 2009, p. 28

³⁰ OECD Employment Outlook 2009: Tackling the Jobs Crisis (Summary in English), p. 2

Graph 4: Increase of Unemployment between the beginning of 2008 and the 2nd Quartal 2009³¹

Unemployment rates have risen strongly in some countries but not in others



1. Last available date is the first quarter of 2009.

Source: OECD, Main Economic Indicators database.

32. It is therefore not surprising that the recent OECD interim report of the status of the global economy comes to the conclusion that the world economy will probably grow only slowly. Thus, the study's author says, that the crisis had hit too hard the main industrial countries: *"Over-capacity, low profitability, high and rising unemployment, increasing wages and hardly likely in the real estate crisis in some countries adversely affect private consumption. In addition to consumers, businesses, banks and governments to reduce their debts, they would have accumulated in the wake of the crisis."*³² Therefore, the author continues: *"This means that short-term political support for a strong economy is necessary."*

State capitalism and public debt

33. Thus we come to a crucial point: Why does the capitalist world economy has not collapsed in their historically worst crisis since 1929? The most important answer lies in the decisive intervention of the capitalist state, which came to help the capitalist class by huge public borrowing. The economic stimulus programs of the governments around the world amounted to a volume of 2.5 trillion US

³¹ Jorgen Elmeskov (OECD): What is the economic outlook for OECD countries? An interim assessment, 3rd September 2009, p. 19

³² Jorgen Elmeskov (OECD): What is the economic outlook for OECD countries? An interim assessment, 3rd September 2009, S. 2

dollars, equivalent to 4% of global GDP. Add to this the rescue packages for banks and other parts of the capital.

34. The central role of the state capitalist intervention for the prevention of an economic breakdown becomes obvious when one looks at the latest economic numbers in the various states. In the U.S., for example, it was only the category "government spending", which increased in the 2nd Quarter of 2009 by +6.4% (year on year), while all other sectors in the GDP statistics (private consumption, private investment, exports and imports) showed a decline.³³ A similar development happened in the European Union. Also in Japan the state played an important role, but here the exports in the last quarter grew too.

35. The result of this intensified state capitalist intervention is a dramatic increase in public debt. Within 2-3 years the debt of the imperialist powers – in relation to output – grew in the EU by about 1/3, in the United States by half and in Japan – starting from an already very high level – by 1/5.

Table 11: Indebtedness of the imperialist states 2007 – 2010 (in % of GDP)³⁴

	Indebtedness of the imperialist states (in % of GDP)		
	USA	Japan	EU 15
2007	63.1%	167.1%	60.4%
2010	91.6%	194.0%	82.0%

36. This has enormous implications for the government's economic policies. In the U.S., for example, the budget deficit in 2009 will be \$ 1.59 trillion or 11.2% of annual GDP. This is the highest level since the last war in 1945.³⁵

37. Overall, we now see the highest level of state capitalist intervention in the economic and social fabric since 1945. This etatism, however, takes place rather less in the direct form of nationalization, but in the indirect form of taxation, state orders for the military, etc. The key reason for this is the following. The widespread nationalization in the past was usually in the context of wars and the massive destructions of capital caused by war. The first and Second World War required – for military, political, economic and social reasons – a high degree of state monopoly capitalist centralization. After the Second World War the bourgeoisie had massively weakened respectively was greatly discredited and the reconstruction projects were – given the wartime destruction – so great that private capital could not resp. didn't want to make the necessary investments (in the face of uncertain profit expectations, high combat readiness of the working class, etc.). Today this is different and as long as monopoly capital directly does not look and immediately into the abyss of its annihilation – and that could be prevented by the short-term state capitalist interventions in the last 2 years - so long the state will focus on indirect interventions.

³³ See BEA: Gross Domestic Product: Second Quarter 2009 (Second Estimate), Corporate Profits: Second Quarter 2009 (Preliminary Estimate), 27. August, 2009, p. 5

³⁴ Europäische Kommission: Statistischer Anhang zu "Europäische Wirtschaft" Frühjahr 2009, April 2009, p. 185

³⁵ See Congress Of The United States, Congressional Budget Office: The Budget and Economic Outlook: An Update, August 2009, p. 2

38. The expansion of public debt is also a huge program to safeguard the profits of the banks (who deal with resp. mediate the IOU). So they benefit in two ways from the state intervention - at first they are saved against the collapse, then they organize the repayment of the debt service and earn provision dividends. It also has the effect that the banks do not have to give credits for businesses and consumers, but can rely on speculative transactions in bonds. Overall, however, this also has the effect to slow down further the upturn in the industrial sector and of mass consumption. This then reinforces the stagnation tendencies, flattens the recovery further, it can also be the source of a second bubble and its bursting in the short-term.

39. The consequences of the historically high national debt are manifold. Weaker capitalist states – e.g. semi-colonial countries in the South and in Eastern Europe could prove to be unable to service their debt and to register officially bankrupt. The major powers have the ability to reprint money. In each case, however, the public budgets of all the capitalist states will be heavily burdened by the need to pay interest. This in turn has enormous political and economic consequences: the capitalist state is far less than ever in a position to support the capitalists by means of subsidies and tax concessions. And at the same time the state will inevitably raise mass taxes for the working class. This in turn limits the possibilities of private consumption and therefore limits the consuming power of society. On the other hand, this will make the state more than previously visible as an enemy of the working class and lead to a politicization of the class struggle.

40. In contrast to previous economic cycles, today there is no imperialist leading power that would be economically strong enough to play the role of a locomotive for the world economy. In recent decades, the U.S. has played this role. But the U.S. today is economically weaker than ever before since the 1930s. In recent decades, the U.S. is saddled with an enormous debt, both in the state, the federal states and municipalities, households and businesses. This debt has been again increased dramatically by 9 trillion U.S. dollars through the astronomical economic and banking aid packages. This is accompanied by the still existing balance of payments deficit, which in recent months decreased only for the reason, because the United States curbed imports grew even faster than exports. Certainly, the dollar is still the most important currency in the world. But its dominance is questioned increasingly by its rivals. This development is also shown by recent reports about plans to replace the US-Dollar as currency for raw oil. According to this report the Gulf states are already undertaking negotiations with Russia, China, Japan and France.³⁶

41. To summarize: The low point of the sharpest recession since 1929 seems to be behind us and the imperialist economies are in the phase of stagnation or the slight upswing. The collapse of the global economy has been prevented by massive state capitalist interventions. But the ruling class was not able to reduce a single of the fundamental problems of the capitalist order let alone solve it. This applies both to the economic contradictions - the over-accumulation of capital and the crisis of the profit rate - as well as the political contradictions - the growing rivalry between the imperialist powers. The upswing in the world economy is therefore weak and could – due to low investment and a new speculation bubble – even enter in a second recession in 2010. In any case, the bourgeoisie will make every effort to put the burden of the cost of the crisis onto the working class in the coming years.

³⁶ See the report of Robert Fisk „The demise of the dollar“ in the British daily paper *The Independent* from 6 October 2009, <http://www.independent.co.uk/news/business/news/the-demise-of-the-dollar-1798175.html>

This can only be prevented if the proletariat is fighting together and determined and ultimately eliminates capitalism by the international socialist revolution. For this overcoming of the crisis of leadership and the creation of a world party of socialist revolution – the Fifth International – is necessary.