Marxist Crisis Theory

and the Severity of the Current Economic Crisis

By David M. Kotz

Department of Economics

Thompson Hall

University of Massachusetts Amherst

Amherst, MA 01003, U.S.A.

December, 2009

Email Address: dmkotz@econs.umass.edu

This paper was presented on a panel on "Heterodox Analyses of the Current Economic Crisis" sponsored by the Union for Radical Political Economics at the Allied Social Science Associations annual convention, Atlanta, January 4, 2010. Research Assistance was provided by Ann Werboff. It is a revised version of a paper "The Final Crisis: What Can Cause a System-Threatening Crisis of Capitalism," *Science & Society* 74(3), July 2010.

The theory of economic crisis has long occupied an important place in Marxist theory. One reason is the belief that a severe economic crisis can play a key role in the supersession of capitalism and the transition to socialism. Some early Marxist writers sought to develop a breakdown theory of economic crisis, in which an absolute barrier is identified to the reproduction of capitalism.[1] However, one need not follow such a mechanistic approach to regard economic crisis as central to the problem of transition to socialism. It seems highly plausible that a severe and long-lasting crisis of accumulation would create conditions that are potentially favorable for a transition, although such a crisis is no guarantee of that outcome.[2]

Marxist analysts generally agree that capitalism produces two qualitatively different kinds of economic crisis. One is the periodic business cycle recession, which is resolved after a relatively short period by the normal mechanisms of a capitalist economy, although since World War II government monetary and fiscal policy have often been employed to speed the end of the recession. The second is a long-lasting economic crisis that requires significant restructuring -- that is, institutional change -- if the crisis is to be resolved within capitalism and the capital accumulation process restored. Despite the widespread recognition that these are two different types of crisis, there is not an agreed-upon terminology to distinguish them. Here the term "structural crisis of accumulation" will be used for the second type of economic crisis and "business cycle recession" for the first type.

History shows that structural crises of accumulation can be more or less severe, as will be discussed below. Our aim here is to identify the conditions that give rise to a severe structural crisis of accumulation, since it is the latter type of crisis that may play a role in the demise of capitalism. The Great Depression of the 1930s was, by general agreement, a severe structural crisis of accumulation. Although it is still early, it appears that the economic crisis that began in 2007-08 may be another severe structural crisis (see section 2 below). By contrast, it will be argued below that the structural crisis that occurred in the 1970s was of the less severe variety. This paper will draw on an analysis of the current crisis, with a comparison to the two preceding structural crises, to make inferences about the conditions that tend to produce a severe structural crisis of accumulation.

Marxist theory locates the cause of crisis in internal mechanisms of the capitalist system, which reflect the contradictory character of the capitalist process. The Marxist crisis theory literature offers analyses of several internal mechanisms that can cause a crisis. Such causal mechanisms have traditionally been called "crisis tendencies," which include underconsumption, the tendency of the rate of profit to fall due to a rise in the value of means of production relative to labor-power, the profit squeeze due to a declining reserve army of labor (Marx's term for unemployed workers), and over-investment (or over-accumulation), as well as other mechanisms.

The traditional Marxist crisis tendencies that populate the literature are a necessary starting point for considering the possible cause(s) of a severe structural crisis. However, the level of abstraction of the usual analysis of the traditional crisis tendencies is too high for this purpose. This paper argues that a severe structural crisis tends to emerge from a particular institutional form of capitalism. If one analyzes only capitalism-in-general -- that is, if one includes only the defining features of capitalism -- then crisis tendencies can be derived but it cannot be determined in a systematic way whether any particular crisis tendency will give rise to a mild or severe crisis.[3]

Section 2 briefly considers the social structure of accumulation (SSA) theory of capitalist crisis, concluding that it offers a promising theory of structural crisis but has not provided a satisfactory explanation of the factors that give rise to a <u>severe</u> structural crisis. Section 3 examines the roots of the current economic crisis, focusing on the US economy from which this crisis originated. It draws the lesson that the severity of the current crisis results from the <u>type</u> of capitalist institutional structure that has prevailed in recent decades, namely a liberal institutional structure. Section 4 compares the current crisis to the structural crises of the 1930s and the 1970s, noting similarities to the former and differences from the latter. Section 5 offers concluding comments.

2. The Social Structure of Accumulation Theory and Severe Structural Crises

It is common in the traditional Marxist crisis theory literature to supplement an analysis of a particular crisis tendency located in capitalism-in-general by taking account of a specific historical event or state policy, as a means to explain the emergence of a crisis that is severe and long-lasting. However, such an ad-hoc approach veers uncomfortably close to the "external factor" theory of crisis found in mainstream economics. There is an alternative approach, which takes account of the fact that capitalism never exists solely "in general" but always takes a specific institutional form.

The social structure of accumulation school argues that, in individual capitalist countries and in global capitalism as a whole, a sequence of relatively durable institutional structures can be identified, each lasting for several decades (Gordon, Edwards, and Reich, 1982; Kotz, McDonough, and Reich, 1994; McDonough, Reich, and Kotz, 2010). Such an institutional structure is termed a social structure of accumulation (SSA). This literature has argued that each SSA is a coherent set of institutions that, for a long period, promotes capital accumulation. Eventually the contradictions present in any SSA intensify, so that the SSA no longer promotes accumulation, ushering in a long period of structural crisis. The crisis continues until a new SSA is constructed.

The SSA theory may appear to offer an explanation of why severe structural crises of accumulation arise, but the historical record shows that some of the structural crisis periods identified in the SSA literature -- such as the 1970s -- do not seem to fit the concept of a <u>severe</u> structural crisis. As many analysts have noted, in the high-income capitalist countries macroeconomic performance worsened after 1973, compared to the period 1948-73. In the US there was a relatively sharp recession from the fourth quarter of 1973 to the first quarter of 1975, with GDP falling at a 2.5% annual rate over the five quarters. The remainder of the 1970s was characterized by reduced economic growth, high inflation and unemployment, and instability in the international monetary system -- that is, it was a period of relative stagnation and economic instability.

A strong case can be made that the 1970s represented a structural crisis of the postwar regulated capitalist SSA, which led to its demise and replacement by a quite different neoliberal institutional structure in the early 1980s. However, GDP growth and capital accumulation recovered rapidly after the 1974-75 recession. Using a business cycle peak to peak measure, during 1973-79 -- the heart of the structural crisis period identified in the SSA literature -- the U.S. economy actually expanded, with real GDP growing at an annual average rate of 3.0% and gross private domestic investment at 3.4% U.S. Bureau of Economic Analysis, 2009).[4] The unemployment rate, which had risen to 8.8% in June 1975, fell to 5.6% by May 1979. The unemployment rate did not reach double digits during this period until the early part of the neoliberal era, when it rose to 10.8% at the end of 1982 (U.S. Bureau of Labor Statistics, 2009). This resulted from intentional government policy, as the Federal Reserve applied very tight monetary policy which drove interest rates over 20%, aiming at destroying labor's bargaining power, stopping inflation, and driving up the international value of the US dollar (U.S. Federal Reserve System, 2009a).

The crisis of the 1970s does not seem to be a <u>severe</u> structural crisis of accumulation of the sort represented by the Great Depression of the 1930s. From 1929-33 GDP declined in the US for 3.5 years, falling by 30.5% over that period. Ten years later it had recovered to only 2.8% above its 1929 level. Business fixed investment, which fell to 28.7% of its 1929 level by 1933, was still only 57.7% of its 1929 level ten years later in 1939 (*Economic Report of the President*, 1967, Table B-2, p. 214, and Table B-20, p. 236). The unemployment rate hit 24.9% in 1933 and was 17.9% in 1939. The banking system entirely collapsed in 1933, a sharp contrast to the 1970s when no serious financial crisis occurred.

There is much evidence that the current crisis will turn out to be a severe structural crisis of accumulation, more like that of the 1930s than the 1970s. A real sector recession in the U.S. officially started in December 2007, although GDP did not start a sustained decline until the third quarter of 2008. The financial side of the crisis began far more dramatically, gathering momentum in the spring and summer of 2008 and suddenly reaching the point of financial collapse in September 2008, when most of the largest financial institutions in the US and many in other countries suddenly became insolvent. A total financial collapse was averted by the US Federal Reserve and Treasury Department providing an estimated $12.1 trillion in various forms of support to giant financial institutions and the financial markets in general.[5]

A recent study found that, for the global economy, both industrial production and world trade contracted at least as rapidly in the first year of the current crisis as they did in the year following the start of the Great Depression (Eichengreen and O'Rourke, 2009). GDP and industrial production have fallen very rapidly in a number of major capitalist countries in the current crisis. A United Nations report projected a GDP decline for 2009 of 6.5% in Japan and 6.1% in Germany (UNCTAD 2009, p. 2).

In the U.S., GDP fell by 3.8% in the year following its peak level in the second quarter of 2008. In the first quarter of 2009, business fixed investment plummeted at the astonishing annual rate of 39.2%, its fastest rate of decline since World War II by a large margin (U.S. Bureau of Economic Analysis, 2009). As of September 2009, total employment had undergone its largest decline since 1945, falling by 5.8% from its peak, compared to declines of 2.8% in the mid 1970s recession and 3.1% in the early 1980s recession (Norris, 2009).[6] The unemployment rate rose from 4.8% in February 2008 to 10.3% in October 2009, a precipitous rise that far surpasses the unemployment rate increase in the crisis of the 1970s (U.S. Bureau of Labor Statistics, 2009). This occurred despite a $787 billion government stimulus plan passed in February 2009.

Reports that the economic crisis is ending fail to distinguish a business cycle recession from a structural crisis. The U.S. GDP did increase, at a 2.8% annual rate, in the third quarter of 2009, a turnaround that appears to be largely due to government interventions. However, a business cycle expansion can, and usual does, take place during a period of structural crisis, as happened in 1933-37 and in 1975-79. If history is any guide, the contradictions that produced this crisis -- which are discussed in the next section -- can be resolved only by significant restructuring of the system, and such a process of restructuring has barely begun at this time.

The conventional SSA theory, which regards the structural crises of the 1930s and the 1970s as similar phenomena, does not provide an explanation of the factor(s) that cause a structural crisis of accumulation to be a severe one. However, the SSA theory's focus on the role of the institutional form of capitalism in explaining economic crises points in the right direction. The missing ingredient is a still more concrete analysis of capitalist institutional structures. Examining the way in which the institutional structure in the US in the neoliberal era gave rise to what appears to be another severe structural crisis can shed light on the key factors that produce that type of crisis.

3. The Current Crisis and Liberal Institutional Structures

The SSA theory has traditionally asserted that every new SSA is historically unique. However, it is argued in Kotz (2003a) and Wolfson and Kotz (2010) that capitalist institutional structures fall into two types, liberal and regulated. The main features of a regulated institutional structure are the following: 1) the state actively regulates the economy, including regulating the behavior of business and finance; 2) the capital-labor relation in the workplace has a significant element of compromise between the two sides, particularly between big capital and labor; 3) big business engages in a co-respective, restrained form of competition; 4) the dominant ideology emphasizes the benefits of state regulation of business, capital-labor cooperation, and "civilized" competition. By contrast, a liberal institutional structure has the following main features: 1) there is only limited state regulation of the economy and of business and finance; 2) capital, including big capital, strives to fully dominate labor in the workplace; 3) large corporations engage in unrestrained, cutthroat competition; and 4) a free-market, or classical liberal, ideology is dominant, which views the state as an enemy of freedom and efficiency and praises the virtues of unrestrained competition.[7]

Neoliberalism, which arose around 1980, gave rise to liberal institutional structures in the US, the UK, many other (although not all) countries, and also on the global level where the main economic institutions began to follow the neoliberal model. The economic crisis that began in 2007-08 emerged initially in the US, and it emerged from the neoliberal institutions in the US and global economies.

An examination of the process that led to the current crisis shows why, and how, a liberal institutional structure tends to eventually produce a severe structural crisis of accumulation.[8] Our examination will focus on the U.S. economy, where the current crisis originated. Neoliberal capitalism in the US gave rise to three developments that led to the current crisis: 1) growing inequality between wages and profits and among households; 2) a series of large asset bubbles; and 3) a financial sector that became increasingly absorbed in speculative and risky activities.

Inequality grew rapidly in the neoliberal era, increasing at an accelerating pace as the neoliberal structure matured in the last full business cycle of the neoliberal era, from 2000-07. From 1979-2007 the average real hourly earnings of nonsupervisory workers actually declined slightly, by 1.1%, while output per hour grew by 69.8%, indicating that all of the productivity gain over the period went to capital. By the mid 2000s the degree of inequality among households had reached a level not seen since 1929 (Kotz, 2009a).

Rapidly rising inequality tends to create a realization problem -- that is, an insufficiency of aggregate demand relative to output. Rising profits stimulate rapid accumulation and growing output, but stagnating or falling wages limit demand growth. Increasing concentration of income at the very top also limits demand growth, since the very rich do not spend a large share of their vast income on consumption.

However, the neoliberal institutional structure has features that postpone a realization crisis. The rapidly growing profits stimulate rapidly rising business investment, which constitutes a part of the demand for output. This can perpetuate an expansion for a time, but if it were the only mechanism operating to resolve the realization problem, an imbalance would quickly arise as the means of production would grow too rapidly relative to output. The neoliberal institutional structure produced large asset bubbles, which provided a longer lasting resolution of the realization problem.

An asset bubble is a self-perpetuating rise in the price of an asset that results from the expectation of future increases in the asset's price. For example, if financial investors expect the price of real estate to rise rapidly in the near future, they will have an incentive to buy real estate to obtain the capital gain from the rising price. This can become a self-sustaining process if the profits gained by investors from a rising asset price draw in more and more investors, whose purchases in turn cause the asset price to continue rising. Each of the long economic expansions of the neoliberal era in the US saw a large asset bubble, in southwestern commercial real estate in the 1980s, in the stock market in the 1990s, and in the housing sector in the 2000s.

There were three long economic expansions in the U.S. in the neoliberal era, in 1982-90, 1991-2000, and 2001-07. An asset bubble can prolong an expansion by holding off the realization crisis that tends to result from rising inequality. It does so by increasing the paper wealth of those who hold the asset undergoing a bubble process. The rising paper wealth leads to consumer spending that grows relative to income.

Figure 1 shows that the ratio of consumer expenditure to after-tax income trended downward from 1960 to the mid 1980s. Then the ratio trended sharply upward from the mid 1980s, when the recovery from the depressed early 1980s began, through 2005. The first bubble of the neoliberal era that was large enough to clearly affect the US economy as a whole was the 1990s stock market bubble. As figure 1 shows, after 1992 the ratio of consumer spending to income rose sharply, reaching 93.8% in 1999 up from 89.1% in 1992. When the housing bubble began after 2002, the ratio rose further, from 93.9% in 2002 to 95.9% at its peak in 2005.[9] Over some two decades of neoliberalism, this ratio rose by almost ten percentage points, starting at 86.0% of income in 1984. Relative to GDP, consumer spending rose from a low of 62.0% in 1981 to 70.5% of GDP in 2008.[10]

[Place Figure 1 about here]

However, the rise in consumer spending relative to household income, while postponing the realization crisis, makes the eventual crisis worse. Enterprises respond to a long period of rising consumer spending by investing heavily in fixed capital to increase their productive capacity. In addition, a giant bubble generates optimistic expectations about future profits from real investment, which also tends to stimulate an increase in investment and hence in the volume of productive capacity. Once the bubble bursts -- as all asset bubbles eventually must -- consumer spending drops to a more normal relation to income while profit expectations simultaneously collapse. The sudden declines in consumer and investment demand reveal a large amount of excess capacity that had not been apparent while the bubble was still inflating. This can depress the incentive to invest for a long period of time, bringing a severe, long-lasting crisis of over-investment.

When the U.S. stock market bubble burst in 2000, business fixed investment in the US fell by 13.0% over the next two years. However, a severe over-investment crisis was averted at that time by the emergence in 2002 of another, even more massive bubble, this time in housing. After 2002 business fixed investment recovered, rising by 29.1% during 2002-07. The housing bubble began to collapse in 2007. In the second half of 2008 consumer spending fell rapidly, at more than a 3% annual rate. Business fixed investment began to fall very rapidly in the fourth quarter of 2008, and by the third quarter of 2009 it had fallen by 20.2% from its peak in the second quarter of 2008 (U.S.

Bureau of Economic Analysis, 2009, Tables 1.1.1 and 1.1.6).

The speculative, risk-seeking financial sector is the third development that played a key role in the current crisis, in addition to rising inequality and large asset bubbles. As everyone knows, the US financial sector engaged in an orgy of speculative activity in the 2000s, much of it related to the housing sector. As long as the housing bubble kept inflating, this contributed to the economic expansion. By providing a huge volume of mortgage loans to existing homeowners, including homeowners with a poor credit rating, the financial sector made possible the rapid expansion of consumer spending based on the rising values of people's homes.[11] If the only way homeowners could have spent some of the rapidly rising value of their homes had been to sell the home, the housing bubble could not have continued. Thus, the speculative lending of the financial sector made it possible for the bubble to continue to inflate while also enabling the rising value of housing to spur rising consumer spending.

However, the result of this process was an increasingly fragile financial sector. Not only did the US financial sector create trillions of dollars of bad assets that eventually collapsed in value, it also itself increasingly borrowed funds to pursue its highly profitable speculative activities. Figure 2 shows the total debt of each of the three major private sectors of the US economy. The debt of the nonfinancial business sector rose only modestly in the neoliberal era. The household sector's debt grew rapidly after the early 1980s, and at an accelerating pace after 2000. From 1980 to 2008 the ratio of household debt to GDP about doubled. By 2008 the household debt had become unsustainable in the absence of a continuing housing bubble, which had enabled households continue to withdraw equity from their homes to remain afloat. However, during that same period, from 1980 to 2008, the debt of the financial sector grew almost six-fold.

[Place Figure 2 about here]

Thus, the speculative, risk-seeking financial sector was set up for a collapse by 2008. A financial sector collapse makes an economic crisis more severe and harder for the state to control. It is this aspect of the current crisis that has received most of the coverage in the mass media, and it is an important factor in explaining the severity of the current crisis. However, it is only one of the important factors. All three developments -- growing inequality, a series of large asset bubbles, and a speculative, risk-seeking financial sector -- worked together to produce the start of what looks like a severe structural crisis of accumulation in 2007-08. The fundamental cause is an asset-bubble-induced over-investment crisis worsened by a severe financial crisis.

These three developments -- rising inequality, big asset bubbles, and a speculative, risk-seeking financial sector -- are not inherent features of capitalism-in-general. For example, in the US during the period of a regulated SSA in 1948-73, wages rose at approximately the same rate as labor productivity, while the distribution of household income became slightly less unequal (Kotz, 2009a). During that period there were no asset bubbles, and the major financial institutions engaged mainly in the traditional financial activities of making and holding loans, selling stock and bonds, and offering conventional insurance. There were no major bank failures or financial panics in that period.

Those three developments are features of the liberal institutional form of capitalism. The weak bargaining position of labor in a liberal form of capitalism tends to cause wages to stagnate or fall while profits rise rapidly. The limited state intervention in the market allows the strong to grab, and keep, a rising share of social output.

A liberal institutional structure gives rise to large asset bubbles, for two reasons. First, the rising inequality causes profits, and the income of rich households, to exceed the available profitable productive investment opportunities. Hence, some of that income finds its way into the purchase of such assets as corporate stocks or real estate, which initiates an asset bubble. Second, the deregulated financial institutions in a liberal institutional structure are free to make the speculative loans without which an asset bubble cannot continue to grow.

The third development that arose in the neoliberal era -- a financial sector that pursues speculative, risky activities -- resulted primarily from financial deregulation. Once financial institutions are free to pursue maximum profits without oversight or regulation, they will pursue such risking activities, which promise a much higher rate of profit than the traditional, mundane financial functions. At least, this is so as long as the big asset bubbles last and before the risky investments turn bad.

4. The Roaring 1920s, the Postwar SSA, and the Neoliberal Era

According to the usual view found in the SSA literature, the 1920s U.S. had an SSA that originated in the 1890s. That SSA was characterized by monopoly power and significant state regulation of business (Gordon et al, 1982, ch 4; Kotz, 1987). However, after World War I there were major changes in US capitalism. The new state regulatory agencies that had arisen during the Progressive Era of 1900-16 were captured by business and/or ceased to exercise any oversight. The limited moves by big business toward a cooperative relation with trade unions in the Progressive Era gave way to an assault on labor, initiated by the breaking of a big steel industry strike in 1919. By the mid 1920s the labor movement was in steep decline. The pattern of cooperative pricing established by J.P. Morgan and other finance capitalists after the 1890s weakened, as Wall Street lost power to new centers of finance in the midwest and west and as new industries emerged (such as automobiles) that were outside Wall Street's control (Kotz, 1978, ch. 3). An extreme individualist ideology became dominant. The 1920s U.S. closely fit the characteristics of a liberal institutional structure.

The 1920s U.S. also saw the same three developments that arose in the neoliberal era. Inequality grew sharply, as wages lagged behind productivity growth and household income concentrated at the top. From 1920-29 real hourly wages in manufacturing rose by 19.3% while output per labor hour in manufacturing rose by 62.6%.[12] The share of after-tax income going to the top 1% rose from 11.8% in 1920 to 19.1% in 1928 (U.S. Bureau of the Census, 1961, 161). Big asset bubbles emerged, in Florida real estate in the mid 1920s followed by a giant bubble in the US securities market in the late 1920s. The financial sector increasingly became involved in speculative, risky activities. While this began with medium-size financial institutions, by the end of the 1920s the largest old-line banks were drawn in (Kotz, 1978, ch. 3).

The Great Depression was set off by the collapse of the U.S. securities bubble in the fall of 1929. This was followed by a rapid decline in consumption and investment, leading eventually, in 1933, to a complete collapse of the banking system. As was noted above, investment remained depressed for a decade following 1929. While conservatives blamed this on business fear of New Deal reforms, a case can be made that it is explained by a severe over-investment crisis induced by the big asset bubbles of the 1920s. The combination of bubble-induced over-investment and a financial crisis is quite similar to today's conditions.[13] Thus, the historical background to the current crisis, together with that of the Great Depression, lends support to the view that a liberal institutional form of capitalism creates conditions that tend to eventually unleash a severe structural crisis of accumulation.

The milder and shorter structural crisis that followed the collapse of the post-World War II regulated form of capitalism can be explained by the different dominant crisis tendencies in such a form of capitalism. Under regulated capitalism, labor tends to have significant bargaining power. As a result, economic expansions tend to set off a profit-squeeze type of crisis, as the declining reserve army leads to wages rising fast enough to squeeze profits (Kotz, 2009b; Wolfson and Kotz, 2010). One study (Kotz 2009b) found that every business cycle recession of the period 1948-73 was caused by the profit squeeze crisis tendency.[14]

The most common SSA analysis of structural crisis of the 1970s views a key factor in the emergence of that crisis to be a kind of long-run, institution-based version of the profit squeeze tendency (Bowles et al., 1990, part II). According to this argument, over the period of regulated capitalism, there was a long-run increase in the relative strength of labor, as well as other groups, in relation to U.S. capitalists. Eventually this led to a set of sharp conflicts between capitalists in the U.S. and U.S. labor (and other groups such as third world raw material suppliers) that destabilized the regulated capitalist SSA and the accumulation process it had supported.

Why was the resulting structural crisis less severe than the Great Depression? If the underlying cause of the crisis was the increased bargaining power of labor and other popular groups, that "problem" could be resolved by a few years of policy-induced very high unemployment and economic punishment of the Third World in the early 1980s. Neoliberal restructuring -- which was accomplished relatively rapidly by the reassertion of capital's power, the dismantling of state regulation of business, and a drastic cutback in social programs -- served to resolve the crisis of regulated capitalism.

Also, there is a difference in the managerial capacity of the state at the end of the two types of institutional structure of capitalism. When regulated capitalism enters a crisis, the state has recent experience at managing the economy, which facilitates the resolution of the crisis. However, when liberal capitalism enters a crisis, the state has been through a long period of hollowing out and has little capacity for effective management of the economy. Despite the Roosevelt Administration's bold programs, the U.S. economy did not fully emerge from the Great Depression onto a new path of vigorous accumulation until after World War II, some fifteen years after 1929. In the current crisis we have witnessed the difficulties experienced by the Obama Administration due to the lack of recent experience of, and commitment to, active state management of the economy. The economic stimulus program of February 2009 was designed to create or save only 1.6 million jobs, compared to 15 million who were officially unemployed by late 2009, and its implementation has been very slow.[15]

5. Concluding Comments

Both theoretical considerations and historical evidence support the view that a liberal form of capitalism tends to eventually give rise to a severe structural crisis of accumulation, while the regulated form of capitalism meets it end in a milder structural crisis. This has several implications.

First, there is an implication for Marxist theory. The analysis above suggests that it is necessary to go beyond analyzing capitalism in general, or simply supplementing such analysis with the ad hoc addition of particular historical developments or state policies. Marxists should seek to systematically analyze the particular institutional forms of capitalism that arise in history to determine their properties and tendencies. There seems to be some reluctance to do so, perhaps stemming from a concern that focusing on the particular institutional form of capitalism will divert attention from the evils of capitalism itself and the need to replace it entirely. Such a concern is misplaced. To be effective at understanding and challenging capitalism, we must analyze its particular institutional features in the current time and place.

Second, the above analysis poses a paradox for the transition to socialism. A long period of regulated capitalism tends to strengthen the working class. The world-wide radical upsurge of the late 1960s occurred after twenty years of regulated capitalism. However, regulated capitalism also tends to bring a rising living standard and expanded public services for the working class, which makes a successful challenge to capitalism less likely. To these considerations the above analysis adds an argument that the eventual accumulation crisis of regulated capitalism tends to be relatively mild, which further reduces the likelihood of a transition to socialism.

By contrast, a long period of liberal capitalism tends to weaken the working class and radical movements. We have observed this in the neoliberal era, and a similar trend occurred in the US in the 1920s. If a liberal form of capitalism tends to eventually bring a severe economic crisis, it enters that crisis with the working class movement and radical movements weak and divided. Thus, the potential that might appear to be present for the severe structural crisis that follows a period of liberal capitalism to promote a transition to socialism runs into the problem that there may not be an agent of such a transition that is ready to bring it about.

However, against the above considerations must be balanced the conclusion that the structural crisis following a liberal institutional form of capitalism is not likely to be easily or quickly resolved. If the current crisis continues for some time, the demobilizing effects of neoliberalism may be replaced by the radicalizing effects of a prolonged and severe economic crisis. In the early part of the Great Depression in the US, there were some protests, but the period of major labor and radical upsurge was 1934-39. Although any historical analogy is highly imperfect, we are now at a time analogous to 1930-31 -- that is, the first year or two of the current structural crisis.

The major capitalist states appear at this time to be trying to resuscitate neoliberal capitalism, but the analysis presented here suggests that it cannot be resuscitated as a viable based for renewed capital accumulation at this time. A new state regulated capitalism could form the basis for renewed accumulation, but it would require a lengthy period to construct such a new form of capitalism. This crisis presents an opportunity, which may last for some years, for the left to organize for a real alternative to capitalism.

References

Bowles, Samuel, David M. Gordon, and Thomas E. Weisskopf. 1990. *After the Wasteland: A Democratic Economics for the Year 2000*. Armonk, N.Y., and London: M.E. Sharpe.

Economic Report of the President 1967. Washington, D.C.: U.S. Government Printing Office.

Eichengreen, Barry and K.H. O'Rourke.. 2009. A Tale of Two Depressions, June 4. Downloaded from website http://www.voxeu.org/index.php?q=node/3421 on August 26, 2009.

Gordon, David M., Richard Edwards, and Michael Reich. 1982. *Segmented Work, Divided Workers*. Cambridge: Cambridge University Press.

Greenspan, Alan, and Kennedy, James. 2007. Sources and Uses of Equity Extracted from Homes. Federal Reserve Board Finance and Economics Discussion Series No. 2007-20. Available at http://www.federalreserve.gov/pubs/feds/2007/200720/200720pap.pdf.

Kotz, David M. 2009a. The Financial and Economic Crisis of 2008: A Systemic Crisis of Neoliberal Capitalism, *Review of Radical Political Economics*, 41:3, Summer, 305-317.

____________. 2009b. Economic Crises and Institutional Structures: A Comparison of Regulated and Neoliberal Capitalism in the U.S. In *Heterodox Macroeconomics: Keynes, Marx and Globalization*, Jonathan P. Goldstein and Michael G. Hillard (eds). London and New York: Routledge.

____________. 2008. Contradictions of Economic Growth in the Neoliberal Era: Accumulation and Crisis in the Contemporary U.S. Economy, *Review of Radical Political Economics*, 40:2, Spring, 174-188

____________. 2003a. "Neoliberalism and the Social Structure of Accumulation Theory of Long-Run Capital Accumulation," *Review of Radical Political Economics*, 35:3 (September), 263-270.

____________. 2003b. "Neoliberalism and the U.S. Economic Expansion of the 1990s," *Monthly Review*, 54:3, April, 15-33.

____________. 1987. "Long Waves and Social Structures of Accumulation: A Critique and Reinterpretation," *Review of Radical Political Economics*, 19:4, 16-38.

____________. 1978. *Bank Control of Large Corporations in the United States.* Berkeley: University of California Press, 1978.

Kotz, David M., Terrence McDonough, and Michael Reich (eds.). 1994. *Social Structures of Accumulation: The Political Economy of Growth and Crisis*, Cambridge: Cambridge University Press.

McDonough, Terrence, Michael Reich, and David M. Kotz (eds.), *Contemporary Capitalism and its Crises: Social Structure of Accumulation Theory for the Twenty First Century*. Cambridge: Cambridge University Press.

Norris, Floyd. 2009. "The Jobs News Gets Worse," *The New York Times*, October 4, p. wk-3 (data from the U.S. Bureau of Labor Statistics via Haver Analytics).

Sweezy, Paul M. 1970. *Theory of Capitalist Development*. New York: Monthly Review Press.

The New York Times. 2009. "Adding Up the Government's Bailout Tab," downloaded April 12 from the New York Times website www.nytimes.com.

UNCTAD. 2009. *Trade and Development Report,* United Nations Conference on Trade and Development. New York and Geneva: United Nations.

U.S. Bureau of Economic Analysis. 2009. *National Income and Product Accounts of the United States*. Revision of November 24, 2009, downloaded on November 24 from website www.bea.gov.

U.S. Bureau of Labor Statistics. 2009. Unemployment rate series downloaded on December 5 from www.bls.gov.

U.S. Bureau of the Census. 1960. *Historical Statistics of the United States: Colonial Times to 1957.*

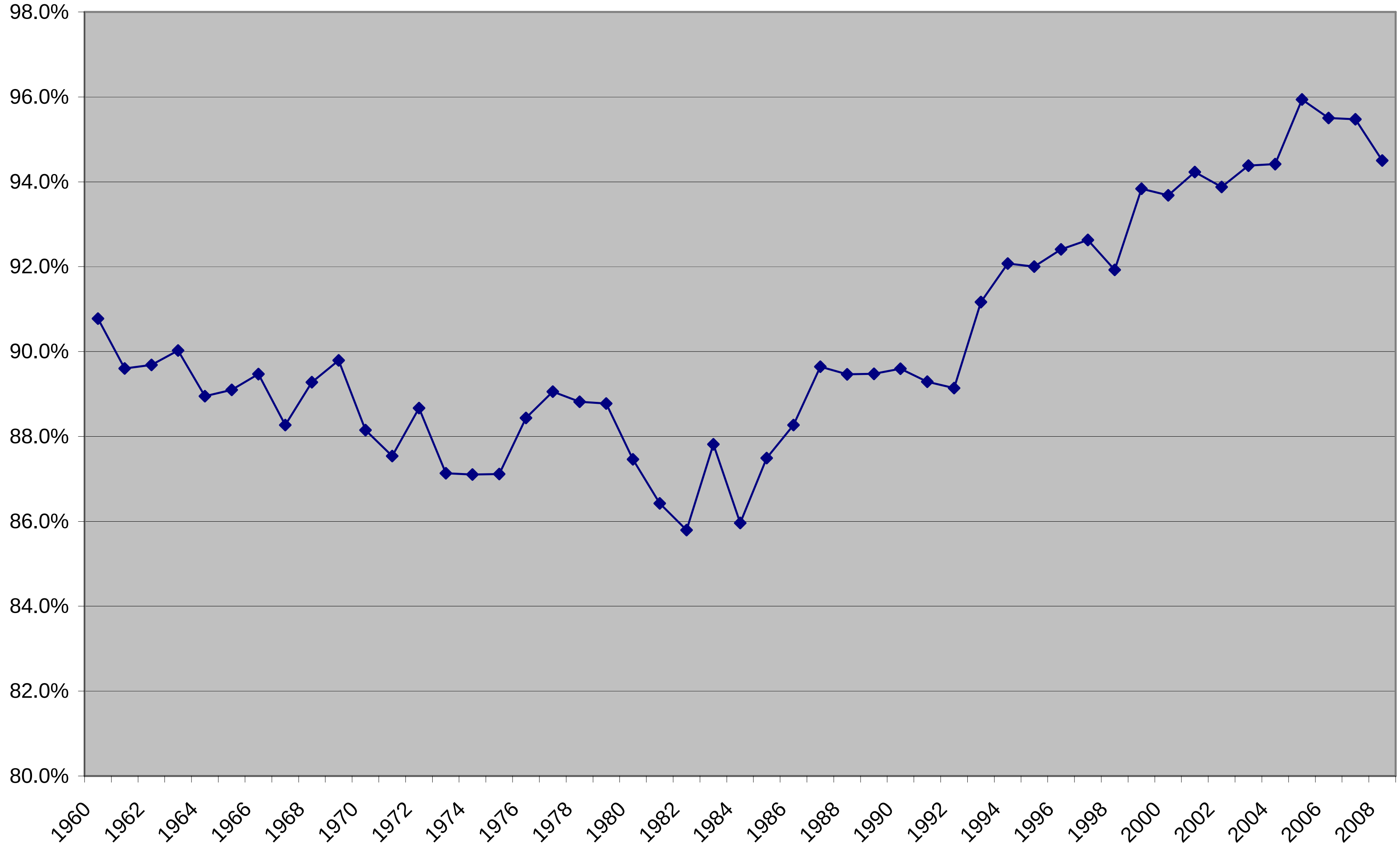
Washington, D.C.: U.S. government Printing Office.

U.S. Federal Reserve System. 2009a. Release H.15 Selected Interest Rates, downloaded on December 4, 2009, website http://www.federalreserve.gov/.

____________________. 2009b. Flow of Funds Accounts, downloaded on March 12 from website http://www.federalreserve.gov/.

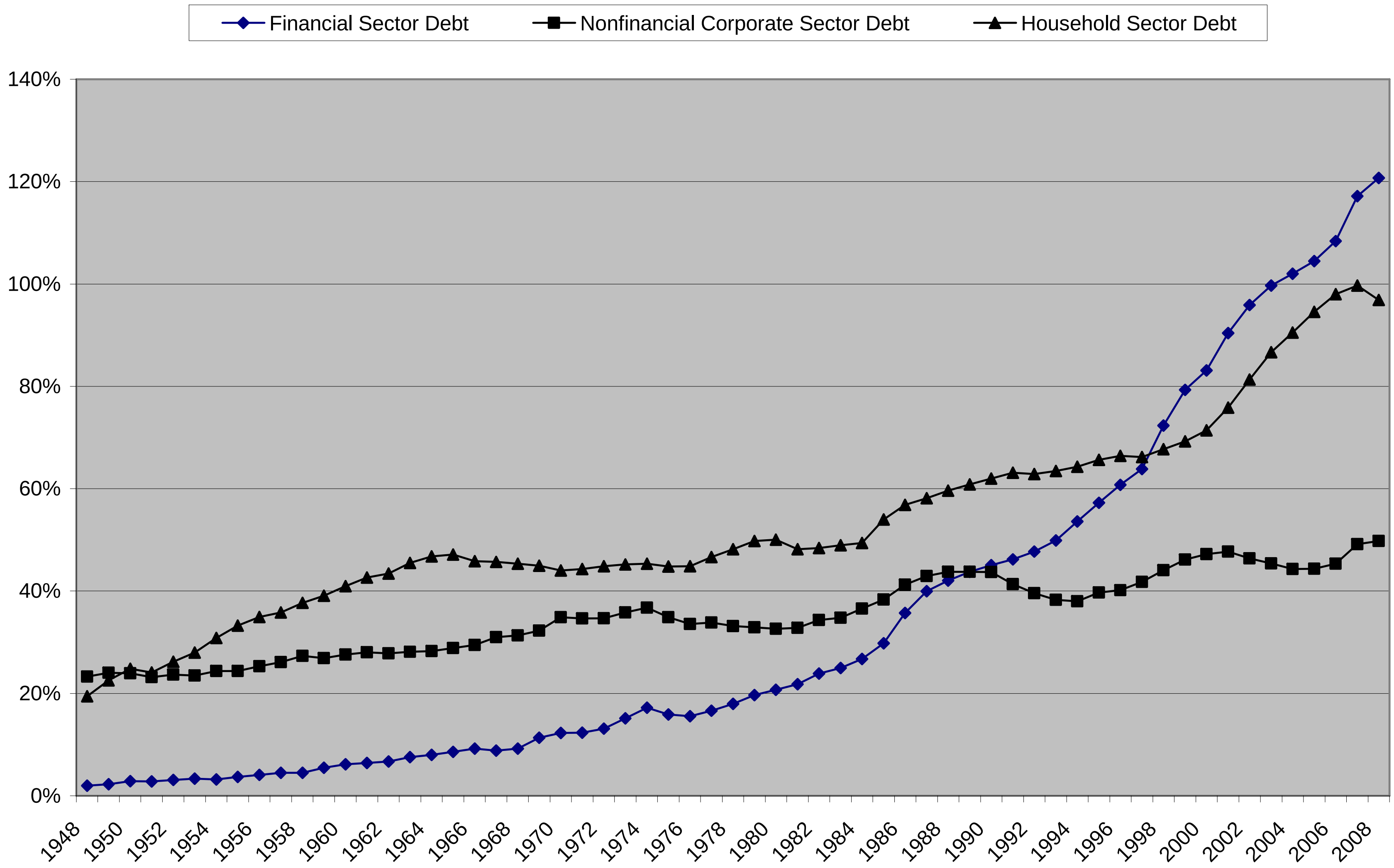
Wolfson, Martin, and David M. Kotz. 2010. "A Reconsideration of Social Structure of Accumulation Theory," in McDonough, Terrence, Michael Reich, and David M. Kotz (eds.), *Contemporary Capitalism and its Crises: Social Structure of Accumulation Theory for the Twenty First Century*. Cambridge: Cambridge University Press.

Figure 1. Personal Consumer Spending as a Percentage of Disposable Personal Income



Source: U.S. Bureau of Economic Analysis, 2009, Table 2.1.

Figure 2. Debt of Major Sectors of the U.S. Economy as a Percentage of GDP



Source: U.S. Federal Reserve System, 2009b, Z-1 Statistical Release.

Notes

1. See Sweezy (1970, ch. 11) for a review of Marxist breakdown theories.

2. History shows that a turn to fascism is also a possible outgrowth of a severe economic crisis.

3. The defining features of capitalism, in brief, are commodity production and the wage-labor relation.

4. The data presented in this paper on GDP, business investment, unemployment, interest rates, wages, labor productivity, and income inequality are, unless otherwise noted, from the following sources: *Economic Report of the President* 1967; U.S. Bureau of Economic Analysis, 2009; U.S. Bureau of Labor Statistics, 2009; U.S. Bureau of the Census, 1960; and U.S. Federal Reserve System, 2009a and 2009b.

5. From the start of the financial crisis through April 1, 2009, the federal government had committed to the financial sector \$7.7 trillion as investor, \$2.3 trillion as lender, and \$2.1 trillion to guarantee financial sector debt. Of the \$12.1 trillion committed, \$2.5 trillion had been spent as of April 1 (*The New York Times*, 2009).

6. During the post-World War II demobilization and economic readjustment in 1945, employment fell by 10.1%.

7. None of these features of a liberal SSA prevents big business from seizing opportunities to make profits through its relations with the state or from seeking and gaining monopoly power in markets.

8. This analysis draws on Kotz (2009a), which provides a detailed analysis of the roots of the current crisis.

9. The rise of consumer spending to 95.9% of disposable income in 2005 does not imply that personal saving was almost 4% of income, since part of disposable income goes into interest payments and transfer payments. That year the personal saving rate fell to only 0.4% of income.

10. See Kotz (2003b and 2008) for a detailed analysis of the effects of bubbles on consumer spending and aggregate demand in the 1990s and 2000s.

11. During 2004-06 US households borrowed against their homes an amount that averaged 9.5 per cent of disposable personal income (Greenspan and Kennedy, 2007).

12. Calculated from U.S. Bureau of the Census, 1960, pp. 92, 126, 600. Nominal wages were stagnant but prices fell over the decade.

13. A little-noticed difference between the 1930s and today is that in the current crisis the financial system approached insolvency right at the start of the economic crisis, while in the 1930s a financial collapse, which happened in the spring of 1933, followed three and a half years of decline in the real sector.

14. By contrast, in the late expansion period in the 1980s, 1990s, and 2000s, real wages did not rise fast enough to squeeze profits (Kotz, 2009b, supplemented with updated data).

15. By contrast, the Chinese state, which has presided over a system that has remained heavily state regulated through the neoliberal era, has been able to enact a relatively much larger stimulus program which took effect almost immediately and restored rapid economic growth, although it did so by boosting investment to what may be an unsustainable level.