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Making Sense of the Current Expansion of the U.S. Economy: A Long Wave Approach and a Critique

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ABSTRACT

Despite the impressive rebounding of the U.S. economy from the long contraction of the 1970s, a number of radical political economists seem to be dismissive, oblivious, or in denial of this significant turnaround. To the extent that they reluctantly acknowledge the recovery, they immediately add that the recovery represents no long-wave expansion, and that it merely represents a "transitory" upswing along the long downswing of the 1970s (Brenner 1998, Moseley 1999, O'Hara 2000, as well as most of the proponents of the SSA thesis) What do we make of the glaring gap between the reality of the current expansion of the U.S. economy and the perceptions of these economists of that expansion? Our search for answer(s) to this question leads us to the conclusion that these radical economists are gravely misreading the expansion; that such misreading stems, among other reasons, from serious theoretical and

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methodological weaknesses; and that significant policy and/or political implications can follow from such dubious assessments and judgments.

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1. Theoretical Framework of This Study: The Marxian Profit-Rate Theory of Long Waves

Alternating periods of boom and bust are rather well established in the history of advanced capitalist economies. Economists make a distinction between the "usual" business cycles, ranging from few to several years, and the longer cycles of few or several decades known as long waves or "Kondratieffs," after the Russian statistician who systematically highlighted this historical rhythm. While mainstream economists focus primarily on short-term fluctuations, heterodox economists provide a number of theories of long waves of capitalist development. Three of the most well-known of these theories are: (a) innovation- or technologically-determined theory of long waves, asso-ciated with the names of Nikolai Kondratieff and Joseph Schumpeter; (b) the "social structure of accumulation" (SSA) theory, expounded by David Gordon and his various co-authors; and (c) the Marxian profit-rate theory, associated largely with the names of Leon Trotsky and Ernest Mandel. Of these, we adopt the Marxian profit-rate approach as *the theoretical framework of our study* as it integrally ties together the major tendencies of a market economy (such as technical change, profitability drive, and capital accumulation) with issues and dynamics of class struggle, thereby providing a more satisfactory explanation of long waves than alternative approaches.[1]

According to this theory, there is a tight relationship between the movements of the long-term average rate of profit and general, economy-wide long wave developments. Indeed, "a Marxist long wave theory is in the last analysis a theory of long waves in the average rate of profit" (Mandel 1980: 20). The Marxian law of the tendency of the rate of profit to fall plays a key role in the explanation of the switch from a long wave of expansion to a long wave of contraction. According to that law, there is a constant, simultaneous, and dialectical interaction between factors that tend to lower the average rate of profit and those that counteract that tendency. Some of the counteracting

[1] For a comparative analysis of various long wave theories see. Kleinknecht et al 1992, Day 1976, Goldstein 1988, Mandel 1980, and Kotz et al 1994

factors are technological changes, increases in the rate of surplus value, new markets for sales and investment, weakened labor and depressed wages, and a quickening in the turnover time of capital. But an expanding long wave cannot continue indefinitely. Sustained expansion for a number of years will eventually result in a tight labor market, rising wages, and an acceleration of capital-labor substitution as capitalists will try to economize on labor costs. As this process tends to raise the capital-labor ratio (or the organic composition of capital á la Marx), it will also tend to lower the average rate of profit. Sooner or later this tendency will outweigh the counteracting tendencies, thereby turning the expansive long wave to a depressive one.

But while, according to this theory, the transition from periods of expansion to periods of stagnation can thus be explained by the inner laws of the accumulation of capital, the reverse is not true. That is, the turn from long periods of stagnation to those of expansion cannot be explained by "purely endogenous" factors; "exogenous" or "extra-economic" factors are required to bring about such upward transitions. These extraeconomic factors include not only domestic policies of economic, legal, political, and institutional restructuring, but also external factors and foreign policy measures that are designed to capture new markets and enhance profitability on a global level. While mainstream economists call these extraeconomic measures of crisis management simply "restructuring or adjustment" policies, they are, in fact, legal, political, institutional, and, at times, military instruments of class struggle that are employed by business and government leaders in pursuit of profitability. This means that the alternating long periods of expansion and contraction are not automatic in this theory, as restoration of profitability and the onset of a new wave of upswing (after a long period of stagnation) depend largely on the success or failure of a whole series of extraeconomic measures—in turn, depending largely on the balance of social forces and the outcome of class struggle.

2. The Reality of the Expansion

Evidence shows that during long periods of economic contraction business and government leaders dispel all pretensions of deferring economic affairs to Adam Smith's "invisible hand," and rush to the rescue of the system with all kinds of restructuring schemes and crisis-management policies. The turn from the protracted stagnation of the 1970s to the current long expansion would not have been possible without such restructuring schemes. The antilabor collaboration between business and government leaders in response to that stagnation resulted in (a) a cut in real wages and benefits of about 12 to 20 percent between the mid 1970s and the mid 1990s; (b) an easier dismissal of union workers and an equally easier hiring of the so-called contingency ones; and (c) a further mobility of capital throughout the world. Additional "restructuring" measures included a systematic curtailment of the so-called social "safety-net," deregulation of business and relaxation of antitrust laws, and the 1980s tax overhauls in favor of the wealthy.

The combined efforts by business and government leaders to revive corporate profitability seem to have had most of their desired effects: labor costs in real terms fell (on average) by about 16 percent between 1975 and 1995, and the long declines of the 1970s in productivity, profitability, and investment have all been turned into long expansions. Investment spending has been on the rise since the early 1990s. Since 1995, overall business spending on new equipment has risen to about 8 percent of national output annually, a very high rate of capacity building. The rate of increase of business spending in computers and/or information technology during this period has been twice the rate of other capital goods. Capital spending in the fourth quarter of 1998, for example, rose and astounding 21 percent, which lifted the overall capital spending for the year up to a spectacular 17.5 percent increase, significantly above the 11 percent average annual growth rate for the 1990s. For high-tech industries these rates were 32 percent in 1998 and 19 percent annual average since 1991 (*Business Week* February 19, 1999: 30–31).

Now, impressive as this investment boom is it does not tell us much about how long the current expansion might continue. In fact, the investment boom signifies a mixed message: at the same time that it enhances productivity and economizes on labor costs it also increases the capital/labor ratio, or the organic composition of capital á la Marx, which tends to lower the rate of profit. The presence of a number of strong counteracting tendencies, however, indicates that the expansion may not come to an end any time soon. What are such counteracting factors?

To begin with, it is highly likely that, due to the now pervasive use of information technology throughout the economy, the recently heightened productivity will continue for some time. Second, because these days economic growth in the United States is being driven largely by high tech, information-related technology where prices are falling, the capital-labor ratio will not grow as fast as in the days when the driving force of economic growth as steel, railroads, or automobiles. Third, the drastically expanded global markets, coupled with computer technology and the aggressive global economic policies of neoliberalism, mean that U.S. big business now can produce and sell anywhere, as well as source from anywhere. The heightened competitive pressure on an international level means that both prices, especially of primary products, and wages can be kept under control for a longer period than in past expansions.

Despite the presence of these strong counterbalancing tendencies, vis-à-vis the tendency of the rate of profit to fall, it is not possible to predict how long the current expansion of the U.S. economy will continue. One thing is clear, however: the combined economic and extraeconomic measures that business and government leaders employed in response to the stagnation of the 1970s have succeeded in turning that long declining cycle into a long expansive one.

3. Misreading the Recovery

As noted earlier, many radical political economists have failed to notice (or to acknowledge) the turn of the U.S. economy from the long decline of the 1970s to the current long wave of expansion. This is all the more regrettable in the case of Marxist political economists whose historical projections of a superior civilization to capitalism are grounded in their claim of a better understanding of the "laws of motion of capitalist development."[2] What accounts for this dichotomy: the gap between the reality of the current expansion and the perceptions of those radical political economists of that expansion? We detect a number of weaknesses in the assessments of these scholars of the current U.S. economic recovery.[3]

(a) *Theoretical Weakness* One of the obstacles in the way of these economists' willingness to accept (or their ability to see) the current recovery as a long wave of the expansion is their theoretical perceptions of the long waves of capitalist development. Specifically, they tend to judge the current recovery not so much by its reality, or by the actual conditions that have precipitated it, as they do by a set of preconceived conditions that are packaged in their general theoretical formulations of long waves. For example, Robert Brenner (1998) argues that the turn from a long wave of decline to a long wave of expansion requires (a) a cataclysmic contraction which would result in "a massive devalorization [lowering or destruction of value] of fixed capital," and (b) a relatively long period of relief from competition where different national capitals do not have to confront one another

[2] Not all Marxist economists deny that this recovery is a long expansion See, for example, Henwood 1998, Malloy/Post 1999, Yaghmaian 1998, and Lippit 1997

[3] A detailed or extensive critique of the many radical economists who deny that the current U S economic recovery represents a new long wave of expansion is beyond the scope of this study In the following few pages we limit our critique to the views of Robert Brenner and those of the proponents of the SSA thesis

"head-to-head," thereby being able to avoid "over-competition," "overcapacity," and "overproduction."

While such conditions—the Great Depression of 1929–33 and the emergence of the United States from World War II as the unrivaled economic power in international markets—greatly contributed to the "golden economy" of the United States in the 1950s and 1960s, they must not be viewed as essential to (or even necessary for) every recovery and expansion. And since this is exactly what Brenner seems to do, he is therefore unable to see the current recovery as a long expansion. Evidence shows that both the current expansion, as well as the one that followed the massive restructuring policies of the 1890s, came about not so much by Brenner's conditions for recovery as they did by downward pressures on wages and working conditions, which in both cases led to a significant increase in profit-wage ratios.[4]

Unfortunately, the tendency to elevate the conditions that underlay U.S. economic developments in the postwar period—the long expansion of the "golden economy" and its transition to the subsequent long stagnation in the 1970s—to the level of a general theory of long waves of capitalist development is not limited to Brenner. The social structure of accumulation (SSA) thesis also seems to be inclined to make such theoretical generalizations. For example, according to this thesis, the institution of the so-called "capital-labor accord" in the postwar period, which granted labor generous wages and improved working conditions, significantly contributed to the "golden economy" of that period as it resulted in workers' satisfaction and enhanced productivity. Likewise, the "capital-citizen accord," which reduced income inequality and improved living standards, also greatly contributed to the postwar expansion as it created a robust domestic demand for U.S. products. The "breakdown of those accords," along with similar "pro-growth" institutions, by the late 1960s and the early 1970s, the argument goes, precipitated the ensuing long stagnation as it resulted, among other things, in workers' dissatisfaction and, hence, declining productivity (Gordon/Weisskopf/Bowles 1996).

While it is true that the immediate postwar expansion was associated with rising wages, and the subsequent decline was accompanied by depressed wages and working conditions, such correlation indicates neither causality nor theoretical validity. The SSA theorists' claim that the existence of a "capital-labor accord" is essential to productivity growth and economic expansion has placed a severe limitation on their ability to explain the current expansion, which was brought about largely due to depressed wages and working conditions—hence, a significant rise in the profit-wage ratio—and not the other way around, as the SSA thesis maintains. This seems to be a major reason for these

[4] For a number of detailed critiques of Brenner, see, e g., Ben Fine et al 1999, Malloy/Post 1999, and Henwood 1998.

experts' denial, or their hesitation to acknowledge that the current U.S. economic recovery represents a new long wave of expansion (Gordon/Weisskopf/Bowles 1996, Bowles/Edwards 1993, Gordon/Edwards, Reich 1994, Kotz/McDonough/Reich 1994, and O'Hara 2000).

(b) *Dubious Measures of Expansion.* Part of the reason why radical political economists have misread the current expansion seems to be their choice of questionable criteria for economic recovery and expansion—a problem which perhaps can be called "moralization of capitalism." For example, a number of these economists seem to conflate issues of productivity, efficiency, and economic growth with those of equity, income distribution, and prosperity for all. That is, from observations of such facts as deterioration of income inequality, stagnant or falling real wages (certainly until 1995–96), and the erosion of social welfare programs in general they seem to find it difficult to believe, or to acknowledge, that this expansion is real. Yet, it is a well-known fact that the current expansion came about precisely as a result of brutal supply-side restructuring measures that have (since the early 1980s) led to job insecurity, weakening of the so-called social safety net, and a significant shift of income from labor to capital.

(c) *Discounting the Impact of Information Technology.* A major source of radical political economists' misjudgments about the current U.S. expansion is their underestimation, if not neglect, of the impact of so-called information technology on productivity and profitability. Computer-based, high-tech industries are not only far outpacing traditional, non-high-tech sectors of the economy in terms of productivity and profitability; they are also increasingly producing larger and larger shares of the GDP and employing a rising share of the workforce. While high-tech manufacturers—makers of computers, semiconductors, communications equipment, and the like—are boosting their output per worker at over 30 percent annually since the mid 1990s, productivity in non-high-tech manufacturing is only rising at a 2.5 percent annual rate The profit-share of high-tech industries of all large-company profits rose from 36 percent in 1994 to 48 percent in 1999. The sector now employs about 17 5 percent of the total non-farm workforce (19.5 million), and accounts for more than one-third of the entire GDP (*Business Week* September 27, 1999. 90–102; original sources. Federal Reserve, Compustat, and Bureau of Labor Statistics). The impact of the high-tech sector on economic expansion, of course, goes beyond the sector's direct contribution to national output, employment, or productivity; it also enhances productivity, profitability, and growth of other sectors that make use of its products. For example, a recent study from Giga Information Group, Inc. argues that the cost savings globally through business use of e-commerce will rise from $17 billion in 1998 to $1.25 trillion in 2002, with U.S. companies reaping half the long-term benefits (as cited in *Business Week* October 4, 1999: 74).

Radical economists, however, seem to have paid short shrift to both the actual as well as potential impact of the high-tech sector on economic growth and expansion. To the extent that they minimally pay attention to this engine of the current growth, it is usually in the context of discussions of how the new technology is accentuating wage, income, and wealth inequality; or how it is disruptive and disconcerting to many traditional industries, businesses, or jobs. While it is necessary to point out the disruptive effects of the new technology, it is equally important to avoid a substitution of moral judgments of capitalism for a scientific and historical analysis of it.

The destructive and perilous effects of new innovations and technological breakthroughs on vast segments of labor and capital are well-established in the history of capitalism. The havoc that the newly developing sectors and technologies in the late 19th and the early 20th centuries—manufacturing, railroads, and utilities—played on the then old sector, agriculture, is one of the well-documented examples of how periodic technological breakthroughs lead to seismic disruptions in the operation of many existing industries and the lives of many workers. But at the same time that those new industries wreaked havoc on many old businesses and jobs, especially in the farming sector, they also represented great socio-economic and historical leaps forward. This is not to say that the rise of the new offsets the fall of the old. It is, rather, that both expansion and decline are part of the total (dialectical and/or contradictory) developments of capitalism.

4. Lessons and Implications for Social Change

Our critique of the radical political economists who dispute the fact that the long stagnation of the 1970s has turned into a new long wave of expansion stems from a belief that our desire to fight the vagaries and the injustices of the economy regulating our lives should not stand in the way of an objective analysis of it. If we are to offer an intelligent response to the problems that capitalism generates, we must understand its character and the mechanism of its development.

What are some of the major socio-economic and political implications of the current U.S. economic expansion? And what do we learn from the expansion?

The successful reversal of the long stagnation of the 1970s (like those of the 1930s and 1890s before it) means, among other things, that the capitalist system is much more resilient than many of its radical opponents imagine. It does not mean, however, that the rule of capitalism has become permanent, and that we have reached "the end of history." It signifies capitalism's ability to restructure the conditions for profitability and reproduction as long as the costly consequences of such restructuring policies in terms of job losses, economic insecurity, and environmental degradation are tolerated. More specifically, it means that as long as the working class keeps producing according to the desires and designs of the capitalist system, the reign of capital will continue.

No other social stratum, no matter how militant or numerous, has the unique or strategic position and capability to bring capitalist production to a standstill—and the capitalist system to an end. When workers will gain the necessary consciousness and determination to actually appropriate and utilize the existing technology for a better organization and management of the world economy in the interests of the majority of world citizens no one can tell. One thing is certain, however. to play such a role, the working class needs entirely new visions and new politics. the new labor politics will need to (a) go beyond trade unionism, (b) go beyond national borders, (c) build independent labor organizations, and (d) operation through coalitions and alliances with non-labor grassroots opposition groups.

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