Capitalism's long upturn

Part 1: Introduction

There are times when development in all areas of the capitalist economy . . . has matured to the point where an extraordinary expansion of the world market must occur . . . At this point capital begins to enter upon a period of tempestuous advance." The words of the Russian Marxist, Parvus in 1901, written during the first wave of globalisation a hundred years ago, has striking resonance for us today.

World capitalism started the new millennium with a bang, in March 2000 the "dot com" bubble burst and global stock markets fell sharply, ushering in an 8 month recession in the USA,[1] but the ensuing downturn was fairly brief and outside the USA quite mild. Indeed, many parts of the world were left undisturbed; some even grew more sharply than before. By 2003 the USA had resumed the path of strong growth and by 2008 the scale of the upswing was clear. World capitalism has just been through the strongest period of growth in its history, as the Economist explains;

"During the past five years, world GDP has grown by an average of 4.5% a year, its fastest for more than three decades, though not as fast as during the golden age of the 1960s when annual growth exceeded 5%. But the world's population is now growing at half of its pace in the 1960s, and so world income per head has increased by more over the past five years than during any other period on record."[2]

The trend in output per person – a significant measure of productivity improvements – has also been reversed from its 1980s and early 1990s trajectory.

World Real GDP Per Capita Growth annual average

1970s	1980s	1990s	2000-07
2.5	1.4	1.4	2.8

IMF WEO April 2008

The IMF's PPP GDP figures weight their figures towards the so called "emerging" world, but even using the World Bank's constant dollar figures the change in trajectory is clear.

Global output per person

Per capita GDP annual % growth

	1980s	1990s	2001-05

[1] "Markets on the edge of a nervous breakdown" by Keith Harvey, January 1999 www.permanentrevolution.net/?view=entry&entry=714

[2] The Economist print edition Economics focus Grossly distorted picture Mar 13th 2008

World	1.3	1.2	1.5
High Income countries	2.5	1.8	1.6
Developing countries	0.7	1.5	3.7

Source: World Bank, "Prospects for the Global Economy", 2005

In short, this table shows the continued decline in per capita output within the "mature" (that is, ageing) imperialist nations has been more than offset by the dynamism of growth in the former workers' states and large semi-colonies.

But this assessment of world capitalism is far from uncontested on the left. In recent months, and particularly as the depth of the US sub-prime crisis and credit crunch have become apparent, Marxist writers including, Lynn Walsh, Peter Taaffe, Hillel Ticktin, Chris Harman and Robert Brenner, have all asserted that capitalism remains stuck in the period of stagnation and crisis which characterized it from the early 1970s onwards Robert Brenner summarized this position well in February 2008;

"The years since the start of the current cycle, which originated in early 2001, have been worst of all. GDP (Gross Domestic Product) growth in the United States has been the slowest for any comparable interval since the end of the 1940s, while the increase of new plant and equipment and the creation of jobs have been one third and two thirds, respectively, below postwar averages. Real hourly wages for production and non supervisory workers, about 80% of the labor force, have stayed roughly flat, languishing at about their level of 1979.

Nor has the economic expansion been significantly stronger in either western Europe or Japan. The declining economic dynamism of the advanced capitalist world is rooted in a major drop in profitability, caused primarily by a chronic tendency to overcapacity in the world manufacturing sector, going back to the late 1960s and early 1970s."[3]

While there are differences in emphasis between these theorists, the essential message is the same - that the growth of world capitalism with globalisation has not been on a scale, to decisively change the direction of the world economy and what little growth there has been over the last few years, has been the result of various speculative bubbles.

In contrast this paper argues that these changes have been exactly strong enough to open up a new upward long wave in the world economy and that through an assessment of a wide range of empirical data and theoretical argument it is possible to establish just that. In fact even among those who recognized the significance of this change in direction in the world economy, there has been a tendency to underestimate their significance, as Goldman Sachs remarked recently, referring to their 2001[4] paper on the BRICs (Brazil, Russia, India, China) economies;

[3] Devastating Crisis Unfolds Bob Brenner, for the ATC editors Feb 2008

[4] Goldman Sachs *Global Economics Paper* Building Better Global Economic BRICs, published on November 30, 2001

"In our 2001 paper, we argued that the BRIC economies would make up more than 10% of world GDP by the end of this decade. In fact, as we near the end of 2007, their combined weight is already 15% of the global economy. China is poised to overtake Germany this year to become the third-largest economy in the world."[5]

What Brenner describes, as the "chronic tendency to overcapacity in the world manufacturing", ignores the growth of world manufacturing outside of its traditional heartlands. Consider automobile production.

Annual automobile production[6]

	2007	2006	2005	2004	2003	2002	2001	2000	1999
World	73,101,695	69,257,914	66,482,439	64,496,220	60,663,225	58,994,318	56,304,925	58,374,162	56,258,892
G5	33,359,913	33,385,440	33,856,139	33,593,388	33,374,313	33,431,094	32,207,213	33,629,523	33,761,858
Ex-cpe	14,116,909	11,533,146	9,347,231	8,552,835	7,275,414	5,933,421	4,991,232	4,753,512	4,499,684

Source: OICA

Between 1999 –2007 world automobile production grew by 29.9%. But the output of the G5 shrunk by –1.2%, there was a chronic overcapacity of manufacturing production, but only in the older industrial economies. As globalisation enabled the major manufacturers to move their production to more efficient centers abroad, the output situated in their domestic economies fell marginally, but it surged abroad, the output of the former centrally planned economies grew by 213.7%.

The growth of world manufacturing outside of the older industrial economies, more than offset their decline and as a result, the G5's proportion of world output fell from 1999 60% to 2007 45.6%, while the proportion of world output of the ex-cpe's grew from 1999 8% to 2007 19.3%.

But even the rapid expansion of output in the so-called emerging markets since the turn of the millennium, underestimates the impact of the growth of world capitalist production with the restoration of capitalism in the former non-capitalist centrally planned economies between 1990-95.

Part 2: Stalinist collapse: The end of planned economies -the effect on world capitalist output

In the early 1990s the planned economies of the ex-USSR and Eastern Europe collapsed swiftly. In China a long process of gradual market reform reached the tipping point between 1991-95 when capitalism was restored, by 1995 the majority of exchanges in the Chinese economy were at market prices. In 1978

[5] Goldman Sachs BRICS AND BEYOND November 2007

6 (G5 – USA, Japan, Germany, France, UK) (ex-centrally planned economies (ex-cpe) Uzbekistan, Ukraine, Slovenia, Slovakia, Serbia, Russia, Poland, Hungary, Czech Republic, China)

all Chinese producer goods had their prices fixed by the state, by 2003 just 10% of them did. In the retail sector, in 1978 97% of prices were fixed by the state, in 2003 just 2.6%[7] were. The abolition of the social welfare system through the 1980s, the so-called “iron rice bowl”, lead to unemployment and inflation providing the spark for the Tiannanmen uprising. But nonetheless by 1995, the Chinese state has overseen the transformation of a planned economy into a capitalist one.

Across the CIS and Eastern Europe privatisations sold entire industries for almost nothing. Society collapsed. In Russia life expectancy fell by 10 years through the course of the decade. Chauvinist and nationalist wars destroyed whole nations.

Initially the effects on world capitalism was limited, this first phase of globalisation from around 1990-2000, could be described as one of looting. For the creation of capitalist production it was necessary to destroy the plan and produce according to the law of value or profit motive. The brutal transition from the planned production of the former workers’ states to the unplanned production of capitalist market, destroyed vast swathes of the economy and resulted in a massive fall in the output of these economies and their notional GDP.

But this collapse in output was a collapse not of capitalist production, but of planned production, it was not a decline in the capitalist economy, but the creation of it.

WORLD OUTPUT GROWTH, 1991–2007a (Annual percentage change)

Region/country	1991–2000b	2001	2002	2003	2004	2005	2006c
South-East Europe and CIS	-4.2	5.9	5.2	7.1	7.7	6.4	7.5
South-East Europe	-0.9	4.8	4.7	4.3	6.2	4.7	6.2
CIS	-5.0	6.2	5.4	7.8	8.1	6.8	7.7
Russian Federation	-4.7	5.1	4.7	7.3	7.2	6.4	6.7

Source: UNCTAD Trade and Development report 2007

The fall of output in the 1990s accurately reflected the collapse of the planned economy, and the recovery of these, now capitalist economies since the turn of the millennium, but UNCTAD measures the destruction of the central plan, which is what the 1990s decline is, as the destruction of capitalist production. Consequently, an addition to the world capitalist market is measured as a subtraction from

[7] OECD 2005

it. In reality, the decline in material production in these states is at the same time a net addition to global value production.

This trend can be illustrated by looking at the global steel industry. Steel is an absolutely fundamental guide to the health of the capitalist economy and since the turn of the century it has been growing extremely fast.

The steel production of the centrally planned economies, USSR, Hungary, Poland and China[8] was in 1990 224,120 million metric tones (MMT) or 48% of the capitalist total of 1990 495,775 MMT. As capitalist restoration destroyed the plan, output in the now CIS fell from 1990 153,927 MMT to 1999 83,117 MMT, a collapse of – 46%. But this was the collapse of the central plan, not the collapse of capitalism, it was the creation of 83,117 MMT of capitalist steel output from nothing. It's subsequent recovery to 2006 119,557 MMT, while still not attaining the levels of the planned economy, nonetheless demonstrates how the transformation of central planning to capitalism has added renewed dynamism to capitalist manufacturing.

In contrast in the 1980s a period world capitalist steel production actually declined from 1980 454,035 MMT to 1989 440,426 MMT since then it has grown almost three fold to 2006 1,218,343 MMT.

And this pattern of a massive one off expansion of capitalist manufacturing production with the addition of the output of the former centrally planned economies can be repeated across all commodities.

The growth of capitalist manufacturing production with the addition of the output of the ex-centrally planned economies (CPE) selected commodities.

Commodity	World capitalist Output 1980	World capitalist Output 1989	World capitalist Output 1999	World capitalist Output 2006	World capitalist Output % increase 1980-1989	World capitalist Output % increase 1990-1999	World capitalist Output % increase 2000-2006	Ex-CPE % addition to capitalist output 1991	Ex-CPE % addition to capitalist output 2000	Ex-CPE % addition to capitalist output 2006
Electricity terawatt hours	n/a	9279	15407	19028	n/a	59%	51%	27%	23%	31%
Coal million tonnes	2116 (1981)	2560	4544	6195	21% (1981-89)	79%	34%	85%	78%	106%
Gas million tonnes oil equivalent (MTOE)	898	1047	2189	2586	17%	97%	22%	65%	42%	42%
Primary energy consumption (MTOE)	4798	5779	9308	10878	18%	61%	20%	37%	29%	37%

[8] World Steel Organisation

Steel Million Metric Tonnes (MMT)	454,035	440,026	771,188	1,218,343	-3%	56%	47%	43% (1993)	43%	87%
World Capitalist Merchant Fleet Dead weight tons thousands	621,806	559,788	785,523	959,964 (2005)	-11%	30%	21% (2000-05)	12% (1990)	n/a	n/a

(Assuming the restoration of capitalism is between 1991-95)

Sources: BP Statistical Review of World Energy[9] June 2007, World Steel Organisation 2007, UNCTAD 2007 author's calculations

In every instance the addition of the output of the centrally planned economies provided world capitalist production with a massive one off increase. As capitalism was restored the output of the former central plan declined – but capitalist production increased.

Depending on the measure used, the addition of the output of the former workers' states added between 6% (World Bank GDP 2000 Constant Dollar measures) to 26% (GDP Geary Kharamis PPP measures) to the size of the world market, these figures are open to debate but more important than the amount was the effect, the renewed surge of capitalist manufacturing, but outside of its traditional heartlands since the turn of the millennium.

What appears as the deepening stagnation of the world capitalist economy through the 1990s is in fact the transformation of non-capitalist property into capitalist property.

But even this growth surge understates the impact of the addition of this transformation of non-capitalist into capitalist production, as it only measures the addition to current production. Through capitalist restoration, the capitalists took over decade's worth of fixed capital production for free - already paid for by the central plan. It cost the capitalists nothing. As it illustrated by the development of a Chinese housing market from the mid 1990s onwards, Goldman Sachs explain;

"Private housing purchases are classified as investment spending, following the conventional international practice. However, housing spending started from a nil base in 1998-1999 and has since grown much more rapidly than GDP. Such a rapid structural change in household outlays has led to misperceptions of a declining consumption-to-GDP ratio and therefore weak consumer demand in recent years."[10]

[9] http://www.bp.com/statisticalreview

[10] Goldman Sachs BRICS AND BEYOND China's Investment Strength Is Sustainable p64 Nov 2007

The transformation of the means of production of the former centrally planned economies into fixed capital, massively distorts the typical measures of capitalist growth, which fail to account for this transformation.

This included whole cities, Shanghai, Beijing, Warsaw, Leningrad, Moscow and Prague, and their associated infrastructure, roads, ports, railways, electricity transmission systems, hydro dams etc.etc.etc. was transformed into fixed capital at little or no cost to world capitalism. This subsidized the emerging capitalist states by providing them with a free source of capital to exploit and resulted in very high productivity growth within them, as Goldman Sachs explain about Russia;

"Growth over the last eight years has been 'investment-free', with fixed capital expenditures a mere 18% of GDP. While this is much better than in the 1990s, it is far below the investment rates of other fast growing emerging markets. This has been possible thanks to the country's extensive Soviet-era infrastructure and underutilized capacity. As a result, labour productivity has grown by an impressive 6.0% annually, as underemployment has disappeared."[11]

This addition massively reduced the worldwide organic composition of capital and provided the basis for the powerful upswing of the world capitalist economy since the turn of the millennium. This has meant that these states in particular have seen a surge in the rate of profit owing to the very low organic composition of capital in them, as the newly founded capitalist states have been able to exploit masses of fixed capital which cost them nothing.

The capitalists have torn down their barriers to foreign trade and investment, and so exposed billions among their youthful populations to exploitation.

Part 3: World trade: The globe got smaller

World trade is now expanding faster than during the 1970s, a period which included the tail end of the long boom. This expansion is sweeping whole new populations into the scope of the world economy.

World trade annual average % growth

1970s	1980s	1990s	2000-06
6.6	4.5	6.5	6.7

Or when measured according to the periodisation of the long wave;

World trade Annual average % growth in

1974-92	1993-06
4.8	6.9

[11] Goldman Sachs BRICS AND BEYOND Russia: A Smooth Political Transition p34 Nov 2007

Source: IMF WEO Spring 2006

The expansion of trade is not simply in the sale of finished goods, but the creation of whole new manufacturing processes – a new international division of labour; commodities are no longer produced in single vertically integrated plants, but in both horizontally and vertically separate plants across national boundaries. This allows multinationals to achieve greater economies of scale and enhanced levels of productivity. In addition, this openness has depressed wage growth in the OECD by creating a genuinely international labour market in many sectors, and has allowed these same firms to earn more super profits than before, and repatriate more easily, from foreign subsidiaries. But the destruction of the Stalinist states also removed a powerful prop for major countries of the global south to lean upon, in order to resist the pressures of the USA for greater openness. This reshaping of the world geopolitical settlement resulted in the opening up of countries like India and Brazil to the greater exploitation of imperialism. As UNCTAD explained:

"The expansion of international production has been facilitated by virtually all countries through changes in their regulatory environments. Over the period 1991-1999, 94 per cent of the 1,035 changes worldwide in the laws governing foreign direct investment (FDI) created a more favourable framework for FDI . Complementing the more welcoming national FDI regimes, the number of bilateral investment treaties – concluded increasingly also between developing countries – has risen from 181 at the end of 1980 to 1,856 at the end of 1999." [12]

The opening up of these formerly relatively closed economies enabled a genuinely integrated global production system to develop. The level of trade at every point of the production process and in final sales has exploded. UNCTAD again:

"Evidence on the expansion of international production over the past two decades abounds. Gross product associated with international production and foreign affiliate sales worldwide, two measures of international production, increased faster than global GDP and global exports, respectively. Sales of foreign affiliates worldwide ($14 trillion in 1999, $3 trillion in 1980) are now nearly twice as high as global exports, and the gross product associated with international production is about one-tenth of global GDP, compared with one-twentieth in 1982."[13]

And critically the direction of trade has changed as well, with the emerging markets now providing an increasing proportion of both world imports and exports. Since the turn of the millennium all these states have grown very rapidly. This is dramatically illustrated by the proportion of raw materials flowing to China as described by JP Morgan[14];

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[12] UNCTAD World Investment Report 2000 Overview

[13] Ibid. The expansion of trade has been enhanced by the new patterns of investment, since one third or more of such commerce is between branches of the same multinationals, proof of Lenin's statement in 1916 that "the export of capital thus becomes a means of encouraging the export of commodities."

[14] JP Morgan Economic Research Global Data Watch April 4, 2008

China and the global commodity market

	2004	2005	2006	2007
Steel - % of global demand	28.0	31.4	35.3	36.8
% of global growth	41.6	81.7	105.7	68.8
Iron ore - % of global demand	38.3	45.0	50.0	53.3
% of global growth	75.4	107.1	86.1	71.2
Aluminum - % of global demand	19.8	21.3	25.4	31.3
% of global growth	32.7	57.3	69.4	85.2
Primary nickel - % of global demand	11.3	12.2	18.9	21.6
%of global growth	33.7	34.0	56.8	94.0
Copper -% of global demand	21.1	22.7	22.7	24.6
% of global growth	40.4	61.8	26.9	67.9
Coal -% of global demand	27.3	28.1	28.6	na
% of global growth	27.6	102.8	43.3	na
Oil - % of global demand	8.2	8.2	8.6	8.7
% of global growth	33.7	31.2	51.9	30.0

And is reflected in the rising nominal dollar value of the emerging markets, as the recovery of raw materials prices, since the slump of the mid 1990s has been combined with rapidly growing GDP and consequent sharp rises in the exchange rate of these economies. The nominal dollar value of the GDP of Brazil has more than doubled; India and China have increased nearly three-fold, while Russia has grown six-fold since 2000. And as a result, the purchasing power of these economies has dramatically accelerated over the last three years. Their imports have grown very fast, outpacing even the older imperialist nations. Fast-paced growth has also meant that the global price of raw materials and energy has grown very fast and sucked in imports and pushed out exports at faster rate than the US. As Goldman Sachs puts it;

“The contribution of “other emerging markets” to total export growth has more than doubled in the past year due to the increased share of exports combined with a continuation of the strong growth rate. In the past two quarters (Q3/Q4 2007), the contributions to total Asian exports from “other emerging market economies" (excluding China) were on par with those from all of the G-3 (US, Japan, Germany) combined. The prolonged under-performance of exports growth to the G-3 has cut the G-3's share of total Asian exports, with other emerging markets rising in importance. The share of the G-3 in Asian exports has been falling since 2000, from around 50% to 40% in 2007 with no sign of an end in sight."[15]

The ex-CPEs with a notional current price dollar GDP of around 2007 11% of world GDP, have added more export demand than the US, Japan and Germany (the G3) combined, economies which together total around 2006 41% of world GDP[16]. In 2006 the ex-CPEs increased their value of exports by $366,531 mn compared to the G3s combined increase of $335,460 mn.

Part 4: Productivity revolution and investment

By 1990 neo-liberal governments in the OECD had imposed far-reaching defeats on the working class. In the USA Reagan's anti-union offensive in the early 1980s induced a sharp increase in rates of productivity. The value of wages as a proportion of GDP fell from a peak of around 68% of GDP in 1980 to 64% in 1982. In the UK, Thatcher achieved similar results, with the key defeat suffered by the miners in 1984-85. These attacks have enabled the capitalists to significantly restore the conditions for profitable accumulation, by reducing the value of wages, if not their actual level, increasing productivity via speed-ups and the intensification of labour and privatisating whole swathes of what was formerly the public sector.

Through the course of the 1970s and 1980s neo-liberal governments defeated the working class movement in key strategic centres, most notably the US and UK. This enabled the capitalists to squeeze more profits out of the workforce by making workers toil harder within any given working day and by reducing wages.[17] But they also produced more from existing effort, by changing working patterns and introducing new methods of production.[18]

Manufacturing productivity has shown a marked recovery in the USA since the low point of the 1980s. As Brenner notes:

"between 1993 and 1999, the rate of growth of manufacturing labour productivity was more than 50 per cent greater than that during the expansion 1982-90"[19]

Table 2.2. Output per employed person in manufacturing, 16 countries or areas, 1950-2005

[15] Goldman Sachs Asia Economics Analyst Issue No: 08/02 January 28, 2008 p5

[16] UNCTAD statistical handbook 2007

[17] Marxists call this increasing the rate of absolute surplus value.

[18] This is referred to as increasing relative surplus value and sign of the vitality of capitalism since it involves economising on the use of labour time to produce more rather than just forcing people to work harder.

[19] R Brenner, "The boom and the bubble", pp229-230. The Economist claims US "workers now produce over 30% more each hour they work than ten years ago" (15 July 2006).

Average annual % change

	USA	Japan	France	Germany	UK
1960s	3.0	10.34	7.11	5.68	3.42
1970s	2.57	5.82	3.86	3.58	2.02
1980s	3.31	3.42	3.82	1.17	4.09
1990s	4.18	2.55	4.17	2.67	2.49
2000-04	5.58	4.02	3.13	3.47	4.37

Source: U.S. Department of Labor, Bureau of Labor Statistics, February 2007

In those states where the imperialists failed to decisively confront and defeat their workers movements, predominantly in Japan but also in the core of the old EU, i.e. France, Germany and Italy, where the capitalists have adopted a far more incremental introduction of the neo-liberal revolution than in either the USA or UK, the capitalists have generally failed to match the gains in productivity of the USA.

France is a partial exception here since the imposition of a shorter working week and higher minimum wage has led to a bout of labour-replacing capital investment which has seen significant improvements in productivity, even if at the cost of high unemployment levels.

But this revival of manufacturing productivity has not lead to a growth of the proportion of investment world wide, in fact quite the opposite, the level of investment have fallen as the cost of fixed capital has fallen, the emerging markets have exploited fixed capital inherited free from the former central plan and as business has hoarded profits;

“Instead of spending their past profits, [US] businesses are now accumulating them as cash”.[20]

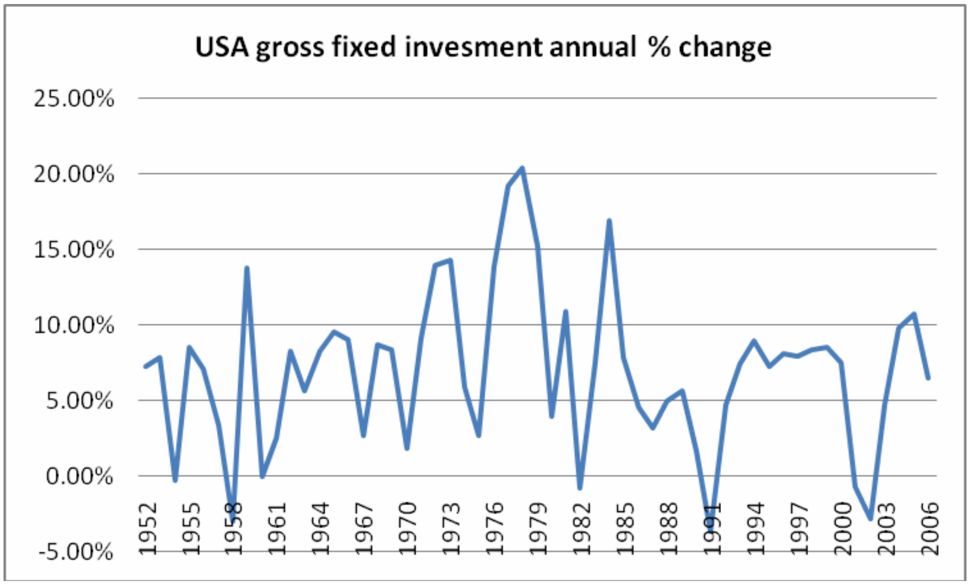
This leads theorists like Robert Brenner and Chris Harman to assert that this decline in investment is a result of falling or low profit rates;

““Where does the “saving-investment” gap itself come from? Why have firms failed to invest their past profits on the scale they once did? Studies of the advanced industrial economies show that there was a big drop in average rates of profit from the end of the 1960s through to the early 1980s.”[21]

[20] Terrones and Cardarelli, 2005, p92.

[21] Chris Harman “From the credit crunch to the spectre of global crisis” ISJ 118

In fact the amount of investment or the price of fixed capital is not directly related to the level of profit rates. Levels of investment in the USA since the turn of the millennium have been at their lowest levels since the 1950s i.e. the peak of the post war long boom.



Source: Bureau Economic Analysis 2006[22]

When productivity was high in the 1950s/60s then the price of constant capital or fixed investment was low. As productivity slowed from the late 1960s onwards, then the price of wages and fixed capital rose and so did levels of investment rose as capitalists sought to replace expensive workers with expensive machines. If Harman's theory were correct then the period of capitalist growth and advance would be the crisis low profit years of the 1970s. Indeed his explanation of trends in profit rates and investment ignores the fact that the period of highest investment, the 1970s, was also the one with the lowest rate of profit.

"The present financial crisis is a symptom of the same underlying problem that has plagued world capitalism since the mid-1970s. Increased exploitation has been able to stop a further downward plunge in the rate of profit, and even to restore it somewhat. But it has not been able to bring it back to a level that will persuade capital to invest sufficiently to avoid recurrent recessions."

If capitalist investment really did raise the rate of profit, then the whole basis of Marx's analysis of the tendency of the rate of profit to fall is wrong. If investment really did enable capitalists to avoid recurrent recessions, how come that the period with the most recessions, the 1970s and early 1980s was also the period with the highest rates of investment?

[22] Table 5.9. Changes in Net Stock of Produced Assets (Fixed Assets and Inventories)

In fact the 1970s surge of capitalist investment in a period of capitalist decline, exacerbated the fall in the rate of profit and lead to genuine stagnation in the 1980s.

In the 1990s, as profit rates began to recover following the restoration of capitalism in the former centrally planned economies, then the capitalists re-tooled, generalising the ICT revolution across the economy.

The USA was the best placed of all the imperialist powers to take advantage of the IT revolution; the rate of US investment in equipment doubled in the 1990s compared with the 1980s even in the EU rates of investment held up, only in Japan did the rate of growth decline, but as production shifted to the emerging markets of China, Russia, India and Brazil, then investment from the turn of the millennium declined again.

The accumulation of fixed capital is related to the rate of profit, but not in the mechanical sense that Harman claims. Capital accumulation is the accumulation of self-expanding value it is not the accumulation of machines, even if this is the most visible expression of the capitalists domination and ownership of the means of production.

This recovery of productivity has cheapened the cost of means of production and this is reflected in the low price of fixed capital and the low levels of investment. It is proof not of the stagnation of capitalism, but of its dynamism as the IMF explain;

“. . . capital goods have become relatively less expensive – mainly owing to the extensive process of information technology (IT) capital deepening and productivity growth in the capital good–producing sectors.”[23]

Goldman Sachs add:

“Another important structural factor that has boosted corporate profitability has been the decline in the price of physical capital . . . in most markets the ratio of capex (capital expenditure) to sales has fallen sharply since the bursting of the equity bubble. This has often been interpreted as evidence of corporate under-investment. In reality, however, part of the reason why capex ratios have fallen is because the price of capital has declined significantly. In the UK, for example, while investment spending as share of GDP has declined to record lows, in real terms, spending on capital equipment remains close to record highs.”[24]

Brenner has noted that during the 1990s the US;

“did secure a significant increase in economic dynamism – reflecting substantial technical advance and organizational improvement – in comparison to that which it had evinced during the two decades after

[23] IMF World Economic Outlook 2005

[24] Goldman Sachs Global Economics Weekly Issue No: 08/02 January 16, 2008, The End of The Global Profit Boom? (p5)

1973. This was expressed in the major, interrelated accelerations in the rate of investment and productivity growth in the non-farm economy that began around 1993 and were sustained into the middle of 2000." [25]

The cheapening of fixed capital, due to revolutions in productivity in manufacturing has been strengthened by the exploitation of means of production inherited from the central plan and the shift of production from the major historic industrial nations to the emerging markets. As Deutsche Bank explain;

"Capacity utilisation in the G3 economies has recovered strongly since 2004 but is still just at its historic average as global demand for goods is increasingly satisfied by new capacities set up in the emerging markets. This is one reason why investment spending in the G3 economies has been rather muted despite surging corporate profits. Analysis of the corporate balance sheets of US and UK companies shows that non financial corporations are using parts of their profits to increase their investments abroad rather than financing investment at home." [26]

Harman backs his assertion that low investment proves low productivity, by looking at trends in productivity across the economies of a number of European nations;

"Productivity, in terms of average output per hour worked, grew by 2.86 percent during 1950-75, but by only 2.2 percent from 1995 to 2004, according to NIER, and a mere 1.7 percent last year. From having the second highest figure in Europe in 1950 (after Switzerland) today Britain is well behind France, Denmark, Austria, the Netherlands, Belgium and Norway."[27]

So how has productivity slowed across the economy as a whole when manufacturing productivity has recovered as demonstrated in our earlier table? Simply because the proportion of manufacturing output in the historic industrial economies has declined as production has been shifted to the emerging markets, to be replaced by services in with a lower level of productivity;

"The service sector is generally believed to have lower labour productivity than the production sector, both in terms of level and growth. This is because traditionally services tend to be more labour intensive and less apt than the production sector in adopting technological advancement." [28]

Consequently, if services have a lower level of productivity than manufacturing, as the proportion of output produced by the service sector has increased, necessarily overall rates of productivity increase

[25] R Brenner, ibid.

[26] Deutsche Bank Research Bureau. New Economy 2.0 April 2006.

[27] Chris Harman May 2007 issue of Socialist Review

28 Chris Daffin and Eunice Lau, "Labour Productivity measures", Annual Business Inquiry, ONS 2002

will slow. The relatively low levels of productivity growth in the major imperialist nations are not then a sign of stagnation but of the transferrance of production abroad, to the emerging markets and in particular China.

The shift of manufacturing production to the transition economies of the former workers' states – in particular China where manufacturing productivity has increased on average by 9.4% a year between 1981-2000 19 accelerating during the 1990s to 17% per annum between 1995 and 2002 15 – more than offset any reduction in manufacturing output in the historic industrial nations.

China almost tripled its productivity between 1993-2002 [29], as the privatisation of state assets and demolishing of the "iron rice bowl", the welfare state and growth of foreign export oriented manufacturers and the explosion of fixed capital investment, surpassing 40% of GDP, meant that the technological and productive base of the economy was transformed. This generalised reduction in the socially necessary labour time embodied in manufactured commodities has led to a marked deflation in the prices of these commodities over the last 15 years.

The growth in productivity is so strong, that in spite of an increase in the cost of raw materials in the late 1990s the price of manufactures has continued to decline by on average -3% p.a. between 2001-2004, with a particularly large fall in manufactured goods originating from the developing world.[30]

The prices of manufactured goods imported into the US fell by 12% between 1995 and 2003, while for developed countries as a whole they fell 2%.[31]

These increases in productivity and the ability of the imperialists to restrict the real value of wage rises, has meant there has been a sharp decline in the unit labour costs of manufacturing through the 1990s across most of the major imperialist powers and a rebound in profits as a result.[32]

Part 5: Rebound in profits

Capitalism produces for profit and the tendency for the rate of profit to fall was for Marx, "the most important law of political economy."[33] If profit rates are falling then capitalist production will contract as

[29] Henry C K Liu, chairman of the New York based Liu Investment Group quoted in the Asian Times.

[30] Given that lower-cost producers in emerging markets and developing countries will continue to integrate into the global trading system, these forces are likely to ensure low inflation in the foreseeable future, reminiscent of the secular deflation associated with broad productivity increases during the classical gold standard in the late nineteenth century." IMF, World Economic Outlook, Spring 2006 Ch3.

[31] World Bank, Global Economic Prospects 2005

[32] The important exception is the UK, where shortages of skilled labour and the particularly post-Thatcher, narrow base of the manufacturing sector now accounting for just 16% of GDP , has enabled manufacturing workers to win pay rises higher than the average either in the UK or of their rivals world wide.

[33] Karl Marx, Grundrisse, p 639.

capital is unable to find investments necessary to yield the average rate of profit; conversely if the rate of profit is rising then capitalist production will expand. As Ernest Mandel has noted:

"Expansive long waves are periods in which the forces counteracting the tendency of the average rate of profit to decline operate in a strong and synchronized way. Depressive long waves are periods in which the forces counteracting the tendency of the average rate of profit to decline are fewer, weaker and decisively less synchronized."[34]

Profits as a proportion of National Income are approaching their levels of the tail end of the post war boom.

US Profits as a proportion National Income %

1950	1955	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2006
26.44	26.05	23.42	24.46	18.34	18.66	16.15	16.48	16.45	19.96	19.03	21.68	22.95

(Profits = Corporate profit with IVA and CCADJ + Non farm proprietors income + rental income with CCADJ)

Source: Bureau of Economic Analysis March 2007

In the world's largest economy, the USA, profits, productivity, and output in 1993-2000 returned to within a whisker of the "golden years" performance in the long boom of the 1960s.

US profits as a proportion of GDP are the highest for 40 years and on a sharp upward trend and this pattern is repeated across the world. Across the G7 nations (the seven richest imperialists in the world) there has been a growth in the mass and rate of profit, with a steadily rising trend beginning in 1980, from a trough of just around 10% of GDP to around 14% of GDP today.

This trend has seen the bottom of each cycle end at a higher level than the preceding one. Such a sustained rise cannot be attributed to the effects of one-off boosts, like tax cuts or the rise in energy prices; it can only be as a result of the effect of fundamental changes in the base of the economy – the exploitation of a larger, cheaper and more productive global working class.

Fred Moseley, a US Marxist economist, has commented:

"It has taken a long time, but the rate of profit is now approaching the previous peaks achieved in the 1960s . . . The last several years especially, since the recession of 2001, has seen a very strong recovery of profits, as real wages have not increased at all, and productivity has increased very rapidly (4-5% a year). And these estimates do not include the profits of US companies from their production abroad, but include only profits from domestic US production. If the profits from overseas production of US

[34] E Mandel, Long Waves of Capitalist Development, Cambridge, 1980, p 12.

companies were added in, it would appear that the recovery of the rate of profit is pretty much complete."[35]

Goldman Sachs add:

"The past five years have seen a spectacular boom in global profits . . . As of late 2007, profit margins in Europe and the US were about 4.2 and 5.2 percentage points respectively above their 20 year average . . . Even in Japan, profit margins have moved well above their historical trend . . . The biggest surge in profits over the past five years has been in emerging markets."[36]

The surge in domestic profitability has been consolidated by a doubling of the proportion of profits earned abroad in the same period;

"We estimate that global nominal GDP excluding the US rose by 6.6% over the past year, and that earnings of US affiliates abroad jumped by 15.2%. Measured in the US National Income Accounts, such earnings amounted to nearly 30% of overall earnings in the first quarter of 2007; S&P (Standard and Poors) measures show a similar share. Importantly, that's double the share of twenty years ago – the last time strong global growth consistently contributed to growth in the US . . . Moreover, we think that for the first time in two decades, stronger global growth will consistently lift US growth through improved US net exports."[37]

Paradoxicallly Chris Harman who objects to the notion that profits have returned to their levels of the Long Boom, nonetheless summarises the evidence in favour of it quite well;

"Martin Wolf asserts that "on average, US companies are in decent shape". The OECD *World Outlook* asserts that "the non-financial corporate sector is healthy". The French Marxist Michel Husson was already accepting eight years ago that there were "high levels of profitability". Today he writes of "a spectacular re-establishment of the average rate of profit since the mid-1980s"."[38]

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[35] Fred Moseley: Is the US economy headed for a hard landing?; Although it should be pointed out that notwithstanding his assessment of trends in profit rates, Fred Moseley thinks that because of increased working class indebtedness the US economy could indeed be headed for a hard landing. http://www.mtholyoke.edu/~fmoseley/#working

[36] Goldman Sachs; The End of The Global Profit Boom? (p2) Global Economics Weekly Issue No: 08/02 January 16, 2008

[37] Morgan Stanley; United States: Challenges for Corporate Profits August 27, 2007 Richard Berner (New York)

[38] Chris Harman From the credit crunch to the spectre of global crisis International Socialism Journal 118 http://www.isj.org.uk/index.php4?id=421&issue=118

Part 6: New long wave after 1992 and the growth of the world market

The mid-20th century global capitalist boom was based upon the defeats the working class suffered in the 1930s, the USA 's systematic looting of the allies through lend lease at the outset of the war and the destruction of out-of-date capital in major capitalist centres. The USA 's hegemony as an economic and political power was also essential to guarantee managed but rising international trade.

By the end of the 1960s the upward long wave had exhausted its potential. The constraint imposed on the world market and the development of capitalist production by the existence of the centrally planned Stalinist states, was an intolerable barrier for world capitalism. For a renewed phase of upswing, this barrier had to be dismantled.[39]

So although the capitalists were able to inflict important defeats on their domestic working classes through the course of the 1970s/80s alone these would have not be adequate to launch a new upswing. But the scale of the crisis facing world imperialism was so major in the 1970s and 1980s, the decline in profit rates so marked and sustained, that together this would not have been enough to guarantee a new upswing in the world economy.

It was the victory of capitalism in the cold war, the restoration of capitalism across the former degenerate workers' states after 1990, which propelled capitalism onto a new wave of globalisation.

The restoration of capitalism in these states has doubled the size of the world working class, and generated huge increases in trade and foreign investment. Profit rates have rebounded. Now nearly 15 years after the seeds were sown, world imperialism is reaping the fruits of its victory in the Cold War.

Trotsky writing in the mid-1920s had anticipated just such an eventuality:

"Theoretically, to be sure, even a new chapter of a general capitalist progress in the most powerful, ruling and leading countries is not excluded. But for this capitalism would first have to overcome enormous barriers of a class as well as of an inter-state character. It would have to strangle the proletarian revolution for a long time, it would have to enslave China completely, overthrow the Soviet republics and so forth."[40]

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[39] "However, the mere admission that the market must expand with production, is, on the other hand, again an admission of the possibility of over-production, for the market is limited externally in the geographical sense . . . since market and production are two independent factors—the expansion of one does not correspond with the expansion of the other; that the limits of the market are not extended rapidly enough for production, or that new markets— new extensions of the market—may be rapidly outpaced by production, so that the expanded market becomes just as much a barrier as the narrower market was formerly." K Marx, Theories of Surplus Value Chapter 17

http://www.marxists.org/archive/marx/works/1863/theories-surplus-value/ch17.htm

[40] Trotsky, Third International After Lenin, p62. In case there is any misunderstanding, a period of "capitalist progress" does not imply that the rewards of the new uplift in global capitalism are distributed "fairly" or evenly

While Trotsky envisaged that capitalism would be restored in Russia and China by invasion and violent overthrow, rather than being the work primarily of the Stalinist bureaucracy, Trotsky's "theoretical" possibility was realised.[41]

While the defeats imposed on workers in the USA and Europe have not been on the scale of the 1930s,the defeats pushed through after 1989 in the ex-USSR and central Europe have resulted in similar outcomes. The atomised working class of the transition economies were unable to resist the savage reduction in living standards resulting from the restoration of capitalism. The working classes of these states, previously excluded from the circuit of capital reproduction, could now be freely exploited and at very low levels of pay and conditions – as much of the cost of the reproduction of labour power, education, housing, sewerage systems etc. has already been met by the planned economy and because the restoration process itself further reduced wage rates.

And the workforce has not only become cheaper but also larger. A recent OECD summary of the world economy noted that the size of the world workforce, which could potentially be exploited by capitalism, grew from 1 billion in 1970, to 2.5 billion in 1990. The industrial workforce doubled from 234 million to 439 million and services rose from 272 million to 758 million. This raised the total number of hours worked in the capitalist mode of production by around 74%. The Economist summarized their impact well;

""The entry of China, India and the former Soviet Union into market capitalism has, in effect, doubled the world supply of workers, from 1.5 billion to 3 billion. These new entrants brought little capital with them, so the global capital-labour ratio dropped sharply. According to economic theory, this should reduce the relative price of labour and raise the global return to capital - which is exactly what has happened."42

As is corroborated by the table below, the addition of 108 million Chinese workers in 1990 was an absolute addition to the workforce that could be exploited by capital and it has trebled since. After joining the WTO in 2001 about 150 million Chinese joined the global workforce to produce international traded goods on the cheap. 97 million Chinese, two-thirds of the US labour force, have moved to urban areas since 2001. Manufacturing and services have gained 88 million workers at the expense of agriculture, which lost 47 million people.

World Labour supply (mn)

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between business and employees, or within the working class. The effects of growth in investment and profits and productivity on the levels of poverty and inequality are a "dependent variable", that is to say, they depend upon the class struggle and what rewards are ripped from the hands of the bosses.

[41] . Keith Harvey, "Russia: the death agony of a workers' state"

www.permanentrevolution.net/?view=entry&entry=715

42 (The Economist, 14 September 2006)

Year	Global	Asia	China
1980	218.7	66.1	24.7
1990	326.0	187.6	108.7
2000	609.9	339.5	171.3
2006	862.2	524.2	316.5

Source: IMF, CEIC, Merrill Lynch estimates

The effect of the addition of the former workers' states was particularly significant because of the very high proportion of industrial proletarians in their population, with the addition of the economies of Central and Eastern Europe accounting for a further 70 million industrial workers alone, compared with a total industrial work force of 118 million in the developed economies.[43]

The one-off addition of the formerly planned economies into world capitalism has been reinforced by a noticeable increase in the rate of urbanisation; that is, in the speed of the separation of the peasantry from the land in the 1990s. According to a recent OECD briefing based on ILO figures, as a result of the conjunction of these two elements, restoration and urbanisation, the size of the world economically active population who can be exploited by capital has increased from 1,470 million people in 1990 to 2,930 million in 2004, i.e. it has doubled.

Certainly not all of these people are wage workers, but globalization has meant a huge increase in the size of the world working class, which has decisively reduced the organic composition of capital. According to Helmut Reisen, at the OECD, "The entry of China, India and the former Soviet bloc into the global economy cut the global capital/labour ratio by 55% to 60% compared to what it otherwise would have been." [44]

The reduction in the organic composition of capital (i.e. the value relationship between machinery and labour) is a major counterweight to falling rate of profit in capitalism and the magnitude of this downward revision in the 1990s has done much to spur investment and boost profits.

Part 7: The wages question: Who benefits from higher growth?

The impact of the productivity revolution associated with globalisation has had a striking impact on wages. While the value of wages has fallen, wages as a proportion of national income have steadily declined throughout this period in general very fast rising productivity has meant that the smaller wage can buy more, as profits have grown at the expense of wages;

[43] UNCTAD, "Globalisation Facts and Figures 2004"

[44] OECD Development Centre 2005

"In and of itself, productivity growth would not push up profit margins if the gains in productivity were offset by increases in real wages and the price of intermediate goods. However, starting in the early 1980s, the share of national income going to labour has steadily declined. Between 1980 and 2005, labour's share of national income decreased from 64% to 60% in the US, from 73% to 63% in Europe, and from 70% to 59% in Japan. As labour's share of national income declined, the share of income going to capital increased, which manifested itself in the form of increased corporate profitability." [45]

So while in the so called emerging markets and in particular the transition economies, after the initial shock of capitalist restoration, then living standards have generally recovered towards their 1990 level, in much of the CIS and Eastern Europe, in China they have surpassed it, this has been combined with a continuing fall in the value of wages.

China wages

Real wages in State Owned Enterprises (SOEs) have risen from 1991 2477 rmb/year to 2001 11178 rmb/year or by 450% (Source: UNCTAD China in a Globalising World), in spite of a massive fall of employment of approximately 26 million in the same period.

The ILO estimate that since 1990 real wage growth has fluctuated around the 5-10% per annum level, according to generally accepted Chinese government statistics, urban per capita income has increased 9 fold since 1978 and rural per capita income 5 fold, at the same time as the urban population has increased from 1987 25% to 2004 42%.[46].

This is confirmed by shifts in the consumption pattern of Chinese society:

"A rise in per capita income from low levels is associated with an increase in per capita food consumption and a shift in the composition of household expenditure away from primary products, particularly food, towards manufactures, such as textiles and clothing, wood and paper products, machinery (e.g. electrical household equipment), and chemicals (e.g. pharmaceuticals). Household demand for services also increases, particularly for transport (especially personal transportation), electricity and housing (including furniture and consumer appliances)."[47]

Take for example, the number of consumer goods per 100 households, TVs rose from 1984 4/100, to 2003 94/100, washing machines 1/100, to 59/100, fridges from 0/100 to 46/100.[48]

Or the consumption of foodstuffs;

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45 Goldman Sachs Global Economics Weekly Issue No: 08/02, 16 January 2008, The End of The Global Profit Boom?, p5

[46] Asian Development Bank Statistical Handbook 2007

[47] UCTAD Trade and Development Report 2005

[48] OECD Economic Survey China 2005

"By the end of the 1990s, China's average level of daily per capita calorie intake fell only 10 per cent short of the level of developed countries....Aggregate meat consumption has grown by more than 50 per cent over the past decade. Per capita meat consumption has also grown considerably, mainly due to a higher demand for pork and poultry, the consumption of which has risen by about one third over the past decade."[49]

While imports of food products have grown from 1980 $1798 BN to 2003 $ 14866bn[50]. Chinese pork imports from the USA have increased by 651% in the last year.

Working class living standards in China are generally rising very fast, even while wages as a proportion of national income has been falling from 2000 51% to 2005 41%. As Goldman Sachs say;

"Share of capital returns in national income has been rising. If profit growth continues to outpace the overall GDP growth, the share of national income that accrues to capital must be rising. This is indeed consistent with what the flow of funds data suggests. The share of capital income has been rising steadily since the late 1990s, while the share of labour income has been falling. This is in stark contrast to the early 1990s, when corporates had dismal earnings growth despite the macro boom."[51]

Wages in the USA

In the USA wages as a proportion of GDP have remained at around 64%. Since 2000 "after you adjust for inflation, the wages of the typical American worker – the one at the very middle of the income distribution – have risen less than 1% since 2000. In the previous five years, they rose over 6%."[52]

Profits are not in short supply, and the major corporations prefer to cash in on their victories over a weakened labour movement and distribute profits to chief executives and shareholders. Unlike the 1950s and 1960s the capitalists do not face the "Red threat". They do not have to buy off their working class to inure it against the attraction of "communism" in the USSR, China and elsewhere.

Stagnant real wages in the US has not immediately translated into falling living standards since the decline in the price of manufactured commodities means that more can be bought with the same amount of money.

In addition household incomes have risen more than real wages due to cashing in on value of rising home property prices, while lower interest rates have reduced housing costs. Naturally these "safety valves" have not been available to all layers of the US working class and growing numbers are hit by real

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[49] UNCTAD Trade and Development Report 2005

[50] UNCTAD Trade and Development Report 2005

[51] Goldman Sachs BRICS AND BEYOND Chinas Investment Strength Is Sustainable P67 November 2007

[52] The Economist, 15 July, 2006. Meanwhile, "the share of aggregate income going to the highest earning 1% of Americans has doubled from 8% in 1980 to over 16% in 2004."

and ongoing cuts in pensions and health insurance coverage or having to bear the cost of maintaining them as employers divest themselves of their historic responsibility for them.

The net result is a growing differentiation within the US working class between the "labour aristocracy" and poorest stratum.

US workers also pay a very large proportion of their wages in interest. Interest repayments as a proportion of disposable income have risen from 1979 14% to 2007 19%. This equates to a $981bn annual deduction from US wages.

Wages paid in interest in the US annually (US$ bn)

1980	1985	1990	1995	2000	2005	2007
$166	$251	$367	$440	$649	$835	$981

Source: US Congressional Office, Federal Reserve, BEA (author's calculations)

As a result income inequality has increased exponentially, with the proportion of national income going to the top 1% doubling between 1979-2007 from 9%-18%[53], while the wages of the bottom 20% grew by just $200 in the same period.

Part 8: Growth of the working class in the capitalist heartlands

Profits have also been boosted by drawing more and more of the potential labour force into paid employment and ensuring that those that are drawn in – often women and immigrants – are cheap and flexible. In the USA the participation rate of the population in the workforce has risen from 1955 59% to 2005 65% largely as a result of the growth of women's participation in the workforce which has risen from 1960, 38% to 2004, 59%, in the UK from 1960 40% to 2004 56%, France 1962 38% to 2004 51%, Germany 1960 41% to 2004 50%, the only major exception is Japan.[54]

As to the effect of immigration one recent study has concluded:

"From 1970 to 1980, immigration contributed approximately 2.1 percentage points to the total population growth of 11.%. From 1990 to 2000, immigration contributed 4.5 percentage points to the

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[53] US Congressional Office 2007

[54] Todd E Clark and Taisuke Hakata, "The Trend Growth Rate of Employment: Past, Present and Future", Economic Review First Quarter 2006, p73. This trend was also present in the late 1890s phase of globalisation, as Lenin noted: "One of the special features of imperialism connected with the facts I am describing, is the decline in emigration from imperialist countries and the increase in immigration into these countries from the more backward countries where lower wages are paid.": Lenin, Imperialism, the highest stage of capitalism, chapter 8)

total population growth of 1% . . . according to the latest estimate, published in December 2005, immigration accounted for more than 40 percent of population growth from April 2000 to July 2005." [55]

Again, "Conventional estimates put annual illegal immigration during the 1990s between 350,000 to 550,000 persons per year, or about 30 to 40 percent of total immigration.

(Constanzo and others; Warren). Some studies estimate that, since 2000, the share of illegal immigration in total immigration has been even higher, at 50 percent or more (Passel; Passel and Suro)."[56]

Reinforcing the pattern towards "precarité", the creation of a large proportion of low paid workers with very little security, intense rates of exploitation and exposed to the worst forms of exploitation, outside of the protection of the existing national trade unions and labour laws, these workers have enabled the capitalists to sharply raise the rate of exploitation in the imperialist heartlands and assist the creation of a core and periphery workforce with different terms and conditions, wages and security.

Part 9: Conclusion

In short the globalised world economy today meets Trotsky's description of, ". . . a number of cycles characterised by sharply delineated booms and weak, short-lived crises. As a result we have a sharply rising movement of the basic curve of capitalist development."

The component elements of this can be summarized thus:

* Significant defeats imposed on working class of North America and Europe during the course of the 1980s and 1990s, allowing for lowering of real wages, improvement in productivity and increase in the rate of surplus value.

* The restoration of capitalism in China, Russia and central Europe, doubling the global labour force open to exploitation by foreign and domestic capital, massively lowering the organic composition of capital by transforming the means of production of the planned economy, acquired at little or not cost, into fixed capital and hence improving profitability. At the same time this restoration has expanded the market for commodities and services of made by imperialist MNCs.

* A great leap forward in the centralisation of capital through aggressive merger and acquisitions in the 1990s, giving global reach and economies of scale to major industries.

* Restoration of US hegemony in the 1990s, enabling it to reconfigure multilateral institutions in a manner favourable to its economic policies.

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[55] U.S. Census Bureau 2005

[56] Ibid

* Roll-out of new technologies since the mid-90s (e.g. internet) which have developed new markets (e-commerce), allowed for relocation of key service and hi-tech industries, cut transaction costs and speeded up the turnover time of capital, combined with the abolition of tariffs, enabling the horizontal and vertical integration of manufacturing systems across national barriers.

* This has resulted in a sharp reversal in the decline in per capita output in the 1980s and a major improvement the rate of profit, significantly above the level of 1973-92.

Combined, these factors have produced a sustained - though not crisis-free – revival in capitalism, above all profitability.

The fact that the rewards of this revival have not been "fairly" distributed between bosses and workers is entirely due to the weakness of the international labour movement as they emerge from significant defeats of the 1980s, or have yet to construct genuinely strong and independent fighting organisations out the debris of the planned economies.

The exhaustion of the factors that have boosted productivity, trade, output and profits is a certainty, but over what timescale is difficult to predict. But the gross social inequalities generated in this phase, and the determination of neo-liberal governments to entrench their gains over the working class, guarantee sharp clashes and with them the necessity to strengthen revolutionary organisation in the heart of the working class.

Endnotes

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Appendix

Long waves theory

The strength of global economic growth in last few years demands the closest attention. Why have output, trade, profits and productivity sharply improved compared to crisis years in the 1970s and 1980s – and this despite well-publicised failures such as the collapse of the World Trade Organisation's Dohar round?

Many commentators on left and right have observed that over the last 15 years or so world capitalism has been notable for significantly improved economic indicators. In particular, everyone agrees that economic activity across the whole world has become more integrated, a feature generally described as "globalisation". [57]

[57] Globalisation: the contradictions of late imperialism" (2003)

Some economists have gone beyond registering this recent growth and have sought to locate it within the history of capitalist expansion and decline over the last hundred years or so. For example, the Economist Intelligence Unit (EIU) notes that:

"Historians have observed some uncanny parallels between the world today and the world on the eve of the first world war at the end of the golden first age of globalization that lasted from 1870 to 1914. That era was marked by a high degree of international mobility of goods, capital and labour and the dominance of a free-trade orthodoxy that was periodically challenged by protectionist sentiment. There was relatively free trade, hardly any limits on capital movements and freer immigration than today." [58]

This identification of long periods of upswing in the world economy is not a new one. Eighty years ago the Russian economist Kondratieff, suggested it was possible to discern fifty year mega-cycles (25 years up – 25 years down) based on price movements. Leon Trotsky, while accepting the idea of long upward and downward phases in the world economy, rejected the schematic certainty of Kondratieff's model, with an automatic transition from downward to upward long waves.

Trotsky rather noted that it was the interrelationship between the economy and the superstructure which determined whether or not the capitalist economy could restore the conditions for expanded accumulation:

"Major historical events – economic crises, revolutions, and so on – will determine whether we observe stagnation, booms or regressions in such periods." [59]

As there is nothing pre-determined about the outcome of revolutions, counter-revolutions or wars, there is nothing automatic about the transition between the upward or downward phases in the long wave. But without major socioeconomic shocks world capitalism cannot be pulled out of a long downward phase and onto the path of a sustained upward phase.[60]

It is now more than 15 years since the end of the Cold War and the start of new wave of globalisation, more than enough time to ask whether, since then, capitalism has been in throes of a upward "long wave" in the manner described by Trotsky.

Mandel on the conditions for a new long upturn

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[58] Economist Intelligence Unit: Forecast 2020 p19

[59] L Trotsky 1921, First Five Years of the Communist International, London, 1973

[60] Further Trotsky noted: "How are the cyclical fluctuations blended with the primary movement of the capitalist curve of development? Very simply. In periods of rapid capitalist development the crises are brief and superficial in character, while the booms are long lasting and far-reaching. In periods of capitalist decline, the crises are of a prolonged character while the booms are fleeting, superficial and speculative. In periods of stagnation the fluctuations occur upon one and the same level."

In the mid-1960s Ernest Mandel predicted that the "long boom" after World War Two would come to an end by that decade. He argued that the tendency of the rate to profit to fall would predominate and overcome the factors that had given rise to the post-war expansion. He based his predictions on long wave theory, which suggests that there are "segments of the overall history of capitalism with definitely distinguishable features". [61]

These "segments" are not statistical averages of any fifty year period that one happens to randomly choose, but correspond to real historical periods (wars, revolutions and counterrevolutions, new discoveries). But nevertheless, the movement of prices, interest rates and so on will show a definite and different marked trend in each of the phases. Crucially, where non-Marxists seek to explain the driving force behind these trends in such factors as the effect of "bunched innovations" (Schumpeter) or long term infrastructural capital investments (Kondratieff), for a Marxist long wave theory has to be a rate of profit theory. So for Mandel "the essential movements, those that determine the basic trends in the system, remain the fluctuations in the average rate of productive capital accumulation." [62]

Mandel sought to improve Kondratieff's theory by taking on board Trotsky's criticisms of the "stylised" nature of the former's "long cycles" and drew a distinction between the causes giving rise to a downward phase of the long wave and those that lay behind a new upward expansionary phase. To explain the downturn phase one should look to essentially "endogenous" or internal factors; that is, the rising organic composition of capital ensures the Tendency of the Rate of Profit to Fall (TRPF) impacts more and more on the accumulation process and the counter-veiling tendencies have less and less effect. But a long expansionary phase cannot come about "automatically" from purely internal movements of capital, but rather it needs a system shock from major socio-economic events to restore the global conditions of profitable accumulation.

Mandel refers to the effects of the 1848 revolutions in Europe in creating the basis for massively expanded internal markets in rising bourgeois nation states. Similarly, breakthroughs in transport prepared the 1890s boom. The massive defeats inflicted upon the global working class in the 1930s and 1940s through counterrevolution and world war was the major socio-economic pre-condition for the long post-war boom. As a result of this distinction the longevity of the downward, depressionary phase of the long wave cannot be predicted with any certainty. Hence Mandel avoids the charge of adopting Kondratieff's theory of cycles in which the periodicity of both parts of the long wave can be predicted in advance.

The "exogenous" factors combine to create an expansive long wave, "periods in which the forces counteracting the tendency of the average rate of profit to decline operate in a strong and synchronised way."[63]

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[61] E. Mandel, Long Waves of Capitalist Development, Cambridge, 1980

[62] Ibid, p8

[63] Ibid, p12

Mandel expands on how these counter-veiling tendencies work:

"a sharp increase in the rate of surplus value, a sharp slowdown in the rate of increase of the organic composition of capital, sudden quickening in the turnover of capital, or a combination of all or several of these factors can explain a sudden upturn in the average rate of profit. In addition Marx indicated that among forces dampening the effects of the tendency of the rate of profit to decline are an increase in the mass of surplus value and a flow of capital into countries (and we should add sectors) where the average organic composition of capital is significantly lower than in the basic industrial branches of the industrialized capitalist countries." [64]

A sustained increase in the rate of profit eventually attracts reserves of money capital which is productively accumulated and which in turn keeps the average rate of growth above that for the cycles in the previous depressionary phase.

A long expansionary phase does not in the first instance mean a return to the rates of GDP or capital stock growth that was experienced in the 1951-70 period. Indeed, the per capita GDP figures marking out an expansionary phase from the preceding period are not that dramatic except in the case of the 1920-70 wave. Certainly a surge in international trade and foreign investment is more marked. But above all it is a restoration of the rate of profit that needs to be seen; Mandel at one point suggests an increase of 50% over the average for the preceding period should be observable.

[64] Ibid, p11