

Roots of the Current Economic Crisis:

Capitalism, Forms of Capitalism, Policies, and Contingent Events

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November, 2014

Abstract: To understand a severe economic crisis such as that of 2008, it is not sufficient to analyze capitalism-in-general along with various economic policy decisions and contingent events. An adequate analysis requires taking account of the institutional form of capitalism. Capitalist economies have taken a variety of institutional forms over time and across space, and each such institutional form tends to be stable for an extended period of time. The roots of a severe economic crisis are to be found by analyzing the ways in which a particular institutional form of capitalism eventually produces obstacles to continuing capital accumulation. This approach to crisis theory is illustrated by an examination of the roots of the economic crisis that broke out in 2008 in the United States.

This paper will be presented at a Session on “Marxist Perspectives on the Causes of the Crisis of 2008” sponsored by the Union for Radical Political Economics, at the Allied Social Science Associations convention in Boston, January 5, 2015.

That capitalism has inherent crisis tendencies is a central claim of Marxism. Since neoclassical theory views capitalism (a market economy in that framework) as internally stable and always tending toward a full employment equilibrium, a crisis must result from a development external to the fundamental processes of capitalism, either a contingent event (exogenous shock) or a mistaken state policy. The former can cause a crisis, which the presumed natural corrective mechanism of the market will quickly resolve. The latter can block the market's natural stabilizing mechanism, as in Friedman's argument that mistaken Federal Reserve policy turned a normal recession into the Great Depression.¹

Marxists, starting with Marx himself, have portrayed the orthodox view of crisis as "apologetic" -- one more way to let capitalism off the hook for the severe problems it brings. When economic crisis leads to mass unemployment, business failures, homelessness, even hunger, neoclassical economists point the finger at the state or bad luck. Marxists rightly reject this view, pointing out that crises emerge from the basic workings of capitalism.

However, this rejection of the neoclassical apologetic approach to crisis has been interpreted in problematic ways in some of the Marxist crisis literature. The defensible view that features of the economy other than the fundamental contradictions of capitalism cannot provide a satisfactory explanation of crises is extended to the belief that an adequate explanation of crises -- particularly those that are large in magnitude or duration -- can be found solely at the level of capitalism-in-general. Sometimes it is assumed that each individual crisis can be categorized as due either to deep contradictions of capitalism or policy/contingent event causes. In this approach, to explain a big crisis one must demonstrate that it falls into the "deep contradiction" category and not the policy/contingent event category, since finding a significant role for factors other than deep capitalist contradictions in a severe crisis is regarded as contrary to Marxism.

To utilize the potential power of Marxism for explaining capitalist crises, it is necessary to

take account of four different levels of abstraction at which one can analyze the capitalist system: 1) capitalism-in-general; 2) the particular form of capitalism at a given time and place; 3) state policies; 4) contingent events. All four levels of analysis are necessary to produce an adequate account of any capitalist crisis. What distinguishes the dynamics of a severe crisis from those of a short-term business cycle recession is not the presence or absence of fundamental capitalist crisis tendencies but the way those crisis tendencies play out within a particular historical context that includes more concrete aspects of the economic system.

This paper considers the role of each of the four levels of analysis of capitalism for Marxist crisis theory, arguing that the prevalent form of capitalism should not be overlooked in the analysis of particular economic crises. Focusing on the U.S. where the current economic crisis originated, it offers an explanation for the crisis that began in 2008 and shows how each level of analysis contributes to a full explanation. The last section considers the advantages and possible disadvantages of this approach to economic crisis analysis

Economic Crisis and the Four Levels of Analysis of the Capitalist Economy

Marxists have traditionally defined an economic crisis as an interruption in the accumulation process. Two types of interruption, or crisis, occur in capitalist economies, short-run and long-run. A short-run crisis is a downturn in production, profit, and employment typically lasting 6 months to two years, which ends and gives way to normal accumulation through internal mechanisms of capitalism, although not before significant costs have been imposed on various segments of society.² While some Marxists have suggested reserving the term "crisis" for more severe interruptions of accumulation, there are two reasons for referring to milder downturns as crises. First, the traditional Marxist crisis tendencies -- falling rate of profit, underconsumption, profit squeeze, over-accumulation, disproportionality -- play a role in causing such short-run crises. Despite their relatively brevity and self-correcting character, they are manifestations of the

contradictory nature of capital accumulation. Second, the word "crisis" was widely applied at the time Marx wrote to such short-run downturns in economic activity, perhaps inspired by the financial panic that often accompanied an economic downturn in that era. If Marxists wish to continue the use of Marx's term "crisis" for interruptions in the capital accumulation process due to the internal mechanisms of capitalism, then consistency dictates that we apply the term to the relatively mild and self-correcting short-term interruptions in accumulation.

However, our concern here is the analysis of severe, long-lasting economic crises, which can be called long-run crises. A long-run crisis is a long-lasting interruption in the accumulation process, which differs from a short-run crisis in two ways besides simply the length of time it occupies. First, economic expansion can occur during some sub-periods of a long-run crisis, as in 1933-37 in the U.S. during the Great Depression of the 1930s. Thus, the long-run crisis is defined by sub-normal accumulation rather than continuously decreasing production (negative accumulation). Second, a long-run crisis cannot be resolved by internal mechanisms of capitalism but requires economic restructuring if normal accumulation is to resume. For that reason, a long-term crisis can alternatively be called a structural crisis. That economic restructuring is required to resolve such a crisis is the reason it lasts a long time.

The economic crisis that began in 2008 gives every indication of being a long-run, or structural, crisis. In the U.S. economic expansion resumed after the second quarter of 2009, but the rate of expansion has been very slow -- GDP has risen at 2.2% per year through the first quarter of 2014. Capital accumulation has been lackluster, unlike the usual sharp rebound after a short-term crisis. While the official unemployment rate has declined substantially, the most meaningful indicators of the state of the labor market, such as the ratio of employment to population, have not improved since 2009. Economic conditions have been even worse in a number of other developed economies. What kind of explanation can we provide for this type of crisis?

First we should consider the contradictions of capitalism-in-general that can give rise to economic crisis via the crisis tendencies of capitalism. However, while the fundamental crisis tendencies of capitalism-in-general represent the starting point for crisis analysis, an analysis at that level of abstraction cannot serve to explain why a particular crisis occurs in a particular place at a particular time. Which crisis tendency will cause a crisis? What determines whether a crisis will be of the short-run or long-run type? Apart from the disproportionality crisis tendency, the other crisis tendencies can each in principle be implicated in a structural crisis as well as a short-run, self-correcting crisis.³

To proceed any further, one must undertake a more concrete analysis than that of capitalism-in-general. Yet this does not mean that the next step is to examine state policies and contingent events. There is another level of analysis that lies between that of capitalism-in-general and that of policy and contingent events. That is the level at which one identifies the particular form of capitalism in a given place at a given time.

Capitalism has existed for several centuries, yet, while always capitalism, it has taken a series of distinct forms over time and space. Such a particular form, once established, lasts for an extended period of time. A particular form of capitalism is defined by particular economic and political institutions, associated dominant ideas (the particular form of bourgeois ideology), and a particular form of the main class relations of capitalism, most importantly the capital-labor relation. Each form of capitalism is still capitalism -- a system of generalized commodity production and the wage-labor relationship through which capital appropriates surplus value from labor.

The forms of capitalism have been given a variety of labels in the Marxist literature -- stages, social structures of accumulation, modes of regulation. A common depiction of the main forms is a sequence that starts with competitive capitalism, followed by monopoly or finance

capitalism after around 1900, then state monopoly, or regulated, capitalism after World War II, and most recently neoliberal capitalism (or globalized or financialized capitalism in some accounts) since around 1980.

This level of analysis is different from the level of state policy. A state policy is narrow and in principle subject to change at any time. By contrast, a form of capitalism is a coherent entity with mutually reinforcing elements, which make it relatively stable for a significant period of time. A form of capitalism will give rise to certain kinds of state policies, but such policies are constrained by the existing form of capitalism and hence have a stability and coherence that is not captured by the level of analysis that focuses just on state policies.

The prevailing form of capitalism is central to analyzing capitalist economic crisis. This is so not because the form of capitalism introduces new crisis tendencies but because the form of capitalism is a major determinant of which crisis tendency inherent in capitalism will emerge and cause a crisis, as well as determining whether the emergent crisis will be a severe, long-term one. Individual state policies are likely to be involved in the origin of every crisis, big and small, as are contingent events. Hence, the third and fourth levels of analysis are also relevant to the analysis of every crisis, along with the analysis of capitalism-in-general and the form of capitalism.

The Current Crisis

The initial outbreak of a severe economic crisis in 2008, originating in the U.S., had two sides. One was a financial crisis, whose dramatic character grabbed most of the attention. The other was a slower-moving real sector crisis often called the Great Recession, although at times that aspect of the crisis produced gripping headlines as monthly job losses of seven hundred to eight hundred thousand were reported from November 2008 through March 2009 (Kotz, 2015, chapter 5, figure 5.10). This structural crisis has causal factors at all four levels: capitalism in general, the prevailing form of capitalism, state policies, and contingent events. This author

provides an analysis of the causes of the crisis in Kotz (2009) and in more detail in Kotz (2015, chapters 4-5). However, neither of those works explicitly locates the crisis causes with respect to the four levels of analysis of capitalism.

Kotz (2009, 2015) make the following argument. The period from 1979 to 2007 in the U.S. showed three important economic developments: 1) increasing inequality, in the form of a large and growing gap between profits and wages and rising inequality among households; 2) a series of large asset bubbles, with one in each decade; and 3) a shift in the practices of financial institutions toward speculative and highly risky activities. The rising inequality was noted as early as the 1980s (Kotz, 1986) but achieved widespread recognition only in the 2000s. The Occupy movement forced it into the public discourse in 2011, and the stir caused by Piketty (2014) brought a focus on rising inequality into the mainstream. The series of large asset bubbles began with one in Southwestern commercial real estate in the 1980s, followed by the big stock market runup in the 1990s, and culminating in the giant nationwide housing bubble of the 2000s.

Financial institutions in the US prior to 1980 represented a sleepy and convention-bound sector of the economy. Commercial banks made business loans, profiting from the spread between lending and borrowing rates. Savings banks did the same for conventional home and commercial mortgages. Insurance companies insured life and property, with reserves held against expected payouts. Investment banks were a bit more flamboyant, floating securities and promoting mergers, but typically doing so by risking the partners' own capital and with funds not insured by the government. After 1980 the financial sector changed, gradually over time, and, as is well-known, by the 2000s it had become a high-flying, risk-seeing sector gaining huge profits. The profits of financial institutions in the U.S. more than doubled from 20% of all corporate profits in 1979 to an astonishing 40% in 2001-03 (Kotz, 2015, chapter 2, figure 2.8). As even nonfinancial corporations began gaining significant profit from financial investments, the view arose that capitalism had

been fundamentally transformed by "financialization."

Kotz (2009, 2015) argues that the above three developments, interacting with one another, gave rise to three trends that were unsustainable over the long run. First, both household and financial sector debt relative to GDP rose from 1979 to 2007, with the former ratio doubling while the latter rose almost six-fold by the eve of the crisis (Kotz, 2015, chapter 5, figure 5.1). The rapid growth in household debt resulted from household borrowing to support consumer spending. By 2007 both sectors had so much debt that any drop in cash flow would be disastrous. Second, so-called "toxic" financial assets spread throughout the financial system. These included subprime and other unconventional mortgage-backed securities, collateralized debt obligations, and credit default swaps. They were toxic in that, far from reducing risk as their promoters claimed, these assets had values that could be sustained only if the housing bubble inflated forever.

The third long-term trend, of growing excess productive capacity, has not been widely noticed. Over time the share of industrial capacity in use trended downward. Figure 1 shows the capacity utilization rate in industry for selected business cycle peak years. For the last three peak years since 1980, each saw a lower rate of capacity utilization than the preceding one. By contrast, capacity utilization was higher and trended upward between the last two peak years through 1973 prior to the onset of an earlier long-run economic crisis.⁴

The spark that ignited the crisis, in both real and financial sectors, was the deflation of the housing bubble. In 2006 housing prices stopped rising, and in 2007 they began to fall. As a result, households could no longer borrow to support consumer spending and instead had to begin paying off loans, leading to a drop in consumer spending. The falling consumer spending, together with the effect of the housing bubble deflation on profit expectations, led to falling business investment. These two together turned expansion into contraction in the first quarter of 2008. Finally, the housing bubble deflation caused the market value of all those toxic securities to plummet,

rendering most of the highly indebted big financial institutions insolvent and setting off a financial panic. The common belief that the financial crisis caused the Great Recession by cutting off funds for the real sector finds no support in the data, which show huge increases in cash in the hands both of financial institutions and nonfinancial corporations from the start of the crisis. However, the financial panic worsened profit expectations further, accelerating the decline in business investment and contributing to the severity of the recession.

Figure 2 shows this analysis of the causes of the current crisis. Three developments led to three unsustainable trends which, once the big asset bubble deflated, led to the real sector and financial sector crises. How can this analysis be interpreted in relation to the four levels of analysis of capitalism? Many Marxist analysts, as well as some non-Marxist ones, agree with some, or even all, of the causal links depicted in figure 2 that go from the three developments to the three trends in the period 1979-2007 and to the resulting outbreak of the crisis in 2008. However, there is not wide agreement about how to interpret the cause of those three trends, which figure 2 identifies as neoliberal institutions. How the causal relations in figure 2 are interpreted in relation to the four levels of capitalism matters for our understanding of this crisis.

The Form of Capitalism and the Current Crisis

To make any definitive determination about the role of capitalist crisis tendencies in this crisis, it is necessary to move from an abstract analysis of capital in general to take account of the particular form of capitalism that prevailed after 1980. While the fundamental Marxist crisis tendencies are the starting point for analysis of a particular crisis, the prevailing form of capitalism is a key determinant of which crisis tendency or tendencies will be the operative one(s).

Marxist analysts have proposed three different ways to characterize the stage or form of capitalism that emerged around 1980: globalization, financialization, and neoliberalism. Kotz (2015, chapter 2) offers a comparison of those three interpretations and argues the neoliberalism is

the best of the three for understanding contemporary capitalism. Here I will show how the concept of neoliberalism, or more accurately neoliberal capitalism, can form the basis for explaining the roots of the current crisis as well as the character of the capital accumulation process in the decades before the crisis broke out. Important policy decisions that played a role in the crisis can be understood as flowing from the logic of the neoliberal form of capitalism.

Some analysts interpret the term "neoliberalism" as referring to a set of ideas (Foster 2007). In my view neoliberalism is an appropriate name for something broader, namely the form of capitalism that emerged after 1980. That form of capitalism is embodied in institutions, ideas, and the form of the main class relations of capitalism, particularly the capital-labor relation. Table 1 lists the main institutions and dominant ideas of neoliberal capitalism in the U.S. The form of the capital-labor class relation has been a thorough capitalist domination of labor, which contrasts with the capital-labor relation characterized by class compromise in the previous form of capitalism that emerged after World War II. The institutions and ideas in table 1 are not just a list -- they make up a coherent social structure with mutually reinforcing parts that has some stability and durability. While not every aspect of U.S. capitalism was entirely consistent with this structure, major initiatives in the realm of government policy or other realms that would run contrary to the neoliberal structure were relatively easily repelled -- at least until the system went into crisis in 2008.

Why use the term "neoliberal" for this structure? In every part of the world other than U.S., a liberal position means one favoring relatively free markets with limited intervention in or regulation of markets. The term "neoliberal" capitalism means a new instance of a liberal form of capitalism. Its use is justified by the fact that after 1980 market relations and market forces have expanded to play the predominant role in regulating economic activity while non-market institutions, such as states, trade unions, and corporate bureaucracies, have played a reduced role.

The economic and political institutions of neoliberal capitalism all promote an increasing role for market relations and market forces while restricting the role of non-market institutions. At the same time, those institutions and ideas also reinforce the power of capital over labor, which is not only a central feature of this form of capitalism but also explains why big capital promoted neoliberal transformation starting in the mid 1970s (Kotz, 2015, chapter 3).

The neoliberal form of capitalism has suppressed some crisis tendencies while fostering others. Neoliberal capitalism undermines workers' bargaining power, strengthening capital's ability to raise the rate of exploitation over time. This tends to give rise to an upward trend in the rate of profit, although other factors could outweigh that effect. Basu and Vasudevan (2013) analyzed the movement of the rate of profit in the U.S. using a variety of measures, and they found that almost every measure showed a long-term *increase* in the profit rate after the early 1980s rather than a decrease. Basu and Vasudevan also found that the long-term trend in the profit share was upward over this period, as one would expect given labor's rapidly declining bargaining power.⁵ Thus, neither the tendency of the rate of profit to fall nor the reserve army/profit squeeze crisis tendency would be a strong candidate for explaining the crisis.

Since neoliberal capitalism gave rise to increasing inequality and a stagnating real wage for nonsupervisory workers after 1980 in the U.S., it would seem to set the stage for a crisis of underconsumption (Kotz, 2015, chapter 4 figure 4.3). However, consumer spending trended upward, not downward, over the period 1979-2007, both relative to GDP and to disposable income (Kotz, 2015, chapter 4 figure 4.8 and 4.19), despite the rising inequality and a stagnating real wage. Below we will argue that this suppression of the underconsumption crisis tendency resulted from the way the accumulation process proceeded under neoliberal capitalism.

Some followers of Minsky argued that the crisis represented a Minsky moment. Minsky had developed a crisis model based on a tendency in the process of economic expansion for

productive enterprises to become increasingly indebted to the financial sector, leading eventually to an inability to cover the costs of servicing their debt. However, while the current crisis did involve a financial squeeze, the squeeze was on financial institutions resulting from a combination of bad financial assets created by the institutions and the growing debt of those institutions, a process that was not related to the productive enterprise sector. In neoliberal capitalism financial institutions did not focus on providing financing to productive enterprises, and during the period after 1980 the debt of the nonfinancial corporate business sector grew only modestly relative to GDP (Kotz, 2015, chapter 5, figure 5.1).

We will argue below that the crisis tendency fostered by neoliberal capitalism has been over-accumulation of fixed capital. The long-run decline in the industrial capacity utilization rate after 1980 is consistent with that possibility.

The concept of neoliberal capitalism can explain the emergence of the three developments cited above that led eventually to the current crisis. The institutions and ideas of neoliberal capitalism fostered rising inequality, the shift in financial practices, and the series of large asset bubbles. Those three developments determined the form of capital accumulation in the neoliberal era, holding some of the fundamental crisis tendencies of capitalism at bay for several decades while limiting other crisis tendencies to the production of short-run crises only, and promoting a series of long economic expansions interrupted by relatively mild recessions that surprised many Marxist analysts. However, the contradictions embodied in those three developments led eventually to a structural crisis, in 2008.

Most of the institutions of neoliberal capitalism have directly promoted rising inequality, with a particularly important role for the open world economy, renunciation of aggregate demand management (resulting in a higher average unemployment rate), deregulation of basic industries, privatization, cuts in social programs, tax cuts for business and the rich, marginalization of

collective bargaining, casualization of jobs, and a market for corporate CEOs (which led to the skyrocketing of CEO pay). More generally, relatively free markets inherently tend to promote rising inequality, as the strong, the quick, and the unscrupulous grab a rising share of the value produced.⁶ The institutions that can potentially reduce inequality in capitalism are non-market institutions such as states that can reduce inequality through social welfare programs, progressive taxes, regulation of business that limits competition, regulation of global competition, and the provision of free or subsidized public goods. Trade unions can reduce inequality both by increasing labor's share of income and reducing wage inequality among workers. Even corporate bureaucracies can reduce inequality through job ladders that prescribe pay rates independent of market forces, sometimes based on trade union pressure, but also to achieve policy aims of the top officers (reduced turnover of workers, limiting the labor cost of managerial employees).⁷

The shift from traditional financial practices to pursuit of speculative and risky activities stemmed from several of the features of neoliberal capitalism. Many observers point to financial deregulation, thought of as an individual policy, as the cause of this shift in the financial sector. It is undeniable that the policy choice to deregulate finance was a key reason for the shift in financial institution practices, a shift that had been blocked under the previous policy regime of financial regulation that originated in the 1930s. However, an inference from this that a state policy explains the rise of a speculative and risk-seeking financial sector misses the full story. Financial deregulation was not the only factor underlying this shift in the financial sector. Other factors associated with neoliberal capitalism include the following: an intensification of competition in the economy, in the financial sector as well as the real sector; the expanding practice of hiring corporate CEOs from the outside; the shift from a long-term to a short-term time horizon for corporate decision-makers; and the rise to dominance of free-market theories of finance. Furthermore, financial deregulation was not just a lone government policy, but a part of the

mutually reinforcing set of institutions and ideas that compose the neoliberal form of capitalism.

Some regard asset bubbles as inherent in capitalism, in which everything is for sale. However, there were no big asset bubbles in the U.S. during 1948-80. Something changed after 1980 that encouraged the development of asset bubbles in the U.S. The operation of the neoliberal form of capitalism can explain the series of large asset bubbles, as a consequence of the growing inequality and the transformed financial sector that in turn resulted from neoliberal capitalism. Rising inequality meant a growing flow of revenue into corporate profit and the incomes of rich households, which exceeded the available productive investment opportunities. Some of that flow found its way into an asset, which tends to start the asset price rising. The speculative, risk-seeking financial institutions of neoliberal capitalism enthusiastically supported speculation in assets, which enabled incipient asset bubbles to grow over time.⁸

Thus, the neoliberal form of capitalism gave rise to increasing inequality, big asset bubbles, and a risk-seeking financial sector that together led eventually to the crisis in 2008. However, those three developments also explain the "successes" of neoliberal capitalism. Some Marxists initially doubted that neoliberal capitalism could bring a period of sustained capital accumulation since stagnating wages, along with the limited growth of state spending, would prevent the growing demand required to sustain accumulation. Yet the U.S. economy starting in the early 1980s produced three very long economic expansions, in 1982-90, 1991-2000, and 2001-07. Inflation remained mild even at the end of cyclical expansions when the unemployment rate fell to a relatively low level.

The explanation for the long expansions is found in the same three developments. The imbalance between profit and wages meant a rising rate of profit which stimulated accumulation. The tendency for a shortage of demand to emerge was forestalled by debt-fueled consumer spending made possible by the other two developments, asset bubbles and risk-seeking financial

institutions. The stock market bubble of the 1990s enabled upper income households to borrow against their inflating stock portfolios, causing an unusual lurch upward in consumer spending growth in the last three years of the 1990s that prolonged that expansion to become the longest one on record (Kotz, 2003). In the 2000s an even bigger bubble in housing provided an appreciating asset against which a large swath of the population could borrow to support rising consumer spending despite stagnating real wages (Kotz, 2009). The risk-seeking financial institutions found new ways to lend money even to low-income homeowners, which supported the growing debt-fueled consumer spending. The stable prices are explained by the intensely competitive markets of neoliberal capitalism which made it difficult for firms to raise prices while the low degree of worker bargaining power averted cost-push inflation.

The mode of accumulation in neoliberal capitalism tells us which fundamental crisis tendency was operative in 2008. The debt fueled consumer spending averted a crisis of underconsumption, but it did so by elevating consumer spending far above the trajectory that was sustainable based on ordinary household income. Firms invested in fixed capital to serve, and profit from, the rising sales due to debt-fueled consumer spending. This produced productive capacity that was required yet would become surplus once the asset bubble deflated and consumer spending returned to a normal relation to disposable income. That is, the crisis tendency of over-accumulation of fixed capital, one of the crisis tendencies of capitalism-in-general, was fostered by the neoliberal form of capitalism and was the operative crisis tendency in 2008.⁹ By June 2009, after debt-fueled consumer spending had evaporated, the industrial capacity utilization rate fell to 66.9%, by far the lowest rate in the postwar period.¹⁰

Individual policy decisions played a role in the process that led to the crisis. In 1998 the head of a regulatory agency, the Commodity Futures Trading Commission, called for regulation of financial derivatives. This led to a political battle that was won by Treasury Secretary Lawrence

Summers, who was able to first postpone the proposed regulation and then inserted a ban on any regulation of derivatives into the last financial deregulation act of that era, the Commodity Futures Modernization Act of 2000. This was followed by the very rapid spread of toxic financial derivatives in the U.S. and global financial system, which played a central role in the financial panic of 2008. In 2004 the Securities and Exchange Commission decided to grant an exemption for the five biggest investment banks to the Commission's rule regulating the maximum permissible level of debt leverage, on the grounds that giant investment banks were sophisticated enough to handle additional leverage. Over the following years the leverage ratio of four of the five rose to thirty to one. After 2007 all five teetered on the edge of bankruptcy, contributing to the financial crisis (Kotz, 2015, chapter 2).¹¹ While these two policy decisions contributed to the severity of the financial crisis of 2008, they were not isolated events but occurred in the context of the dominance of neoliberalism which strongly favored such policy decisions.

Contingent events also played a role in 2008. The failure of the big investment bank Lehman Brothers contributed to the financial panic in September 2008. If Lehman had been more cautious in the preceding years, it might not have failed. If the Fed had bailed Lehman out, the effect would have been lessened. However, neither alternative history would have forestalled the structural crisis.

Concluding Comments

The approach to analyzing the current crisis presented here has the advantage of taking account of the particular prevailing form of capitalism, which played an important role in the origin of the current crisis. An analysis that ignores the form of capitalism is left only with tendencies emerging from capitalism-in-general on the one hand and individual state policies and contingent events on the other. Since an analysis at the level of capitalism-in-general cannot determine which crisis tendency is operative in a given time and place, the analyst is stuck with

either a highly abstract account that cannot be persuasive or an account that gives policies and/or contingent events a bigger role than they deserve.¹² The particular form of capitalism is a systematic entity, one that emerges from the contradictions of capitalist development. By including the form of capitalism in crisis analysis, we can show how a crisis emerges from the concrete form of capitalism rather than just policies and contingent events.

An advantage of the framework presented here for analyzing the current crisis is that it sheds light on the possible future directions of restructuring, which is helpful for developing political strategy for the socialist movement. Kotz (2015, chapters 6 and 7) uses this framework to develop an analysis of the possible future directions of economic change. In brief, both theory and history suggest that one of three alternative directions of restructuring is likely to emerge in coming years: a right-wing nationalist and statist form of capitalism, a social-democratic form of capitalism, or a transition to socialism. The analysis can provide the forces that favor a transition to socialism with arguments in favor of that direction of change.

Critics of the view that the current crisis is a structural crisis of neoliberal capitalism often argue that this approach "lets capitalism off the hook" for the crisis by "diverting attention" from capitalism to neoliberalism. It must be admitted that the analysis presented here does suggest that a shift away from the neoliberal form of capitalism, toward a social democratic form, has the potential, if it could be achieved, to resolve the crisis. Policy advocates associated with the labor movement and some left-Keynesians in the U.S. have been calling for a return to a social-democratic form of capitalism as the solution to the problems that brought the current crisis. However, Marxists arguing that this is a crisis of capitalism itself, not of neoliberal capitalism, will not quiet such reformist demands.

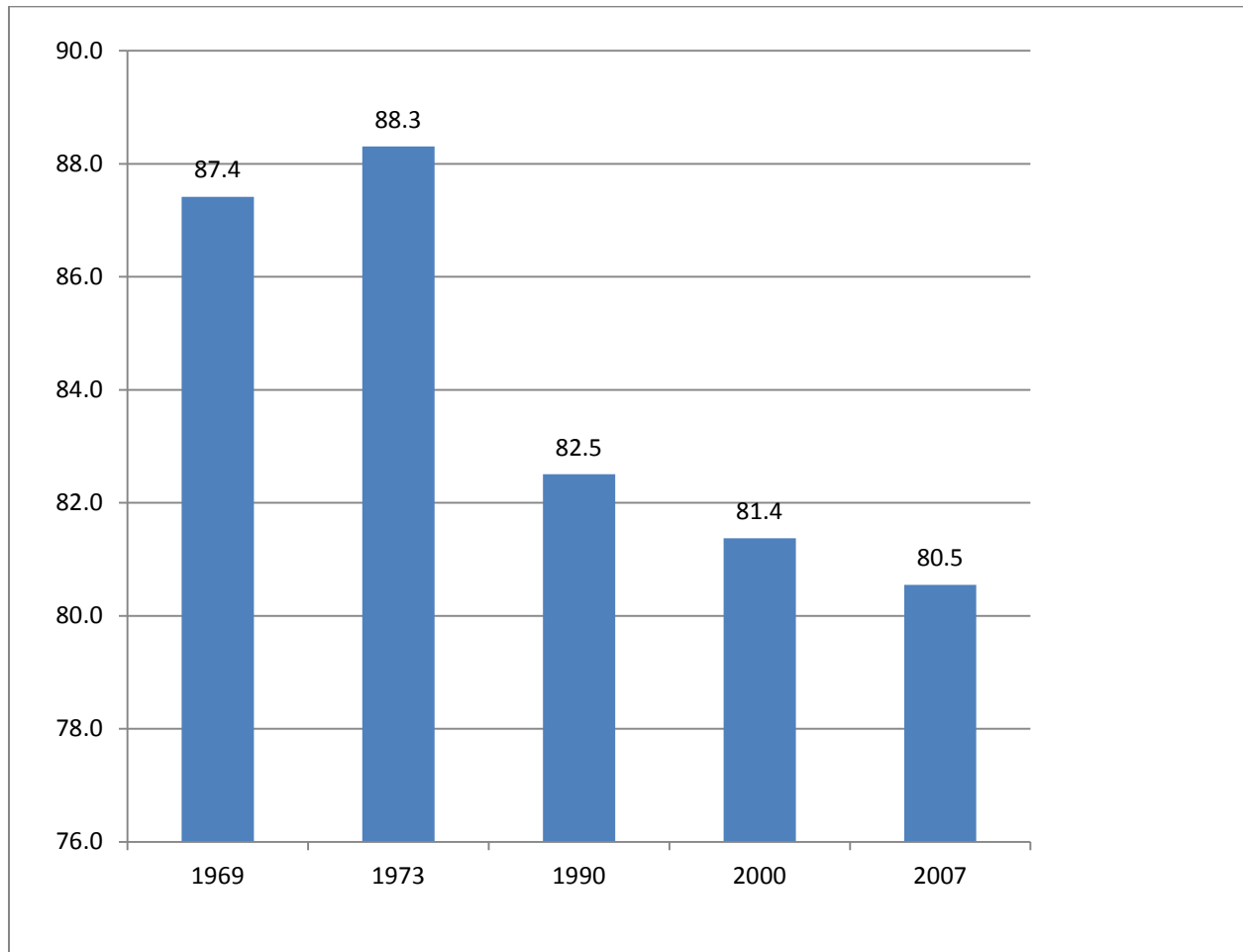
To counter the possibility that a focus on neoliberalism might lead someone to think that a social-democratic form of capitalism is the best direction of change, Marxists can point out the

roots of neoliberal capitalism in the evolution of capitalism. Capitalism always takes some institutional form, and each such form accentuates one or more crisis tendencies which will eventually cause a structural crisis of that form of capitalism. The post-World War II "regulated capitalism" empowered the working class and gave play to crisis tendencies associated with a declining profit rate: the profit squeeze crisis tendency and the tendency of the rate of profit to fall. At the same time, that form of capitalism suppressed the underconsumption and over-accumulation of fixed capital crisis tendencies. As for any form of capitalism, post-World War II regulated capitalism eventually gave rise to a structural crisis, in the 1970s, which led to neoliberal restructuring. No form of capitalism is permanently stable since the contradictions of capitalism cannot all be held at bay indefinitely.

Marxists can make several criticisms of the reformist resolution of the current crisis. A social democratic form of capitalism, despite being better for working people than neoliberal capitalism, still leaves many social and economic problems of capitalism unresolved, including inequality, dangerous working conditions, harmful products, and unemployment of some while others are overworked. Marxists can point out that another long period of social democratic capitalism, even if it were politically feasible, would spell disaster for humanity. Unlike in the 1940s, today the natural environment cannot absorb another several decades of the rapid capital accumulation and economic output growth that social democratic capitalism would bring. The result would be an acceleration of global warming that would bring disaster for civilization.

Of the three possible directions of economic change in this period, only a transition to socialism can avoid environmental disaster. Socialism does not have the economic growth drive of capitalism and could be structured to meet human wants and needs through a sustainable relationship to the natural environment. Only socialism can overcome the exploitation and oppression inherent in capitalism. Only socialism can provide the whole population with material

comfort and security, guaranteed employment for all, and an evolution of the labor process toward forms that develop human capabilities rather than repressing them.

Figure 1. Industrial Capacity Utilization Rate for Selected Business Cycle Peak Years

Note: The industrial capacity utilization rate, which is the broadest capacity utilization rate series, covers manufacturing, mining, and utilities.

Source: Board of Governors of the Federal Reserve System, 2014.

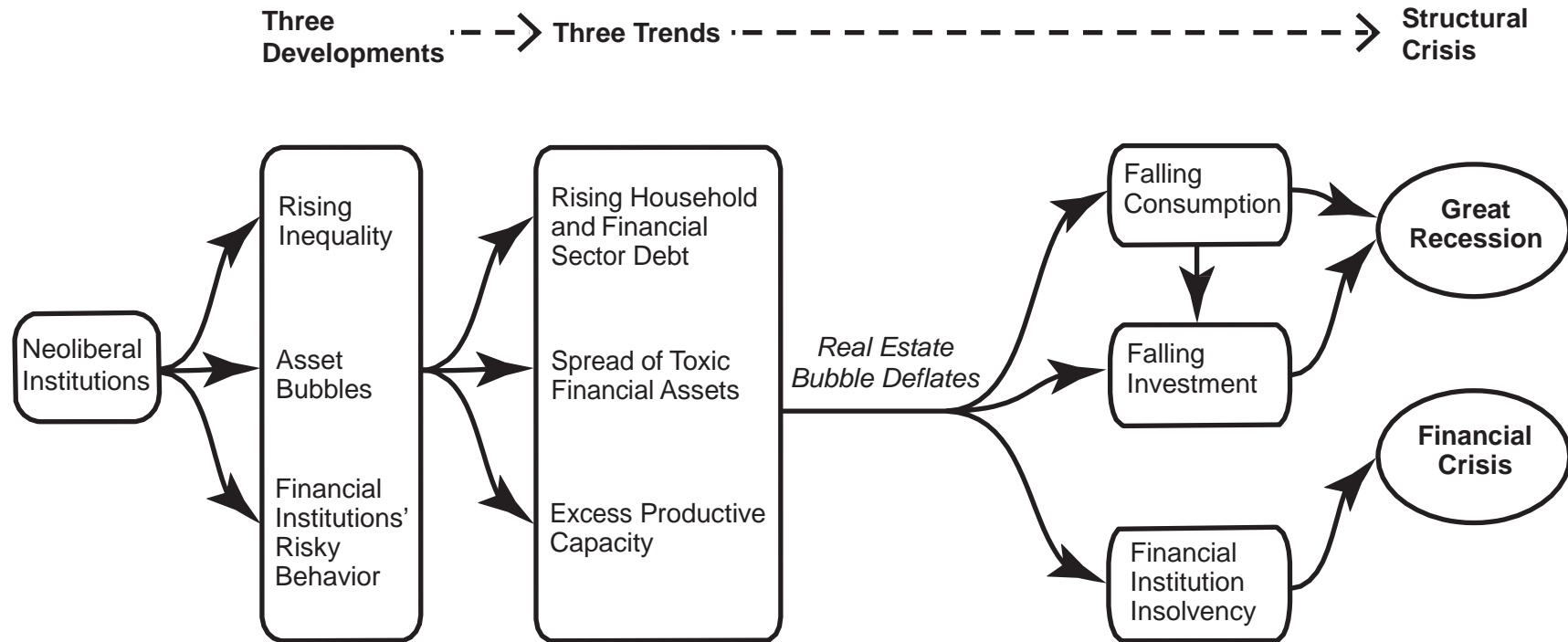
Figure 2. Causes of the Current Economic Crisis

Table 1. The Ideas and Institutions of Neoliberal Capitalism

1. Dominance of neoliberal ideas and theories
 - a) A highly individualistic conception of society
 - b) Freedom is based upon individual choice in markets
 - c) The state is an enemy of individual liberty, a potential threat to private property, and a parasite living off the hard work of individuals
 - d) Free markets bring optimal outcomes regarding efficiency, equity, and economic progress
 - e) New economic theories including rational expectations theory, monetarism, and real business cycle theory

 2. The Global Economy: Free movement of goods, services, capital, and money across national boundaries.

 3. The Role of Government in the Economy
 - a) Renunciation of aggregate demand management
 - b) Deregulation of basic industries
 - c) Deregulation of the financial sector
 - d) Weakening of regulation of consumer product safety, job safety, and the environment
 - e) Weakening of anti-trust enforcement
 - f) Privatization and contracting out of public goods and services
 - g) Cutbacks in or elimination of social welfare programs
 - h) Tax cuts for business and the rich

 4. The Capital-Labor Relation
 - a) Marginalization of collective bargaining
 - b) Casualization of jobs

 5. The Corporate Sector
 - a) Unrestrained competition
 - b) Corporate CEOs hired from outside the corporation
 - c) Market principles penetrate inside corporations
 - d) Financial institutions shift toward new types of activities and become relatively independent of the nonfinancial sector
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Notes

1. Keynes rejected the stability claim for a capitalist economy and argued that capitalism can undergo a prolonged crisis with no self-correcting mechanism to resolve it. However, the cause remained unchanged from the neoclassical view in the form of a contingent event (herd-like worsening of expectations about the future rate of return) or a mistaken policy (aiming for a balanced budget at the wrong time).
2. Marxist theory argues that the crisis itself creates conditions that tend to eventually resolve the crisis and lead to the resumption of accumulation. However, it is argued below that in a long-run crisis that tendency is blocked.
3. Some Marxists view the reserve army/profit squeeze crisis tendency as one that can bring only a short-term, self-correcting crisis. However, some Marxist analysts have presented a case that a version of the profit squeeze crisis tendency led to the long-run crisis of the 1970s (Bowles et al., 1990).
4. The Federal Reserve's series for industrial capacity utilization is available only starting with 1967. The narrower series for manufacturing alone, which includes the 1960 cyclical peak year, shows the same pattern as in figure 1.
5. Basu and Vasudevan (2013) do not provide any data on the trend in the organic composition of capital. Instead they focus on the output-capital ratio, which reflects capacity utilization as well as technological factors.
6. Typically the cases of accumulation of great wealth through overseeing productive activity involve seizure of some kind of monopoly position in a market, such as the fortunes of John D. Rockefeller and Bill Gates. However, that is not contrary to a framework of unregulated markets,

which should not be confused with the neoclassical concept of a perfectly competitive market.

Fortunes gained in financial activity involve different dynamics, typically including various forms of misrepresentation, inside information, and outright fraud that flourish in a system of unregulated markets. Also, the state, which does not disappear in neoliberal capitalism, remains a lucrative source of private appropriation in that form of capitalism.

7. In some cases non-market institutions can have the opposite effect of increasing inequality, such as professional associations that elevate the pay of already highly paid professions or craft unions that obtain very high wages. However, on balance, unregulated markets have a universal inequality-increasing impact that far outmatches the instances of inequality that arise in capitalism from the operation of some non-market institutions.

8. Big asset bubbles can arise in other socioeconomic forms besides neoliberal capitalism. A huge real estate bubble has arisen in the cities of China recently although China's economy is heavily state-regulated.

9. See Kotz (2013).

10. In addition to the excess productive capacity that was revealed only after debt-fueled consumer spending evaporated, as was noted earlier figure 1 showed that the capacity utilization rate in industry was lower in each successive business cycle peak in the neoliberal era through 2007 despite the debt-fueled consumer spending at the last two cyclical peaks. This suggests a tendency of over-accumulation of fixed capital even apart from the effect of asset bubbles on consumer spending. A possible explanation is the effect of large asset bubbles, which tend to create a sense of euphoria among investors, on expectations of future profits from investment in fixed capital.

11. Of the five biggest investment banks, one went bankrupt, two had to be acquired by larger

institutions, and two were bailed out by the government.

12. An analysis of crisis tendencies in capitalism-in-general can be combined with a study of the empirical data to seek to find out which crisis tendency operates in a given period. Weisskopf (1979) followed that approach. While that approach can yield useful information, it cannot explain why one particular crisis tendency was the operative one in a particular time and place.