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The Long Depression: How It Happened, Why It Happened and What Happens Next

By Michael Roberts, Haymarket Books, 2016

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UPON PREPARING TO read Michael Robert's analysis of the Global Financial Crisis and its aftermath in *The Long Depression*, I was struck by the first sentence on the rear cover summary intended to hook a potential reader. The summary begins as follows: 'Setting out from an unapologetically Marxist perspective…', continuing on to describe key aspects of the book. This struck me because when a person declares they are unapologetic about an action, it often implies that there is in fact something to apologise for. The negative declaration creates an unwritten but present positive affirmation of the denial. My first reaction to this claim was that I did not know Marxists ought to be apologetic for their Marxism.

This is a strangely defensive beginning, but one which perhaps alerts us to the ongoing, powerful, cultural hegemony which capitalist economics has long established over political economy. Part of establishing this hegemony has been to strip out all politics, resulting in today's deformed discipline of orthodox economics. Consequently, often the first battle in political economy is to actually do political economy rather than simply economics. Defensive or not, Roberts fights this battle admirably, providing a lucid, empirically supported, and convincing Marxist critique of current orthodox economic analysis of the cause of the 2008 Great Recession. Further, and again contrary to established doxa, Roberts argues that no real recovery has been established in the leading G7 economies despite massive monetary stimulus, such that the Great Recession and subsequent non-recovery is more aptly described as a long depression. There is far more than semantics at play in arguing for a designation that would mark only the third great depression in capitalist history. Rather, what is at play is a long-running debate over the fundamental nature of the capitalist system and its future development.

As is appropriate to the high stakes of the argument, Roberts draws theoretically upon one of the central and most controversial pillars of Marxist theory, the law of the tendency of the rate of profit to fall over time. This law is one instance of Marx's general thesis that capitalism's genetic structure requires the system to develop in ways that inevitably lead to its negation. Other such instances include the generation of social solidarity in the workplace resulting from the common cause of labour to reduce its exploitation by capital and the regular occurrence of a boom/bust business cycle resulting from overproduction of commodities and over-accumulation of capital.

The Long Depression, however, is focussed exclusively on the tendency for the profit rate to fall, and starts from the assumption that the tendency as outlined by Marx is theoreti-

cally sound. The argument then proceeds to show that the theory translates into an accurate description of capitalist history. Roberts does so by providing copious amounts of empirical evidence across the first five chapters dealing, in order, with the causes of depression, the first long depression in the mid-19th century, the Great Depression of the early 20th century, the post-war period and neoliberal response, right up to the Great Recession/Long Depression of 2008. These chapters establish that a falling rate of profit is indeed the historical trend, albeit with some significant reversals at different periods. This detailed historical survey is impressive and more than adequately sets up the grounds for his Marxist analysis of the contemporary situation.

In attending to its task, this book has many strengths to which we will turn shortly. However, the vitality and force of the first half of the book, that carries much promise, ultimately tends to fade by the book's end for reasons also to be elaborated below. Thus, taking the subheading of the book's title, which claims to tell the reader: 'How it happened, why it happened, and what happens next', Roberts succeeds admirably on the first two counts, but disappointingly not on the last. Let us be clear at the outset, however, about the book's very worthwhile strengths.

In the opening chapter Roberts clearly lays out the flaw in capitalism, as identified by Marx, and this underpins his own analysis. This flaw is in the first instance indicated to us by capitalist history, and by the fact that its many periods of strong growth are always followed by recessions of varying depth, which, on occasion, are severe enough to be termed depressions. Here Roberts refers to the boom/bust cyclical nature of capitalist economies over time, first identified and explained accurately in terms of capitalism's internal developmental tendencies by Marx. Subsequently Marx's analysis has been largely ignored or explained away by capitalist economics, and for good reason. The highly disruptive, both socially and economically, cyclical nature

of capitalism is an outcome of a number of endemic contradictions of capitalist development, including the two mentioned above pertaining to the overproduction of commodities and the overaccumulation of capital. Most important, argues Roberts following Marx, is the rate of profit to fall in response to a rise in the organic composition of capital.

The organic composition of capital refers to the ratio of constant capital (machinery, factories, raw materials etc) to variable capital (labour power) in any given production process. Together, these form the necessary inputs for all commodity production. Since variable capital is the only form of capital that adds more value during production than it costs initially, it stands to reason that if production was completely automated profit would be impossible. This is because constant capital only adds the same amount of value to produced goods as it cost as an input to begin with.

However, the unavoidable problem for capitalists, as Marx identified, is that the whip of competition forces capitalists to continually rationalise production, by reducing variable capital costs. Competition also forces capitalists to overproduce commodities during boom periods and to over-accumulate capital during recessions when production breaks down. To acknowledge these endemic flaws, for mainstream economics, would be to acknowledge that capitalism is, to a large extent, a highly irrational system. This would undermine the ideologically loaded assumption that capitalism is both rational and inevitable. Even worse than this acknowledgement of the system's irrationality is the fact that the solution to the ailment entails killing the patient, since to overcome these flaws entirely would necessitate the complete eradication of the defining feature of the capitalist order, competition. Again, this would be an unpalatable prospect for mainstream economics, to say the least.

In focussing on the tendency of the profit rate to fall,

Roberts regards the key insight of Marx's analysis being an identification of the fact that capitalist crises are due to an internal contradiction between competition and the outcome of competition. To expand, the competition between capitalists to accumulate profit is, on the one hand, the source of capitalism's immense productive dynamism. Yet, on the other hand, the result of competition is a rise in the organic composition of capital mentioned earlier. The reduction in the labour inputs that is required for the production of goods and services (variable capital) reduces the amount of profit available for expropriation by the business owner. Roberts clarifies as follows:

> Competition between capitalists induces reductions in the costs of production and thereby increases surplus-value for innovative capitalists, frequently via labor-saving technical change. In other words, capitalists increasingly use non-labor inputs in the course of their efforts to reduce costs of production.[1]

The necessity to rationalise production through an increase in the use of technology (of constant capital through automation), which necessarily decreases the amount of variable capital used to buy labour power, ultimately means a higher organic ratio and therefore less surplus-value (profit). Returning to the above biological analogy, profit is the lifeblood of capitalism, so when the flow weakens so too does the patient's vitality. Therefore, Marx's law of the tendency of the rate of profit to fall, ultimately to zero, shows that successful development of capitalist economy simultaneously creates the conditions leading to the system's decline.

For Roberts a key point then follows: the fundamental cause of all capitalist crises is profits, and not enough of them.[2]

1 Michael Roberts, *The Long Depression: How It Happened, Why It Happened and What Happens Next*, Chicago 2016, p. 15.

2 Ibid., pp. 13-4.

But this is only half the story, and the following question now begs itself: if successful capitalist development leads to a falling rate of profit, how long until the profit rate hits zero and the system collapses under the weight of its own negation? Or more pointedly, why is capitalism still going strong a century and a half after Marx identified this fatal tendency for the rate of profit to fall?

The answer lies in the word 'tendency' and the fact that counter-tendencies exist. Marx outlined a number of these which Roberts provides.[3] These include increasing levels of 'absolute surplus value' that come about through extensions of the working day; increasing levels of 'relative surplus value' that occur through productivity gains; the relative and ongoing cheapening of constant capital, as technologies get cheaper to produce and to buy; the buying of labour for less than it is worth; and the cheapening of consumer goods and capital goods through technological advances and importation from low-wage economies.

Surprisingly, Roberts misses from this list what is arguably the most important recent counter-tendency to have matured during the 20th century: the increased monopoly power of giant corporations. Many industries are characterized today by oligopoly, wherein a small number of giant corporations collude in various ways to negate competition over pricing. One method by which this collusion occurs, and which avoids the breaching of anti-trust law, is the euphemistically known practice of 'price leadership'. The term refers to a process whereby the lead corporation in a sector sets the price of a commodity and so-called competitors follow suit. It is as a result of this, and of other similarly aimed practices, that corporations across the G7 economies have reported record profits in recent years. Roberts does note this but fails to adequately explain the phenomenon in terms of the tendency towards monopolisation.

3 Ibid., p. 17.

Consequently, while the evidence is clear that the overall rate of profit has been gradually falling since the 1850s in the leading economies,[4] this trend does contain periods of reversal, and thus far shows no signs of being terminal. One major counter-tendency is, in fact, an automatic one, that of capitalism's regular economic slumps. During the downturn phase of any particular business cycle we see a number of effects: the largescale devaluation of capital; the liquidation of many capitalist enterprises; below-cost capital goods being made available for surviving enterprises along with increases in the market-share those capitals can gain; increased use of technology to produce goods (instead of workers, which reduces the organic ratio of capital); and increased competition between workers for the remaining jobs, resulting in a suppression of wages. Thus, rather than an economic crisis threatening capitalism's reproduction, it in fact provides a solution to capital's own self-imposed limits, as have built up during the boom phase. The crisis provides fertile ground for another period of growth, as the profit rate recovers for a time.

Consequently, capitalist development is uneven and this applies as much to the falling rate of profit, as it does to growth. Nevertheless, Roberts is adamant that 'there is a tendency for the rate of profit to fall over a long period of time, and this tendency will overcome any counteracting factors eventually'.[5] So, capitalism will provide the source for its own demise, or so it seems. The point in establishing the legitimacy of this law is to assess the weak recovery in the global economy since 2008.

Having established that the falling rate of profit is indeed supported by historical data, Roberts can now do two things simultaneously. First, he can provide an accurate causal explanation of the 2008 subprime crisis as resulting from a rise in the

4 Ibid., p. 21.

5 Ibid., p. 23.

organic ratio of capital in the lead up to the crisis. This resulted in decreasing profit levels that are for Roberts the primary cause of every capitalist crisis, while the subprime crisis of 2007/8 was simply a trigger of this deeper malaise.[6] The normal outcome of a falling rate of profit, as noted earlier, is a capitalist crisis during which largescale value destruction takes place. However, this has been obviated by state-led central planning whereby the major central banks in the U.S., the Eurozone, the UK, China, and Japan have used a combination of low interest rates and extraordinary levels of quantitative easing in order to stabilize their respective economies. Put simply, quantitative easing involves central banks printing new money and using it to buy assets such as government and corporate bonds and bank debt. The latter is particularly important as it increases banking liquidity making money available for lending. The effect is to stabilize the economy, but at a level where profits remain low. The low profit level in the productive sector of the leading economies has ensured a weak recovery.

Second, Roberts accordingly develops a critique of mainstream economists' analysis of the Great Recession which ignores falling profits altogether. In doing so, Roberts highlights another strength of his book, its detailed knowledge of the main three schools of mainstream economics and of their internal divisions: the Neoclassical School; the Keynesians; and the Austrian School.[7] Each of these schools, all of whom are capitalist in orientation, resolutely manages to avoid the issue that a tendency for a falling profit rate is internal to capitalism.[8] For the Keynesians, alternatively, capitalist crises result from technical malfunctions such as liquidity traps, which result from an unwill-

6 Ibid., p. 26.
7 Ibid., p. 73.
8 Ibid., p. 76.

ingness of investors to invest their capital.[9] Keynesians tend to emphasize subjective factors such as 'investor outlook' that can lead to a liquidity trap, rather than objective conditions such as a rising organic ratio of capital. Roberts rightly notes that a negative investment outlook is logically based on objective conditions, namely a low or reducing rate of profit.

The Austrian School sees capitalist crisis also arising from factors outside of the economy, particularly government or central bank monetarist intervention that upsets the otherwise efficient 'free' money market.[10] For the Austrians, the rate of interest is a key mechanism that efficiently regulates savings, lending, and investments. According to this perspective, when central banks artificially increase or depress interest rates they destabilise an otherwise self-correcting mechanism. But again, as Roberts notes, a self-governing interest rate would ultimately be governed by the rate of profit, thus the Austrian approach is indirectly focussed on profits, even if it refuses to acknowledge this. Each of the schools utilise their distinct approaches in providing what Roberts argues is an erroneous analysis of the causes behind the initial subprime crisis of 2008 and of the subsequent non-recovery.

Notwithstanding the value of Roberts' critique of these mainstream accounts, he too quickly dismisses the relevance of some of the factors that they identify as having an impact upon the rate of profit. In particular, the insights developed by the Keynesian approach with regard to the boost given to consumer demand at certain points in a capitalist cycle, should not be underestimated, a point not lost on Marx. David Harvey's *Limits to Capital* points out that Marx acknowledged that there is an equilibrium point between wages and profit on the one hand and

9 Ibid., pp. 78-9.

10 Ibid., p. 83.

output on the other that best facilitates expanded reproduction of both income and output over the long-term.[11] If it starts from below this equilibrium, a rise in wages will expand the market; but if wages go above this equilibrium then a profit crisis develops. The fact that wages are a central site of conflict in capitalist social relations means, however, that equilibrium is an impossible state to maintain in the long-term.

Nonetheless this insight means that during certain periods in capitalist development, economic expansion can be wage-led. It also explains why all the leading economies have large consumer sectors and why China is currently following this path. Likewise, planned government spending as proposed by Keynes – that boosts effective demand – can, under the right conditions, lead to an economic recovery.

These insights, therefore, ought not to be dismissed as casually as Roberts does. This is not the only or main weakness of the book, however. Chapters 8 to 11, which detail evidence of the weak recovery since 2008 in the leading economies (despite trillions of dollars of quantitative easing), could easily have been compressed into one or perhaps two chapters rather than four, leaving space for development of Roberts' argument for what should happen next. On this last point, we come to the weakest and most disappointing aspect of an otherwise important argument. Upon reaching the final chapter, 'Past Its Use-by-date?', Roberts' work ultimately seems to suffer from a case of 'capitalist fatalism'. This section of the book provides no real insight or discussion of what will or ought to replace a system apparently in terminable decline.

A further issue here is that this final section of the argument at times appears to undermine Roberts' conviction that the tendency of the rate of profit to fall is in fact terminal for capi-

11 David Harvey, *The Limits to Capital*, Chicago 1982, p. 77.

talism. Thus, Roberts often lapses from a state of unwavering belief that the falling rate of profit is an incurable *contemporary* problem for capitalism, to a suggestion in the final chapter that capital has not reached its global limits since there are billions of people still economically reproducing themselves outside of a capitalist wage-relation.[12] This means that major opportunities to exploit labour, and to thus increase the rate of profit, still exist. One is left wondering if the falling rate of profit is really so important after all, since it appears that it won't really become a terminal threat any century soon.

In that case, and contrary to Roberts' more general position, the tendencies which run counter to the falling rate of profit can arguably neutralize the trend in the long-run. In support of this hypothesis we should consider the possibility that if the barriers to capital are capital itself, the bigger those barriers become prior to any given crisis, the bigger grows the potential for a crisis of value destruction. It is in this way that every capitalist crisis both threatens the system on an economic level but, in so doing, presents new opportunities for economic recovery and political interventions. This is why Moishe Postone suggests that the limit to capital is 'an asymptotic curve, you get closer and closer to an absolute limit but you never reach it'.[13]

In conclusion, Roberts shows himself to be more of a fatalist with regard to the future of capitalism than he may wish to admit. Roberts' lack of imagination in this regard is revealed by his posing the question of whether capitalism is now past its use-by-date in 2016. The question implies that it has been useful up to now. For Marx, in contrast, capitalism was past its sell-by date from its inception. Thus, while Marx does acknowledge that the productive powers developed under capitalism are great gifts

12 Roberts, *The Long Depression*, p. 250.

13 Agon Hamza & Frank Ruda, 'An Interview with Moishe Postone: that capital has a limit does not mean that it will collapse', *Crisis & Critique*, 3/3 2016, pp. 501-17.

for humanity once separated from capitalist social relations, we should not confuse such admiration with a belief in teleological necessity.

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