

Wallerstein Says we have Entered a Depression

[This is a letter I sent to friends on Oct. 17, 2008, together with an article by Immanuel Wallerstein (appended below). –S.H.]

Hi everybody,

Below is an article by Immanuel Wallerstein from the MR Zine website, in which he argues that we are now definitely entering not just a recession but actually a new depression. Why will it be a depression and not a recession? Because, he says, there is a long-term 50 to 60 year Kondratieff cycle (in addition to the 5-10 year industrial cycle that Marx talked about) and it is now *time* for a new depression!

What Wallerstein does not at all explain (at least in this article) is what drives this supposed Kondratieff cycle, or just what it is about capitalism that leads to it.

As it happens, my essay in progress on economic crises addresses this very topic, especially in Chapter 4 (posted at <http://www.massline.org/PolitEcon/crises/Crises04.htm>). I argue there that the supposed Kondratieff cycle does not truly exist at all.

But I then go on to say that there nevertheless *is* a new long-term cycle of sorts in the imperialist era, which led to the Great Depression of the 1930s and is leading to a new depression. I think this new long-term cycle has its roots in the old standard industrial cycle which has now “spit in two”, and has arisen because sometimes the much more concerted attempts by capitalist governments to control crises in the modern era simply don’t succeed.

So are we *now* actually entering a new depression? I despise [epistemological agnosticism](#) and so I really hate to say that we “cannot know that quite yet”, but I have to say it. However, we will probably find that out within the next year or so, one way or the other. The way I look at it is that the underlying economic contradictions have gotten so strained that *one* of the string of recessions we are having (beginning with the one underway now) will definitely get out of hand and develop into a full scale depression. It might be this one, or it might be one of the next few. (It is like knowing there will eventually be another major earthquake on the San Andreas Fault, but being unable to say when precisely it will occur.)

We are certainly getting close to that economic denouement. But there are too many variables (including forthcoming decisions by foreign government leaders) that we just can’t know yet. The current crisis is certainly extremely serious. It might be that Wallerstein will turn out to be right, but it seems to me that if he does it will be for the wrong reasons.

By the way, when a new depression *does* actually take hold in a clear way I think you will find that

virtually everyone “will have predicted it”, and not just the few of us who have been sticking our necks out for years with this prediction!

Scott Harrison

[From the MR Zine website at: <http://mrzine.monthlyreview.org/wallerstein161008.html>]

The Depression: A Long-Term View

by Immanuel Wallerstein

The depression has started. Journalists are still coyly enquiring of economists whether or not we may be entering a mere recession. Don't believe it for a minute. We are already at the beginning of a full-blown worldwide depression with extensive unemployment almost everywhere. It may take the form of a classic nominal deflation, with all its negative consequences for ordinary people. Or it might take the form, a bit less likely, of a runaway inflation, which is simply another way in which values deflate, and which is even worse for ordinary people.

Of course everyone is asking what has triggered this depression. Is it the derivatives, which Warren Buffett called "financial weapons of mass destruction"? Or is it the subprime mortgages? Or is it oil speculators? This is a blame game, and of no real importance. This is to concentrate on the dust, as Fernand Braudel called it, of short-term events. If we want to understand what is going on, we need to look at two other temporalities, which are far more revealing. One is that of medium-term cyclical swings. And one is that of the long-term structural trends.

The capitalist world-economy has had, for several hundred years at least, two major forms of cyclical swings. One is the so-called Kondratieff cycles that historically were 50-60 years in length. And the other is the hegemonic cycles which are much longer.

In terms of the hegemonic cycles, the United States was a rising contender for hegemony as of 1873, achieved full hegemonic dominance in 1945, and has been slowly declining since the 1970s. George W. Bush's follies have transformed a slow decline into a precipitate one. And as of now, we are past any semblance of U.S. hegemony. We have entered, as normally happens, a multipolar world. The United States remains a strong power, perhaps still the strongest, but it will continue to decline relative to other powers in the decades to come. There is not much that anyone can do to change this.

The Kondratieff cycles have a different timing. The world came out of the last Kondratieff B-phase in 1945, and then had the strongest A-phase upturn in the history of the modern world-system. It reached its height circa 1967-73, and started on its downturn. This B-phase has gone on much longer than previous B-phases and we are still in it.

The characteristics of a Kondratieff B-phase are well known and match what the world-economy has been experiencing since the 1970s. Profit rates from productive activities go down, especially in those types of production that have been most profitable. Consequently, capitalists who wish to make really high levels of profit turn to the financial arena, engaging in what is basically speculation. Productive activities, in order not to become too unprofitable, tend to move from core zones to other parts of the world-system, trading lower transactions costs for lower personnel costs. This is why jobs have been disappearing from Detroit, Essen, and Nagoya and factories have been expanding in China, India, and Brazil.

As for the speculative bubbles, some people always make a lot of money in them. But speculative bubbles always burst, sooner or later. If one asks why this Kondratieff B-phase has lasted so long, it is because the powers that be -- the U.S. Treasury and Federal Reserve Bank, the International Monetary Fund, and their collaborators in western Europe and Japan -- have intervened in the market regularly and importantly -- 1987 (stock market plunge), 1989 (savings-and-loan collapse), 1997 (East Asian financial fall), 1998 (Long Term Capital Management mismanagement), 2001-2002 (Enron) -- to shore up the world-economy. They learned the lessons of previous Kondratieff B-phases, and the powers that be thought they could beat the system. But there are intrinsic limits to doing this. And we have now reached them, as Henry Paulson and Ben Bernanke are learning to their chagrin and probably amazement. This time, it will not be so easy, probably impossible, to avert the worst.

In the past, once a depression wreaked its havoc, the world-economy picked up again, on the basis of innovations that could be quasi-monopolized for a while. So, when people say that the stock market will rise again, this is what they are thinking will happen, this time as in the past, after all the damage has been done to the world's populations. And maybe it will, in a few years or so.

There is however something new that may interfere with this nice cyclical pattern that has sustained the capitalist system for some 500 years. The structural trends may interfere with the cyclical patterns. The basic structural features of capitalism as a world-system operate by certain rules that can be drawn on a chart as a moving upward equilibrium. The problem, as with all structural equilibria of all systems, is that over time the curves tend to move far from equilibrium and it becomes impossible to bring them back to equilibrium.

What has made the system move so far from equilibrium? In very brief, it is because over 500 years the three basic costs of capitalist production -- personnel, inputs, and taxation -- have steadily risen as a percentage of possible sales price, such that today they make it impossible to obtain the large profits from quasi-monopolized production that have always been the basis of significant capital accumulation. It is not because capitalism is failing at what it does best. It is precisely because it has been doing it so well that it has finally undermined the basis of future accumulation.

What happens when we reach such a point is that the system bifurcates (in the language of complexity studies). The immediate consequence is high chaotic turbulence, which our world-system is experiencing at the moment and will continue to experience for perhaps another 20-50 years. As everyone pushes in whatever direction they think immediately best for each of them, a new order will emerge out of the chaos along one of two alternate and very different paths.

We can assert with confidence that the present system cannot survive. What we cannot predict is which new order will be chosen to replace it, because it will be the result of an infinity of individual pressures. But sooner or later, a new system will be installed. This will not be a capitalist system but it may be far worse (even more polarizing and hierarchical) or much better (relatively democratic and relatively egalitarian) than such a system. The choice of a new system is the major worldwide political struggle of our times.

As for our immediate short-run and interim prospects, it is clear what is happening everywhere. We have been moving into a protectionist world (forget about so-called globalization). We have been moving into a much larger direct role of government in production. Even the United States and Great Britain are partially nationalizing the banks and the dying big industries. We are moving into populist government-led redistribution, which can take left-of-center social-democratic forms or far right authoritarian forms. And we are moving into acute social conflict within states, as everyone competes over the smaller pie. In the short run, it is not, by and large, a pretty picture.

Immanuel Wallerstein is Distinguished Professor Emeritus of Sociology, State University of New York at Binghamton. Among his numerous books are *The Modern World-System* (1974, 1980, 1989), *Unthinking Social Science* (1991), *After Liberalism* (1995), *The End of the World As We Know It* (1999), and *The Decline of American Power: The U.S. in a Chaotic World* (2003). This commentary was published on 15 October 2008. © Immanuel Wallerstein, distributed by Agence Global. For rights and permissions, including translations and posting to non-commercial sites, contact: rights@agenceglobal.com, 1.336.686.9002 or 1.336.286.6606. Permission is granted to download, forward electronically, or e-mail to others, provided the essay remains intact and the copyright note is displayed. To contact author, write: immanuel.wallerstein@yale.edu. Visit the archive of Wallerstein's previous commentaries at www.binghamton.edu/fbc/cmpg.htm. These commentaries, published twice monthly, are intended to be reflections on the contemporary world scene, as seen from the perspective not of the immediate headlines but of the long term. URL: mrzine.monthlyreview.org/wallerstein161008.html