Fantasies about a "Narrow Escape"

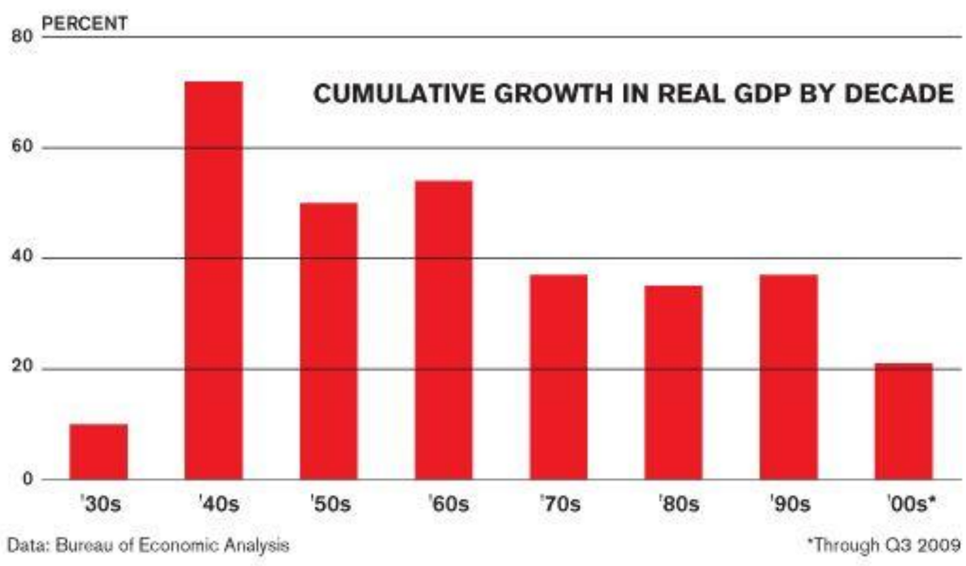
[On Dec. 21, 2009, I mailed out an email to friends, including those on the Uhoh discussion list (focusing on the current economic crisis), about how all the talk in bourgeois circles about how the U.S. economy had survived a "narrow escape" from sinking into a Second Great Depression was itself a fantasy. One of the other folks on the Uhoh list asked me to explain why I expected another recession next year and an eventual sinking into another depression, and so I summarized my theory about that in a second letter. Here are the (lightly edited) letters in date order. –S.H.]

From: [Scott H.]
To: Various (including Uhoh mail group)
Sent: Monday, December 21, 2009 1:51:58 AM
Subject: Fantasies about the economic "narrow escape"

Hi everybody,

As the end of the year approaches, many business and economics magazines are having special articles summing up the past year, and what they call our "narrow escape" from having a "Second Great Depression". I've probably seen that "narrow escape" or "close call" comment 20 times or more recently. Trouble is, that whole perspective is woefully misleading and shortsighted.

Moreover, these same magazines themselves provide considerable evidence of that shortsightedness! To start with, here is a very telling chart (based on official U.S. government statistics) from the current issue of *Business Week* (Dec. 28, 2009-Jan 4, 2010):



It does not take a genius to see that there is a long-term trend here that is not at all good! That chart would be even clearer about the long-term trend in the U.S. economy if it made adjustments for special circumstances which gave the economy short-term boosts, such as the Vietnam War in the 1960s, the Dot.com or "New Economy" bubble during the late 1990s, and the housing bubble of the past few years. Take away those special bubbles (all of which had to end after a few years), and you have a steady decline, decade by decade, since World War II. Moreover, the current decade's showing would *already* be nearly as bad as what they show for the 1930s. (It seems to me that the figures for the 1930s are actually exaggerated, however.)

The second point, which I have been talking about for some time already, is that major changes in an economy take quite some time to develop. Sure, there can be sudden financial panics and stock market drops, but when the "real economy" starts to unwind it can take years to complete the process—years during which there may be some very secondary ups and downs. And in particular, depressions are not the sort of things which develop in just a few months or in just a year or so. It takes a lot longer than that for a major economic collapse to work itself out.

In the Great Depression of the 1930s, for example, the initial mild recession began early in 1929. The stock market crash occurred in the fall of 1929. But the full-scale Great Depression did not develop for several more years. The bottom didn't arrive until 1933, more than 4 years after the process started!

A year ago the pro-capitalist economic establishment and politicians were saying "This isn't a depression; it's nowhere near as bad as 1933!" However, 1929-1930 were nowhere near as bad as 1933 either! The comparison the establishment was making was totally bogus. In retrospect we now say that the Great Depression of the 1930s started in 1929, because that is when the overall crisis began. But the extreme *conditions* we now associate with the Depression did not arrive for several years.

Another thing that happened in the 1930s was that there was one weak recovery in the middle of it (from 1934 to 1937). That "recovery" did involve rising GDP, and got the U.S. just about back to the level it had reached in 1929 in that regard. But then the Roosevelt administration eased off on the Keynesian deficit financing, and the economy sank sharply again for a couple years. Thus bourgeois economists say there were actually *two* "recessions" (as they measure them) in the 1930s. Ordinary people, however, see the whole damned decade as one long Depression!

Currently we also see bourgeois economists saying that what they call this recent "Great Recession" is now over, and the recovery has begun. Once again, if you look just at production (GDP) and not unemployment and the welfare of the working class (which is not that important for the rulers), this is actually true. However, it by no means indicates that the economy is not *continuing* its overall unwinding toward a Second Great Depression. The huge "stimulus programs" of the Bush and Obama administrations have now almost lost their efficacy, and beginning next year a renewed decline is almost inevitable (especially since a majority of politicians—including many Democrats—are now opposed to another big boost in fiscal deficits).

So the moral here is: Don't believe this story about how we "almost" had a second depression, but escaped it. It is a fairly tale, and wishful thinking, as the next few years will show.

Scott

From: [M.S.]
Sent: Thursday, December 24, 2009 2:40:38 PM
Subject: Re: Fantasies about the economic "narrow escape"

Scott and anyone else,

It seems like the other relevant comparison might be the early 80's recession. My recollection is that the recovery was slow after the early 80s recession but there was not another bourgeois recession. Why do you think the early thirties scenario is more likely?

[M.S.]

From: [Scott H.]
To: [M.S. and Uhoh mail group]
Sent: Dec 12/24/09 6:38 PM
Subject: Re: Fantasies about the economic "narrow escape"

Hi [M.] and everybody,

The way I look at it, every "recession" (as the relatively mild downturns are called in the imperialist era) is a *short-circuited* economic crisis; i.e., one in which the capitalists (mostly through their governments) are able to interrupt the unwinding of the web of interconnected economic contradictions before the deepest and most fundamental of these contradictions come to a head.

In every recession there is a threat that the capitalists may not be able to get control of the situation, and that it will continue to develop and turn into an outright "depression" (which I define as a capitalist economic crisis in which *all* the developing economic contradictions—especially the most fundamental—actually do come to a head). In the early years after a previous depression ends it is relatively easy for them to regain control in a recession. But over time, as the underlying contradictions continue to build up, it gets harder and harder to bring recessions under control, and more and more drastic means must be used to do so.

The basic means by which recessions are brought under control once they begin are the same as the means by which they are warded off in the periods in between recessions—namely, through the continual expansion of debt, and primarily consumer debt and government debt. This is because the fundamental contradiction of capitalism (between social production and private appropriation) means that the capitalists do not (and cannot) pay their workers enough to buy back all that they produce. (This is inherent in the extraction of surplus value from the working class, and thus inherent in all forms of capitalism.) The capitalists can use their surplus value to build more factories, but before long that becomes absurd if the market for the products of those factories does not expand too. Thus the only other ways to keep things going are to loan money to consumers to buy the surplus production or else for the government to use deficit spending to buy the surplus production directly.

But consumer debt and government debt not only need to be continually expanded, they must be expanded at an ever faster pace. [Because: 1) The extraction of surplus value in continuing, and 2) the *rate* of extraction of surplus value is almost constantly increasing (because of productivity improvements, more vicious exploitation of workers, etc.).] Putting it another way, the expansion of debt to keep a capitalist economy going must expand at an exponential rate. And that means it cannot possibly continue indefinitely.

As consumer and government debt get bigger and bigger, those who loan money to either one get more and more worried about ever being repaid. There start to be financial crises breaking out, which are harder and harder to bring under control, and these lead to deeper and more serious recessions because they mean a severe slowing down in the expansion of debt, or even contractions in consumer debt.

The reason why the current situation is much more serious (and much closer to the "end" of the game) than the rather severe recession of the early 1980s, is simply that the level of consumer debt and government debt is much more extreme now than it was then, and the rate of increase of government debt (at least) is much more rapid. This means that the scope for the *further* expansion of consumer and government debt is much more restricted than it was back then.

It is not possible to be absolutely certain that a particular recession will develop into a depression, because it is not possible to be sure that some new dept expansion scheme will not be developed to keep things going for a bit longer. Thus, with the collapse of the Dot.com (or "New Economy") bubble in 2000-2001, there was the possibility that that recession would get out of hand. But not only was there massive federal debt expansion at that time, a variety of wild new schemes were soon developed to expand consumer debt in the form of highly dubious home mortgages, and even more dubious investments in "securitized" debt (CDOs, CDSs, etc.) based on those bad mortgages.

There is every reason to suspect that this was the final wild expansion of consumer debt that the system could get away with. Consumer debt (in the form of mortgage debt, car loans, credit card debt, etc.) is now so extreme, and so obviously risky for those with money to loan, that it really seems that it can no longer be expanded at a pace anywhere near fast enough to keep the economy above water.

That leaves only the humongous and constant further expansion of government debt to keep things going for a while more. Many ruling class politicians (especially the Republicans, but also many Democrats) are so stupid that they are trying to cut back this current rapid expansion of government debt (now at a rate far exceeding a trillion dollars/year). Of course the Republicans may also be arguing for this because they want to see Obama fail. Interestingly, Bush Jr.'s administration was the most "spendthrift" in history up to that point. But the Obama administration has been forced to go way beyond even their huge level of government deficits.

Still, politically it is getting harder and harder to continue doing this. It is unlikely that the liberal Democrats, who see the need for a second "stimulus package", will be able to get one passed. The current "jobs proposal", which is sort of a weak substitute, will likely not even be able to keep deficit spending up at its current level. The effects of the Bush and Obama stimulus packages are already starting to decline. These are the reasons why we should expect a renewed decline to begin sometime in 2010. Some bourgeois economists are themselves already talking about the possibility of a "double-dip" recession.

Despite the reluctance of even Obama and the Democrats to keep government deficit spending at the present level (let alone expand it, which is what they need to be doing), the new economic decline (or "new recession") that develops this coming year will probably force them to at least get some sort of new deficit boost through Congress next year. So for the next few years, I would expect a period of in-and-out of recession, with very weak so-called "recoveries", with unemployment remaining huge, and expanding during the worst periods even to levels beyond what we've seen so far. (There may be some slight declines for the next few months, though.)

But this in-and-out of recession scenario also cannot continue indefinitely. It will collapse into a new depression before too many years go by. This is for the same reason as I already mentioned: government debt expansion is also getting close to its limits. This could actually happen very suddenly, if the rest of the capitalist world decides to dump the dollar more seriously. But even if that doesn't happen any time soon, it will be extremely difficult for the U.S. ruling class to keep the economy even limping along like it is doing now.

I don't think anyone can predict precisely when the qualitative collapse into a new depression will occur, or which of the coming series of quick new recessions will do the trick. But, personally, I expect to see it happen before I die, and I'm already getting close to 70!

Did I answer your question adequately? (If not, there's always more to say. You might also want to check out my pamphlet in progress on the nature of capitalist crises at http://www.massline.org/PolitEcon/crises/index.htm for some of the details I've skimmed over in this letter.)

Scott