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The Long Stagnation and the Class Struggle

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For more than a quarter-century, the advanced capitalist economies have been mired in a condition of economic stagnation, characterized by slow growth, sluggish investment and high levels of unemployment and excess capacity. Since this condition has persisted so long and shows no signs of abating despite the current cyclical upswing, it seems appropriate to label it the "Long Stagnation," thus distinguishing it from other periods of stagnation, most notably the "Great Depression" of the 1930s.

During the Great Depression, a debate slowly emerged over the sources of stagnation–mainly after the sharp decline of 1937 made it clear that a full recovery from the depression would not come automatically. On one side, the great conservative economist Joseph Schumpeter [1939, 1011-1050] argued that the decline of the economy before full recovery had been achieved was a result of the New Deal–though arising less from its substance than from the anti-business philosophy of those who had been chosen to administer it. The depression itself could be traced to the convergence in the 1929-33 period of the down phase of a 50-60 year-long wave or Kondratieff cycle with the down phases of two shorter business cycles–the 9-10 year Juglar and 3-year Kitchin.

On the other side, Alvin Hansen [1955, 540-57], Keynes's most influential advocate in the United States, argued that the system was increasingly prone to secular stagnation due to "vanishing investment opportunities"–mainly a product of the maturation of industry, which reduced the demand for net investment. Due to this and other factors (the waning influence of population growth, the closing of the frontier, the tendency for innovations to be less capital-using, etc.), Hansen concluded that the environment for net investment had waned in comparison to early

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stages of industrialization, leading to continuing stagnation unless the government stepped in to stimulate investment.

The stagnation debate of the late 1930s promised to raise critical questions about the nature and evolution of advanced capitalism. But the debate was cut short by the sudden demise of stagnation with the coming of World War II. After the war, a new "golden age" loomed, and stagnation was all but forgotten until it re-emerged in a less severe but persistent form in the 1970s [Magdoff and Sweezy 1987, 29-38; Foster 1987, 1984].

The re-emergence of stagnation might have generated another great debate (or rekindled the old one). Yet a quarter-century into the current stagnation, nothing of the magnitude of the stagnation debate of the late 1930s has materialized within mainstream economics [Burkett 1994]. One reason is that when stagnation reappeared, it first took the form of stagflation, encouraging the view that inflation was the source of the problem, itself seen as the result of excess full-employment, high wages, and declining productivity growth. The normal tendency of mainstream economics to see all crises as emanating from the supply side was thus accentuated.

The major economic policy change was therefore to adopt measures aimed at reducing costs while using the fiscal and monetary tools of the state to redistribute income and wealth from the have-nots to the haves. At the same time we see a marked tendency among the vested interests to accommodate to conditions of slow growth, provided that profit margins are protected–what John Kenneth Galbraith [1992] has referred to as "the culture of contentment."

Not all economists, however, have succumbed to contentment. Some institutionalist economists have seriously addressed stagnation [Vatter and Walker 1990; Peterson 1994]. Meanwhile, radical crisis theory has been characterized for decades by a debate between supply-side and demand-side theories of stagnation, often characterized in class struggle terms as a conflict between a strong capital/weak labor thesis and a weak capital/strong labor thesis.

According to Thomas Weisskopf, Samuel Bowles, and David Gordon [1985], "Capitalist economic crisis may occur either because the capitalist class is 'too strong' or because it is 'too weak'":

> When the capitalist class is "too strong" it shifts the income distribution in its favor [leading to] . . . a failure of aggregate demand. When the capitalist class is "too weak," the working class or other claimants on income reduce the rate of exploitation, squeezing the profit rate and reducing the level of investment [Gordon, Weisskopf, and Bowles 1987, 43].

In sharp contrast to the stagnation of the 1930s, these theorists contend, the stagnation beginning in the early 1970s is of the second variety, rooted in the fact that the capitalist class is "too weak."

There are those on the left, however, who argue that the current stagnation is similar to that of the Great Depression in that it can be traced to capital being too

strong--a phenomenon that Keynes metaphorically referred to as the "fate of Midas" [Keynes 1964, 219]. In the view of Harry Magdoff and Paul Sweezy [1987, 1988], the giant corporations that dominate the modern economy have a vast capacity to generate economic surplus, arising out of monopolization of the main benefits of scientific-technological progress as manifested in increasing labor productivity. Under these circumstances, rapid growth will occur only to the extent that investment outlets of an equally massive kind are available. Yet there is nothing within the logic of the system that ensures that investment outlets on the scale necessary will materialize. The dominant reality of the last quarter-century has been one in which the potential supply of investment has exceeded its demand.

This shortage of profitable investment outlets, these theorists argue, in a manner reminiscent of Hansen, can be traced in large part to the maturation of the economy--a historical process that tends to dampen the demand for investment as the system ages. All of the advanced industrial countries have well-developed capital goods industries that normally operate at less than full capacity and that are generally able to satisfy effective demand even in times of prosperity, as long as the upkeep and modernization of the means of production (easily funded out of depreciation allowances) occurs. Consequently, new capital formation is inhibited by previous capital formation. "The tragedy of investment," the great Polish economist Michal Kalecki [1939, 149] wrote, "is that it causes crisis because it is useful."

Hence, "the normal state of the system in its monopoly stage," Magdoff and Sweezy [1987, 56] contend,

> is one of cyclical ups and downs in a context of stagnation. If during any period of time this is not the *actual* state of the system, this fact requires to be explained by historical forces which operate on the system but are not presupposed as being essential to its existence.

What needs accounting for, therefore, is not so much stagnation, as the occasional periods of rapid growth, such as the golden age of the first quarter-century after World War II. This golden age is traced to such factors as the enormous pileup of savings and pent-up demand during the war, the second great wave of automobilization (including the growth of the entire auto-highway-housing complex), the stimulus of the Cold War (encompassing wars in Korea and Vietnam), and the rebuilding of the war-devastated economies of Western Europe and Japan. All of these stimuli, however, were self-limiting in character, and the normal stagnationary tendency of the system eventually reasserted itself.

In contrast, weak capital theorists such as Bowles, Gordon, and Weisskopf [1990] contend that the economic malaise of the last quarter-century has roots in a "profit-squeeze" that manifested itself briefly in the years 1966-73. The stagflation crisis that followed is said to have resulted from a declining cost of job losses that broke down the old "social structure of accumulation" (SSA) or the capital-labor accord underpinning prosperity. "Our analysis," Bowles, Gordon, and Weisskopf

[1990, 117] state, "points to the rising cost of keeping people down as the fundamental source of the crisis of the U.S. economy." This model relies on a long wave theory of economic history, with expansion and contraction phases each lasting for about a quarter-century and each rooted in a different SSA [Gordon, Edwards, and Reich 1982].

An increase in the relative power of capital is necessary, according to this perspective, to promote economic growth. A durable solution, however, depends on a rapid growth of labor productivity, which requires a new social contract between capital and labor.

One peculiarity of this model is that it is prone to the view that an end to stagnation is imminent. Since stagnation is never more than the downswing in a long cycle, an upswing is to be expected more or less automatically–though requiring changes in the SSA–after a quarter-century or so. In this view, the long-term reproduction of the system is not in doubt; rather, the historical limits of accumulation take the form of a series of equilbria and diequilibria (mediated by the SSA). The possibility of the system evolving in the direction of increasing irrationality is excluded from the outset.

Overcoming stagnation, in this view, was never the question–only the timing was in doubt. Capital's implementation of supply-side restructuring meant that the main problems of the economy were being addressed, however crudely. Thus, more than a decade ago Weisskopf, Bowles, and Gordon [1985, 280] were already suggesting that the "possibility" that the Reaganomic strategy might work to restore economic growth "cannot be ruled out altogether."

Yet, these theorists insisted half way through the 1980s that success in this respect would not immediately shift the contradictions away from the supply side. Although conservative restructuring was counteracting the profit squeeze, such success was likely to prove short-lived given the power of labor. "The familiar supply-side contradictions of the 1970s will re-emerge in the 1980s," Weisskopf, Bowles, and Gordon [1985, 280] proclaimed, "unless the Reagan Administration chooses instead to put the economy through the wringer once again."

Nevertheless, by the end of the 1980s, Bowles, Gordon, and Weisskopf [1989, 130] were wondering whether "the long-term decline in the underlying power of capital may finally have been halted." In a 1989 conference paper, first published in 1991, Weisskopf [1996, 372-75] portrayed the most recent period of stagnation in the U.S. economy as lasting "at least through the early 1980s" and claimed that "whether this crisis is continuing up to the present time, or alternatively, whether a new period of boom has begun in the 1980s, remains a matter of some controversy." He continued:

> It is surely too early to declare that the most recent generalized capitalist economic crisis is over, but with each year that passes without a major downturn, such a conclusion appears more warranted. Indeed, I believe that if one

confines attention to the kind of aggregate macroeconomic performance indicators I have mentioned here, the decade beginning around 1983 may well be seen as one in which the major capitalist economies rebounded from the doldrums of the 1970s and 1980s.

But in the early 1990s, the U.S. economy once again plummeted, followed by a lackluster recovery. The better part of a decade later, we are still awaiting a rebound from the "economic doldrums" of the last quarter-century.

Bowles, Gordon, and Weisskopf, as noted, grounded their theory of weak capital in a profit squeeze said to have occurred in 1966-73. But after decades of restructuring, during which profit margins have widened while the economy has continued to stagnate, this explanation seems more and more inadequate. As Gordon [1996, 19-20] indicated, the average real hourly spendable earnings for private nonfarm production employees in the United States had fallen by 1994 back to "below the level they had last reached in 1967. . . . Referring to these trends since the early 1970s as 'the wage squeeze,' is polite understatement. Calling it the 'wage collapse' might be more apt."

But if this is true, what sense does it make to continue to trace the current stagnation to weak capital/strong labor? And why if weak capital is the problem has the system not recuperated, given decades of economic restructuring on behalf of the rich? The reason why stagnation has persisted, Bowles, Gordon, and Weisskopf [1989, 1990] believe, is that although observed capitalist power has increased, the "underlying power" of capital has not. The growth in profit share has only been achieved at "prohibitive cost" through a policy of high unemployment, low-capacity utilization, and high interest rates. Only when these macroeconomic variables have turned around while profitability remains high–we are told–can capital be said to have truly strengthened its "underlying power" vis-à-vis labor and to have established the conditions for a new golden age. The goal must therefore be an outward shift of "the capitalist power frontier" (defined by the relation between profitability and utilization); a goal best achieved by means of the "high road" of high productivity and high wages, rather than the "low road" of high unemployment and low wages [Gordon 1996].

The tautological character of this new version of weak capital theory is undeniable. To define the "underlying power of capital" in this way is tantamount to identifying it with prosperity itself. What started off as a theory of the need to strengthen capitalist power in order to generate the conditions for a new golden age has now become a theory that capitalist power is truly strengthened only when golden age conditions exist.

Since the late 1980s, weak capital theorists have only been awaiting signs of an economic rebound–which long wave theory said would come in "about 1990" [Wallerstein 1982, 40]–to declare that capital is no longer too weak and that a new long-term prosperity is in the offing. But as the expected recovery from stagnation fails

to materialize, one can only hope that more and more political economists will come around to the conclusion that "the fate of Midas" was the dominant contradiction all along, and that the economic policy of the last two decades has been nothing less than a classic march of folly. What this means is that the main hope for combating stagnation resides not with the political economy of capital, but with the political economy of the working class, organized around a general resistance to capitalist restructuring. "The very necessity of *general political action*," Marx once observed, "affords the proof that in its merely economic action capital is the stronger side" [Marx 1935, 59].

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