

A crisis without end

International Viewpoint n°439, August 2011

As this article was being completed, two major crises shook capitalism and made the stock markets plunge: the sovereign debt crisis in Europe, together with the debt ceiling cliff-hanger in the United States. It is probable that the governments concerned will resolve these crises, on the brink of disaster. However, three years after the crisis broke out, these serious tensions show that it is far from being resolved and its bill, after having been issued to the public budgets, is now being presented to the people. The aim of this article is to survey the recent trajectory of capitalism and examine its implications for the period opened by the crisis.

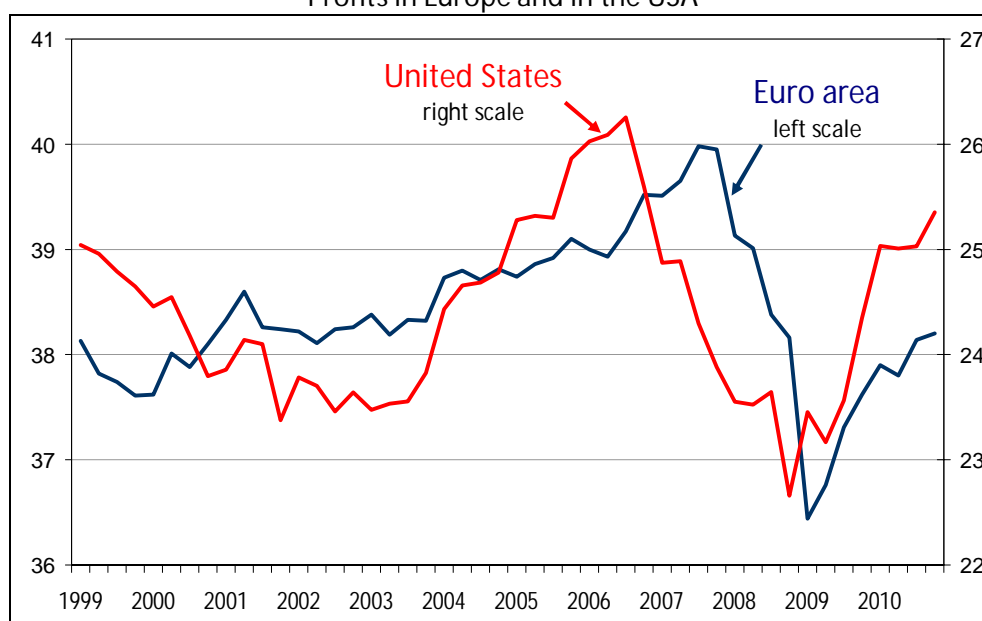
And meanwhile, the rate of profit...

Everything however seems to be going better, if we take profit as the barometer of capitalism. The marginal rate, in other words the share of profits in valued added, is recovering. In the United States, where it had plunged soonest [1], it has now nearly recovered to its pre-crisis level. In the Euro zone, the fall came later, and the catch up has been less rapid: the marginal rate has returned to its level of ten years ago, and the increase over the last decade has thus been lost, at least for now (see chart 1). But profits are headed upwards.

It is moreover one of the most striking traits of the conjuncture : while austerity is unleashed, unemployment remains high and wages are being frozen or indeed lowered, the first concern of the big groups and banks has been to start distributing dividends and bonuses again.

However this growth delivers fairly different indications. The growth of GDP is also a useful indicator when it comes to assessing the good health of capitalism (well being is entirely another thing). Even if at the end of the account, it is the rate of profit which is the true criterion, its reestablishment after the crisis cannot durably persist if the market outlets are not there. From this viewpoint, the big question is whether the dip of the recession will be overcome. One can a priori imagine three scenarios: a return to the pre-crisis trend, a durable loss or even a growing loss.

Chart 1
Profits in Europe and in the USA



Source: Eurostat, Bureau of Economic Analysis.

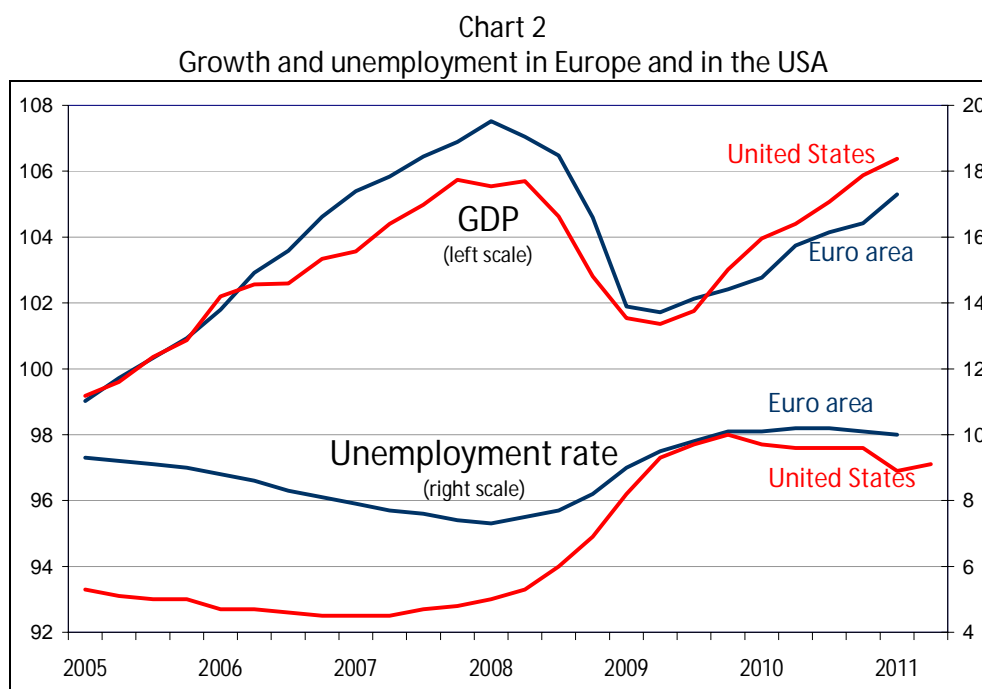
NB. The levels are not comparable because of the differences of definition and field.

The latest data available show that many countries are in a situation of the scenario of durable loss [For more details, see: "[Pertes de PIB et facture de crise](#)", *note hussonet* number 35, July 2011,]]. In the first quarter of 2011, some had not yet recovered the level of GDP reached before the crisis: this is the case with Japan, the United Kingdom, Spain and Italy. The USA, Germany and Sweden have just done so, and France is not far from it. But recovering the pre-crisis level of GDP does not mean the loss will be erased. This reading of the conjuncture allows us to bring out its broad trends.

A broken up Europe. If France, Sweden and Germany have come out of the dip, this is not the case with numerous other countries: Spain, Greece, Ireland, Iceland, Italy, Portugal, United Kingdom, which have suffered a durable loss in activity or are with difficulty regaining momentum.

The old capitalist countries are behind. The USA has for the moment recovered its pre-crisis rhythm of growth. The European Union, taken as a whole, succeeds with greater difficulty and has not filled the hole. Finally, Japan is far from doing so, and its GDP is headed downwards again since the nuclear disaster. On the other hand, the growth of the two big emergent countries (China and India) continues, and the crisis has practically not affected them. Others (Brazil, South Korea, Russia) have suffered a more severe fall in activity.

Unemployment becomes embedded. The USA and Europe present the same profile. Growth recommences, but the unemployment rate is not falling from the upward boost that the crisis gave it (chart 2).



Source: OECD

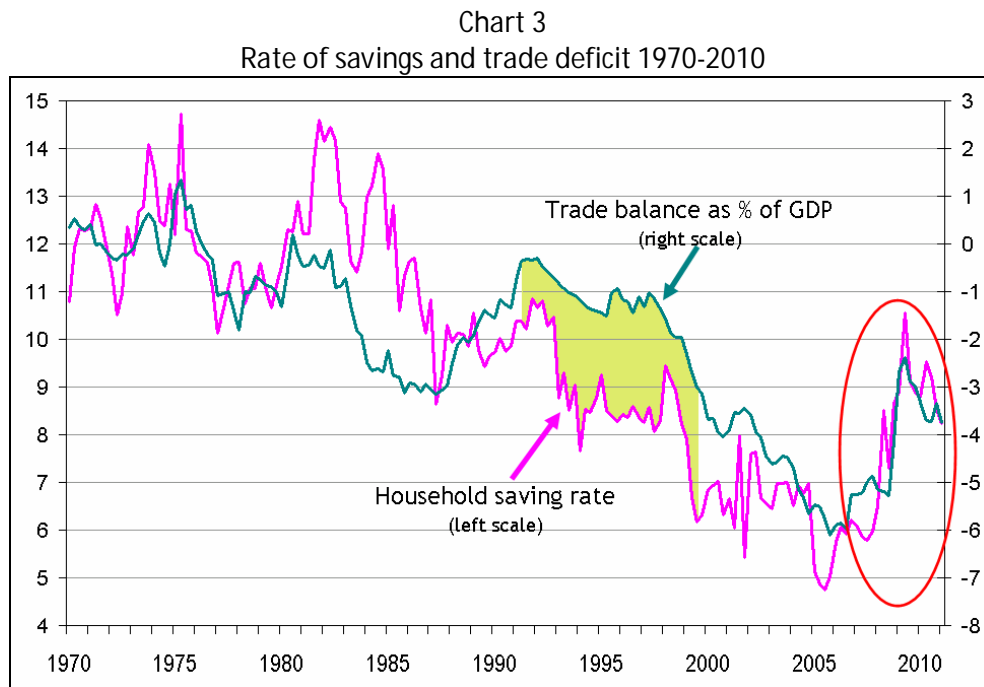
The bill has yet to be paid. The loss of economic growth seems then irremediable. That means that, even if the US and European economies regain their previous standard rhythm, the "loss of income" would not be recovered. We can evaluate the amount of it, as the gap between the GDP observed and that which can be obtained by projecting the pre-crisis tendency. The gap thus measured emerges at 8% for the Euro zone, and 6% for the USA. The US GDP is around 15,000 billion dollars and that of the Euro zone around 9,400 billion euros (or around 12,000 billion dollars). In short, in the two cases, the loss of income is around 900 billion dollars (750 billion euros).

This loss of GDP is reflected in the form of growth of the public debt. In the Euro zone, the latter has increased by 980 billion Euros between 2008 and 2010. Over the same period, it has also increased more strongly in the USA, by 3,200 billion dollars.

This “loss of GDP” risks bringing about the collapse of the debt mountain. To limit the damage, the states have taken responsibility for this lost income. Their problem is now to manage this debt, by seeking obviously to pass on the bill to the immense majority of their citizens. But this project comes up against obstacles of every kind, and this uncertain situation will render still more improbable a return to the growth of yesteryear. If nothing is done to renounce the debts, their drift could take as much time to absorb as it has to constitute. And growth will be held back, in the same proportion that it was artificially boosted before the crisis. But there are more fundamental reasons to bet on the hypothesis of durably reduced growth in the two big poles of the capitalist economy: the US model can no longer function as before, and the Euro zone has plunged into a lasting structural crisis.

The limits of the US model

The entire logic of the US model is summarised in chart 3 below, which shows how this model comes up against its limits. This chart compares two curves. The first is the rate of household savings (in percentage of available income): it has fallen tendentially since the early 1980s, until the outbreak of the crisis. That means that throughout this period (a quarter of a century), households (on average) have consumed a growing part of their income.



Source: Bureau of Economic Analysis

This very marked development has no real equivalent other than in the USA. It involves two mechanisms that the different social categories use in different proportions. The first is the wealth effect: when my financial or property assets take on value, I have less need to save, and I can then consume a greater proportion of my income. The second is over indebtedness: my income stagnates, but I go further into debt so as to continue to consume. And some rich households can moreover go into debt to play the stock market! This phenomenon has contributed significantly to the growth of GDP, drawn by this overgrowth of consumption [2]

However, this model leads to a degradation of the trade balance, which is the second curve. Pushed by household consumption, internal demand tends to increase more quickly than national production, and the difference is covered by excess imports which increases the trade deficit. It is only to the extent that the financing of this deficit can be imposed on the rest of the world that this model can function. That is why the two curves of the chart above (savings rate and trade balance) are in step over the whole period from 1980-2006.

This correlation is not by chance, but results from an essential accounting equality, that could be called the "rule of equilibrium of balances" [3] and which is summed up thus: private savings + budget balance = trade balance.

Private savings represent the cumulated savings of enterprises and households. The first are in general negative (companies go into debt) and the second positive (globally households save more than they indebt themselves) but the sum of the two can be positive or negative. As to the budget balance, it is generally in deficit. The equation expresses the fact that the trade balance is equal to the sum of private saving and the budget balance. If it is negative, that means that inflows entries of capital ensure the equilibrium of the balance of payments. In other words, the savings of the rest of the world cover the savings needs of the country considered. In case of a trade surplus, it is the contrary: the country (state + households + enterprises) disposes of surplus savings which it can then export in the form of outflows of capital, the counterpart of its trade surplus.

The fall of the household savings rate in the USA is then naturally accompanied by an increase in the trade balance. The other elements to take into consideration (indebtedness of companies and trade deficit) play a relatively secondary role. But we can also find a trace of them on chart 3. During the 1990s, we see that the household savings rate continues its fall, but that the trade deficit tends to stabilise. The reason for this is simple: in the course of this period, the budget balance considerably improved. It went from a deficit of -5% of GDP in 1992 to a surplus of 2.6% in 2000, before plunging again with the breakup of the Internet bubble, Bush's tax cuts and military expenditure. With the crisis and the plans for reflation it got stuck in the abyss, to the extent that the budget deficit is now around 10% of GDP.

The accounting relationship used is still verified, but that says nothing about the terms of its realisation. There is no factor to which the others will adjust: each relates back to the others. But the most important is that the adjustment is not compatible with any old growth rate. In the case of the USA, the realisation of this equilibrium can only take place with a growth rate lower than its pre-crisis level.

However we can (still on chart 3) locate the opening of a virtuous circle over the recent period. After the entry into crisis, the household savings rate ceased to fall; it even increased by 4% of GDP. The effect on the trade balance was immediate and practically of the same order. This is at first sight a good thing, since it implies less recourse to foreign capital for the US economy. But the contradiction is then the following: since the fall in the savings rate has been one of the motors of US growth, the fact that it has increased means that it is no longer possible to count on this boost.

It is then necessary to take into account the growth of the budget deficit. Its size (around 10% of the GDP) is without equivalent in the past half century, and it is not then astonishing that the budget deficit is today the main point of political dispute between Democrats and Republicans. Here we find a new contradiction: the savings rate, whether it emanates from the private sector or the public deficit, will be covered by capital inflows with increasing difficulty.

Here again the point of equilibrium is found at a level of reduced growth, with its batch of political and social problems linked notably to the embedding of an unemployment rate also at a historic high level, and which is only coming down slowly. It has even begun to increase, going from 8.8% in March to 9.2% in June. If we include job seekers who have effectively given up and part time employees looking for full time work, unemployment now affects one worker in six.

There are only two paths which would allow release from this system of constraints. The first would involve favouring the growth of US exports, allowing increased growth without increasing the trade deficit. This objective could be attained by an effort of investment and innovation but, in the current conjuncture, investment is not very dynamic and the transnational firms privilege investment abroad. Only the continuous downward rate of the dollar renders US products more competitive. But this tendency could reach its limit, raising doubts about the exchange rate of the dollar and leading to a drying up of the external financing necessary to cover the deficits. This path is then associated with fundamental uncertainties.

The other solution could involve a substantial change in the division of incomes. Since the early 1980s the extra income procured by growth has in effect been cornered by a very narrow fraction of the population.

Thus, between 1982 and 2007, the average income increased by 18,900 dollars. But the richest 10% took 81% of this additional income! [4] A lower growth could then be admissible if it was better divided, so that wages evolved like the productivity of labour. In the immediate, a radical tax reform would allow deficit reduction by making the beneficiaries of this quarter of a century of inequality contribute more. Manifestly, the social relationship of forces is not sufficient to impose such a solution. In these conditions, it is probable that the US will seek to make the rest of the world responsible for the continuation of their prosperity. But this again is an impossible task, because it can only come up against the slowing up of capital disposed to finance the US trade deficit. China and many of the emergent countries will moreover see their surpluses reduced to the extent that their economies will recentre on their internal market and exchanges between them will intensify.

The crisis of bourgeois governance in Europe

Logic would have meant that the crisis would politically benefit the critics of capitalism. Reality has unhappily been very different: the radical left has not really progressed, social democracy and the right alternate to the rhythm of elections, while the nationalist right gains ground almost everywhere. It is necessary to understand the roots of this situation lying in the systemic nature of the crisis, which combines in Europe with the specific contradictions of a truncated construction.

We can speak here of a boomerang effect of the neoliberal mode of construction of Europe and the choice of the single currency. The latter was mainly conceived in terms of disciplining wages: in the absence of the possibility of manipulating exchange rates, wages became the only variable of adjustment allowing several national economies to cohabit in the same monetary zone. But this system was not coherent and includes two leakage variables. A single currency means nominal convergence of interest rates, in the event downwards. The perverse effect was then the following: a country which controls its prices poorly benefits from a still lower real interest rate, and this favours the development of a growth based on indebtedness. Also, the single currency by definition leads to the disappearance of the feedback effect of a trade deficit on the currency of a country. Spain benefited from these two effects and experienced strong growth, which led to a spectacular fall in unemployment. But this growth was based on an uncontrolled property boom and a huge trade deficit.

All this could function for good as much as evil, but the crisis has sharply revealed the incoherency of the European neoliberal model. Beyond the day to day patching up, Europe is at a crossroads: either a step forward towards a federalism allowing immediate mutualisation of debts, or the breakup of the Euro zone. As the European bourgeoisies are not disposed to accept one or the other of these outcomes, the result is a very profound crisis, all the more so inasmuch as one cannot really speak of a united European bourgeoisie, because neither European capital nor a European state exists.

It is necessary to distinguish, to simplify things, four "actors": the big transnational groups, the banks, finance, and the governmental representatives of the dominant classes. On a whole series of questions, there obviously exists a deep agreement where the interests of the class essentials are concerned: in the current conjuncture, the common perspective is to resolve the situation by profiting from the crisis to apply shock therapy. The crisis is the opportunity to go still further in social regression: cuts in public spending, wage freezes, counter-reforms of pensions and so on.

But this community of interest does not prevent internal contradictions, which the crisis sharpens. They can be analysed according to two axes opposing, on the one hand, the states and capital and on the other, finance and other fractions of capitalism. The current situation is marked, from the viewpoint of the dominant classes, by a growing inability to manage these contradictions.

The sovereign debt crisis is revelatory of the first contradiction. Capital in general is no longer concerned with the conjuncture in this or that country, because its dominant preoccupation is profitability and its market shares. Indeed, neither outlets nor production lines link the transnational groups to a specific territory, even if, in case of difficulties, they fall back on their state of reference. In globalised capitalism, the role of the state has been to increasingly shrink to ensure the general conditions of profitability. Thus, Carlos Ghosn, the Renault CEO, can state in the *Financial Times* (June 2, 2010) that "Renault is no longer a French manufacturer", but he immediately nuances the words by stating that "Renault is French, Renault

has its base in France" (*Europe 1*, June 13, 2010) [5]. And indeed the French state has advanced the necessary funds to its car builders when they were in difficulties. We are no longer in situation of the world capitalism described nearly a century ago by Bukharin [6], when it was possible to overlap states and capital.

The big novelty is that the horizon of the transnational groups is global and not limited to the national, or even European, space. Bukharin spoke in his time of "higher protectionism" which was for him "the state formula of the economic policy of the cartels". Things have changed and we cannot fault him for not having anticipated the transformations of capitalism. This is not obvious to the advocates of "de-globalisation" who propose trade protectionism, as if productive globalisation did not exist. This new situation creates a profound asymmetry: the states are in the service of "their" capital, but the latter is freed from the necessity of a dynamic internal market. During this time, the states despite all continue to manage class relations inside each country. It is notably these states who are now responsible for ensuring the crisis is paid for by their citizens.

The second contradiction opposes finance, the banks and the states. It expresses itself with an especial force today when finance speculates against sovereign debts and risks, by ricochet, making the banks fail, since the latter hold a great part of these debts. The contours between these three actors (banks, finance, states) are obviously fluid and above all of great opacity. But it is very much these conflicts of interest which are at the source of an extremely unstable situation. The debates taking place inside the European bourgeoisies illustrate this profound crisis of bourgeois "governance", which stem from the fear, indeed panic, of the possible repercussions of a Greek debt default. The governments wing it between two objectives: making their peoples pay the bill for the crisis, but also avoiding the failure of their banks.

The risk incurred is dual. The inevitable default on the Greek debt threatens the banks with losses which are difficult to evaluate. Today, many bank economists are working internally on stress tests which are more realistic than the official simulations which are only there to play to the gallery. The results have been disquieting enough for a certain number of banks to choose to anticipate the shock by accepting a controlled restructuring of the Greek debt until the next due date. But another viewpoint, defended by the European Central Bank, absolutely rejects this perspective. Its fear is the extension to other endangered countries, for amounts much higher than the Greek debt. The dogmatic position is above all intended to play for time, so as to "reassure the financial markets", in the hope that the situation in the countries in difficulty could improve.

One thing is for sure: nobody could believe for a moment in the possibility that Greece could pay its debt. That is stressed by the editorialist at Bloomberg [7]: "Even if Greece gets its bailout and its economy rebounds, the government would have to run a budget surplus, excluding debt-service costs, of 5 percent of GDP for about three decades to bring down debt to the 60 percent maximum allowed by euro-area rules. Achieving such a fiscal feat for even five years is extremely rare for any government, let alone Greece's" [8]. The latest rescue plan only marginally modifies this situation.

The social democratic impasse

Initially at least, the crisis gave a new youth to social democratic themes: Keynesianism, regulation of finance, banks and capitalism in general, return of state intervention, role of the social state in the absorption of the recession, appeal to a greater justice in income distribution and taxes, and so on. The crisis seemed to open up a pathway for social democracy, and it important to consider why its political space has not enlarged, when it has not shrunk.

European social democracy has also been subjected to stress tests and it has not passed them. The prototype is Papandreou, the Greek Socialist prime minister, who has faced the crisis in an absolutely lamentable manner. He could have started an arm wrestling match by saying: "Greece cannot pay, so we have to talk". That is what Argentina did by suspending its debt in 2001 and winning its renegotiation. But Papandreou folded and accepted without discussion all the demands of the "troika" (ECB, IMF, and European Union).

Papandreou is not an isolated case. There is also Zapatero, there are also, for example, the European MEPs who have just approved, with the Greens and liberals, a report from the French Socialist deputy Pervenche Berès [9]. Among its recommendations we find the report requests calls "for measures to overcome the current lack of competitiveness through appropriate structural reforms" (...) "welcomes the principle of the European Semester of economic policy coordination" (...) and in the French version, requests the dismantling of trade barriers and the necessity of the opening of public contracts on a transparent and reciprocal basis. Meanwhile "tax competition is acceptable only as long as it does not jeopardise the capacity of Member States to collect the revenue they may fairly expect" and the report "supports the Commission in its efforts to tackle harmful tax competition". This new concept of harmful tax competition will undoubtedly become significant.

The risk of poverty which particularly affects women is certainly referred to; but curiously the conclusion is an appeal to the existing nongovernmental organisations. Faced with cuts in social budgets, the report restricts itself to writing that it "could " also be desirable to safeguard public sector services and existing levels of social protection even if it is necessary to consolidate the public finances. The use of the conditional speaks volumes. There are some interesting trails here, but they are advanced with a touching timidity; thus the report exerts a terrible pressure on the Commission in asking that it reflect on "the issuance of Euro-bonds".

In France, the two main presidential candidates for the Socialist Party agree on austerity. François Hollande puts it very clearly: "our public accounts must be rebalanced from 2013 (...) I do not say this to cede to I don't know what pressure from the markets or rating agencies but because it is the condition for our country to rediscover confidence in itself". Martine Aubry also has got in line and committed herself to "3% in 2013, since that is the rule now" [10]. This terrible formula says a lot and provides the key to the impasse social democracy is in. It can be summed up thus – any authentically social democratic programme would imply a high degree of confrontation with the bourgeoisie, which social democracy is not ready to take on.

Faced with this crisis, a so called post-Keynesian [11] school has argued that a distribution of income which was more favourable to wage earners, associated with less shareholder power, would have positive effects on growth and jobs. If these contributions are very useful in correctly indicating the causes of the current crisis, they underestimate its systemic nature. In particular, they skirt the issue of the growing gap between social needs and the criteria of capitalism, even without finance.

The current reality is that any progressive outcome to the crisis would suppose a direct confrontation with the logic of Capital, thus a higher level of conflict. The examples we have just touched on show that essentially beyond a minimum threshold of radicalism that they refuse to exceed, the social democrats only distinguish themselves very marginally from neoliberal logic.

A blocked horizon

Any recession creates tensions and contradictions which emerge in the steering of economic policy seeking to renew growth. This is particularly true in the case of the recent "great recession", but the latter is also the symptom of a systemic crisis: capitalism can no longer function as before. A return to "business as usual" or the regulated capitalism of the post war era is impossible. The period opened by the crisis is then characterised by profound uncertainties. In its project for emerging from this, capitalism faces the following obstacles, referred to as "dilemmas" in a previous article [12]:

1. dilemma of distribution: the re-establishment of profit is opposed to the recovery of growth and tends to be linked to an inegalitarian distribution of wealth which is however one of the profound causes of the crisis.
2. budgetary dilemma: the clearance of the public deficits implies a reduction of public expenditure which, without speaking of its social effects, can only aggravate recessionary tendencies. "Budgetary austerity could further slow recovery", notes a recent UN report [13].
3. European dilemma: the triple rejection – of a mutualisation of public debts, a real contribution from the banks and a disciplining of finance – means the breakup of the Euro zone, following a sequence of defaults, cannot be ruled out.

4. dilemma of globalisation: the clearance of imbalances can only be done at the price of a slowing of world growth. The UN report already cited notes that "the world recovery has been held back by the developed economies" and stresses the risk of an "uncoordinated rebalancing of the world economy".

These four dilemmas are closely intertwined. They indicate a "chaotic regulation" of capitalism, lastingly incapable of finding a trajectory of exit from crisis compatible with profoundly contradictory interests. Only social mobilisation can prevent capitalism seeking to exit from this impasse by further deepening social regression and pushing to the extreme the tensions between countries. But that also supposes that these mobilisations rest on alternative perspectives. As the latter imply a higher degree of confrontation, the historic task is today to realise the unity of the forces of the radical left around a programme throwing a bridge between resistance to austerity and the objectives of a break with the logic of a system which is adrift.

► *Michel Husson is an economist, in charge of employment at the Institut de recherches économiques et sociales (IRES) in Paris. He is member of the Fondation Copernic, a left-wing think tank, and of the Scientific Council of ATTAC. He has just published *Un pur capitalisme*, Lausanne 2008, Éditions Page Deux. You can consult his writings on <http://hussonet.free.fr>.*

NOTES

[1] See "La [baisse de la profitabilité des entreprises a précédé la crise financière](#)", *note hussonet* number 8, September 2009.

[2] For a more detailed analysis of the US model, see Michel Husson, "[Etats-Unis: la fin d'un modèle](#)", *La Brèche* number 3, 2008, and: "[Chine-USA. Les lendemains incertains de la crise](#)", *Nouveaux Cahiers Socialistes* number 2, Montreal, 2009.

[3] See "[Les limites \(comptables\) du modèle US](#)", *note hussonet* number 36, July 2011,

[4] Source: [When Incomes Grow, Who gains?](#), Economic Policy Institute.

[5] Cited by Claude Jacquin in a remarkable article: "[Crise industrielle: de quoi parle-t-on ?](#)", *Les Temps Nouveaux* number 3, 2011.

[6] Nicolas Bukharin, [Imperialism and World Economy](#), 1917.

[7] [Bloomberg](#), June 29, 2011.

[8] See "[Pertes de Pib et facture de crise](#)", *note hussonet* number 35, July 2011,

[9] [Report on the financial, economic and social crisis: recommendations concerning the measures and initiatives to be taken](#).

[10] Laurent Mauduit, "[Adieu Keynes! Vive Raymond Barre!](#)" *Mediapart*, July 19, 2011.

[11] Because it is situated in the tradition of authors like Michal Kalecki, Joan Robinson or Luigi Pasinetti.

[12] Michel Husson, "[La nouvelle phase de la crise](#)", *ContreTemps* number 9, 2011.

[13] [Situation et perspectives de l'économie mondiale](#), ONU, 2011,. The quotations come from the French summary of this report