Globalisation and the Myth of the New Long Wave

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This article examines the controversial theory of 'long waves' of capitalist development and goes on to analyse the nature of the globalisation period of capitalism between 1990 and 2007.

Meta-cyclical trends, ?long waves? and the contested legacy of Leon Trotsky

The preceding articles in this journal have examined Karl Marx?s theory of crisis in the context of the banking crisis of 2007-08, and Vladimir Lenin?s theory of monopoly capital ? imperialism ? as it applies to the post-war world order. They showed that Marx?s theory of capital accumulation reveals a tendency to stagnation of productive labour, giving rise to regular crises of profitability, in which devaluation of capital is the only way that profitability can be restored. The turnover of fixed capital imparts temporal patterns to these rises and falls in investment and outputs: industrial cycles with 7-10 year upswings, culminating in speculative frenzy, financial crisis and recession, before a new wave of recovery sets in. We further observed how the rise of finance capital in the imperialist epoch has reinforced longer-term tendencies to stagnation and decline of the capitalist system, magnifying sclerotic features such as parasitism, debt, monopoly pricing and, of course, political and military struggles for the division and redivision of the world.

It remains to examine another phenomenon ? the apparent existence not only of the short industrial cycle and the hundred year long epoch of imperialism, but of periods composed of several cycles. Within these periods the cycles continue to occur, but their pattern, their timing and their intensity appear to display particular features in common. In some of these periods, the cycles deliver sluggish upturns and longer, deeper crises; in others, expansion is more dynamic and long-lasting, while the crises and recessionary phases are shorter and less traumatic. Analysis of these meta-cyclical trends has been controversial in post-war Marxist thought. Broadly speaking, opinion falls into three categories. Some ?fundamentalist? writers, such as Paul Mattick1, brusquely dismiss all such concepts as unnecessary. Capitalism heads towards crisis, he informs us, and there is therefore no need for a theory of the period. Quite how Marxist political economy should then serve to help orient the working class movement?s response not just to the historical fact of capitalism, but also to specific conjunctures in its development is the?refore unclear.

This approach is also unable to respond to historical facts whose impact on the working class movement and socialist consciousness is unmistakeable. Did the post-war boom of 1948-73, the stagnation of 1973-89, the globalisation period that opened in 1991-92, not have certain obvious common features that impacted on the dynamic of capitalist development and, therefore, the class struggle? If so, should we not develop a more concrete theory of it?

An alternative response to Mattick et al has been to seek to identify powerful factors at a global level that would tend to shape the intensity and direction of development across groups of cycles. Such theories have themselves fallen into two categories: those that insist that these grand historical factors are different from the inner laws of capital that shape the industrial cycle, and which conclude that the longer patterns we do not take the form of cycles or waves of roughly predictable tempo and duration, and those which insist that they do take such a form. The first approach argues that these patterns are segments of the curve of capitalist development affected by the global historical, political, geographical and environmental factors with no cyclical pattern. The latter say that these longer patterns are in fact Long Waves of 50 years? duration, with upswings and downswings of approximately 25 years or two-and-a-half to three industrial cycles a piece.

The major discussion of this issue in the communist movement took place at a critical moment in world history, at the Third Congress of the Third (Communist) International in 1921. In his report to the Congress, Leon Trotsky examined the curve of capitalist development to help reorient the international working class movement in the aftermath of the defeat of the initial post-war revolutionary wave. His conclusion was that whilst capitalism had entered into a recovery phase of the cycle, this was a cycle taking place within a broader period shaped by overall decline of the productive forces. The recovery would therefore not be deep or long-lasting, and further sharp crises were predictable in the short run. Trotsky argued that the character of capitalist development could not be understood simply through analysis of the industrial cycle and its development, but rather historical materialists needed to study longer periods and how they are shaped by relations between states, classes and other ?external? factors. As we shall see, he also explicitly criticised long wave theory, arguing that the character of these longer periods of capitalist development could not be read off from the endogenous development of the capital accumulation process.2

This understanding of Trotsky?s approach ? whereby analysis is focused on the political, geographical, social and cyclical economic features of a given historical period ? is however controversial. Many writers have claimed that Trotsky was a long wave theorist. The claim is raised cautiously by Mattick, whose polemic against Ernest Mandel?s attempt to integrate Marxism and long wave theory states that Trotsky investigated long wave theory ?critically but sympathetically?, and that he introduced this suspect notion into Marxism precisely in his speech to the Communist International.3 Less cautiously, Hillel Ticktin of the journal Critique says bluntly, and without verification, that Trotsky was a long wave theorist.4 Least constrained is Bill Jeffries of Permanent Revolution, who attributes long wave theory to suggestions by Marx in chapter five of Capital (Vol. 3) and claims it was then ?subsequently developed by Trotsky but most effectively systematized by Mandel in his book Late Capitalism.? Guglielmo Carchedi also tells us in his Frontiers of Political Economy that Trotsky developed a theory of long waves.5

And yet in political economy as in the other sciences, a falsehood is not made true by repetition, no matter how frequent. It seems that Trotsky, no stranger to misrepresentation, is once again being ?actively misunderstood?. If, instead of relying on secondary sources, we examine what Trotsky actually had to say on the matter, we will see that he could not have been more explicit in rejecting long wave theory. Why the confusion? The difficulty arises because of a failure to distinguish between two concepts: the notion of different periods, in which the industrial cycles have a different character, and the notion of the 50 year cycle of long waves. The second notion contains the first and ascribes to it a broader schematic pattern. But, as we shall see, the first notion does not necessarily imply the second, and this distinction is, in our view, vital for approaching an effective Marxist analysis of the current post-1992 period of globalisation. So what did Trotsky say of relevance to this set of problems in his 1923 article on the ?Curve of Development??

?[The] cycles explain a great deal, forming as they do through automatic pulsation an indispensable dialectical spring in the mechanism of capitalist society. The breaking point of the trade-industrial conjuncture bring us into a greater proximity with the critical knots in the web of the development of political tendencies, legislation, and all forms of ideology.

But capitalism is not characterized solely by the periodic recurrence of cycles otherwise what would occur would be a complex repetition and not dynamic development.?6

Thus he acknowledged the centrality of the industrial cycle, emphasising its impact on the political superstructure and on people?s ideas, while at the same time observing that, if each were merely a repetition of the last, there would be no change across the cycles. He continued:

?Trade-industrial cycles are of different character in different periods. The chief difference between them is determined by quantitative interrelations between the crisis and the boom period within each given cycle. If the boom restores with a surplus the destruction or constriction during the preceding crisis, then capitalist development moves upward. If the crisis, which signals destruction, or at all events contraction of productive forces, surpasses in its intensity the corresponding boom, then we get as a result a decline in economy. Finally, if the crisis and boom approximate each other?s force, then we get a temporary and stagnating equilibrium in economy. This is the schema in the rough.?7

Two points are of immediate interest here. The first is that the character of these ?different periods? is observable in the relative strength or weakness of the upward or downward phases of the cycles, of the booms and the crises/recessions. This notion is common both to Trotsky and to long wave theorists. But a second point is also striking. In setting out variants of the longer patterns, Trotsky avoids transposing a cyclical ?up or down? pattern to them. Unconstrained by the assumption of long cycles or waves, he suggests three potential shapes for the longer periods. Firstly, capitalist development moving upward when the boom restores and surpasses in aggregate terms the destruction of productive forces effected in the preceding crisis. Or, secondly, a ?decline in economy? when the destruction carried out in the crisis surpasses the preceding boom. And, ignored by those who ascribe the long wave theory to Trotsky, a third potential outcome: stagnation, where the upturn and the crisis are of roughly the same quantitative effect and produce equilibrium, albeit ? and of great significance this is ? only a temporary equilibrium.

Trotsky elaborates:
?We observe in history that homogeneous cycles are grouped in a series. Entire epochs of capitalist development exist when a number of cycles is characterized by sharply delineated booms and weak, short-lived crises. As a result we have a sharply rising movement of the basic curve of capitalist development. There are epochs of stagnation when this curve, while passing through partial cyclical oscillations, remains on approximately the same level for decades. And finally, during certain historical periods the basic curve, while passing as always through cyclical oscillations, dips downward as a whole, signalling the decline of productive forces.?8

The term long waves or long cycles is derived from the theory of the non-Marxist economist Nikolai Kondratiev, which Trotsky then went on explicitly to criticise. He was aware that any analysis of longer meta-cyclical segments of the curve of development might run the risk of being interpreted as a long cycle theory, and therefore went to great pains to distinguish what he was saying from Kondratiev?s theory. The key difference between the two approaches, which Trotsky was determined to emphasise, was that the meta-cyclical patterns do not display a cyclical form, or run according to broadly predictable timescales in the way that the upward phase of the industrial cycle does. Nor are their timescales determined by the inner laws of capital as the cycles are, by temporal factors such as the turnover of fixed capital. Rather, they are determined by factors external to the industrial cycle, which condition ? within limits ? the composition of capital in the cycles:

?Following the Third World Congress of the Comintern, Professor Kondratiev approached this problem ? as usual, painstakingly evading the formulation of the question adopted by the congress itself ? and attempted to set up alongside of the ?minor cycle?, covering a period of ten years, the concept of a ?major cycle?, embracing approximately fifty years. According to this symmetrically stylized construction, a major economic cycle consists of some five minor cycles, and furthermore, half of them have the character of boom, and the other half that of crisis, with all the necessary transitional stages.

?The statistical determinations of major cycles compiled by Kondratiev should be subjected to careful and not over-credulous verification in respect both to individual countries and to the world market as a whole. It is already possible to refute in advance Professor Kondratiev?s attempt to invest epochs labelled by him as major cycles with the same ?rigidly lawful rhythm? that is observable in minor cycles; it is an obviously false generalization from a formal analogy. The periodic recurrence of minor cycles is conditioned by the internal dynamics of capitalist forces and manifests itself always and everywhere once the market comes into existence.

?As regards the large segments of the capitalist curve of development (fifty years) which Professor Kondratiev incautiously proposes to designate also as cycles, their character and duration are determined not by the internal interplay of capitalist forces but by those external conditions through whose channel capitalist development flows. The acquisition by capitalism of new countries and continents, the discovery of new natural resources, and, in the wake of these, such major facts of ?superstructural? order as wars and revolutions, determine the character and the replacement of ascending, stagnating or declining epochs of capitalist development.?9

To imagine that wars, revolutions, counter-revolutions, scientific, geological and geographical developments run according to a fixed timetable is, of course, absurd. Yet once we dispense with the ?symmetrically stylised construction? of the long wave, we are left nevertheless with an important phenomenon, and one which remains to be fully explained. What makes discrete segments of the curve of development display an expansionary dynamic (such as 1895-1913; 1948-73), a stagnatory dynamic (1973-91) or a depressive dynamic (1914-48)? And what does this tell us about the period 1992-2008? Long wave theory, of course, already purports to know the answer to this: it delivers it with all the a priori certainty of Talmudic numerology. The post war boom was a roughly 25 year upturn; the 1970s and 1980s were a roughly 25 year downturn; the collapse of the Soviet bloc began a new long upward wave; 1990 plus 25 = 2015; we are in a new long upward wave which will end in 2015. The financial crisis of 2007- 08 is thus a blip, and rumours of an impending recession are exaggerated.

Materialism, by contrast, must content itself with the more mundane task of analysing the actual trend of historical development. This means identifying the world historic factors that have shaped the cycles in the globalisation period, and their contradictions, so as to appraise the dynamics of the contemporary crisis as accurately as possible, while avoiding as far as possible the risk of making ?obviously false generalisations from formal analogies?. Our attention must be drawn to the issue of how historic events impact on the inner laws of capital and its cycles. The question must therefore be: how do powerful geopolitical events ? exogenous to the capital accumulation process ? affect the composition of capital and shape the reciprocal proportion of constant to variable capital, across the course both of cycles and of meta-cyclical segments of the curve of development?

Once the question is posed in these terms, we can begin to formulate some basic propositions on the relationship between the industrial cycle and the spatial and temporal conditions in which it develops and matures. Clearly, in each cyclical crisis a traumatic devaluation of capital occurs. In this process goods, fixed capital and other assets, such as fictitious capital and land, are devalued; labour power is also ?devalued? by raising prices for basic goods, reducing living standards and cutting jobs. These devaluations are, however, never total and complete. The organic composition of capital does not simply fall back to its starting point or below it as a result of each crisis. Conversely, nor does the survival of some of the more competitive higher technology capitals after each crisis mean that each new cycle necessarily begins in a more depressed condition than the preceding one. As David Harvey points out in his book Limits to Capital, devaluation cannot take place evenly across capital as a whole, and still less can it take place ?abstractly?. Devaluation requires real loss of value for real capital in real places and in real time. This means that in each crisis there will be a competitive struggle as to who will bear the cost of devaluation, where and when. This gives rise not only to struggle between capitals, and battles between employers and workers, but also to sharpening rivalries between capitalist countries, between the imperialist powers and the semi-colonies, and between the imperialist powers themselves.

The extent of the devaluation appears to shape the conditions in which the next recovery cycle takes place. Thus there would appear to be a clear connection between the ?long boom? of 1948-73 and the unprecedented destruction of capital, machinery, buildings, infrastructure, livestock and people in the Second World War. While an expansionary period appears to follow the introduction of a vast scale of investments in innovations, which in turn create the need for new investments, and even qualitatively new technologies and commodities, a long meta-cyclical trend of economic growth does not always ensue in these circumstances. The question arises whether the investments push down the average rate of profit (by raising the technical and value composition of capital thus raising the organic composition of capital) or raise the rate of profit by building employment to meet new social demand and absorb newly available labour-power (thus lowering the organic composition of capital).

Though Carchedi confuses matters by adopting the Kondratievite terminology of the ?long wave? to describe segments of the curve of development, he nevertheless makes a strong argument in his Frontiers of Political Economy as to how external, exogenous factors shape the dynamics of groups of cycles. For Carchedi, technological developments alone are not enough to impart a new expansionary dynamic to a meta-cyclical curve:

?? technological innovations are not the cause of a long expansionary wave (sic). As seen above, technological innovations push up the rate of profit of the innovators, but they do that at the expense of other capitalists and the economy as a whole. A generalisation of that innovation pushes down the average rate of profit because, inasmuch as it increases the OCC [Organic Composition of Capital], it destroys employment, that is it expels labour power which is the only factor creating value and surplus value. But in an expansive long wave the generalised introduction of new technologies takes place together with investments which not only replace on an extended scale capital previously destroyed but also produce a whole range of new commodities thus creating new fields of investment. These investments therefore create employment and thus more (not less) value. Moreover, given the relatively high rate of surplus value inherited from the previous long depressive wave, the surplus value and thus the rate of profit are high too. This creates the illusion that high rates of profit in the long period of recovery are due to the introduction of technological innovations, whereas it is the new, employment creating investments (using new technologies), together with high rates of exploitation, which have that effect on profitability.?10

What therefore determines the answer to this question? Not merely technological innovation, but the relation in which constant and variable capital are combined, is the principal factor shaping the organic composition of capital across groups of cycles: great factors, like world wars, the opening of new continents to capital, world historic social revolutions and counter-revolutions. In short, geopolitics: major historical and geographical moments, above all the global class struggle and the changing shape of the natural world. It is indisputable that the restoration of capitalism in Soviet Union and China in 1990-92 was such a world-historic event. What impact did it have on the curve of capitalist development? After the stagnatory dynamic of the preceding 1973-91 period did the new period of globalisation have, to use Trotsky?s terms, an ascending, stagnating or declining dynamic? We will return to this question later. First, we will examine a failed attempt to answer this question by recent proponents of the long wave theory.

Prophets of boom

A recent attempt to apply the theory of long waves to the globalisation period has run into difficulties. Writing in the new magazine Permanent Revolution, Bill Jeffries and Keith Harvey have sought to interpret the post-1992 globalisation period as an upward long wave, drawing on long wave theory developed by Ernest Mandel. Writing before the credit crunch, they predicted a continuing global ?long wave? boom until 2015. Any cyclical downturn within this long wave was, they have repeatedly insisted, going to be short and shallow:

?If recent history is a guide we would anticipate that the present period of very strong growth will not last beyond 2010 before slowing, sharply for around two years. We would anticipate however, that if the present restoration of profit rates continues that when that slow down arrives, there will not be a major recession but just a pause before a further strong growth phase. How long that upward phase will last depends on the continued ability of the capitalists to quantitatively extend the qualitative advances in manufacturing processes created by globalization. But experience of former upward long waves, implies that that ability will be exhausted during the middle of the third business cycle, i.e. around 2015.?11

Thus, almost explicitly ?generalising from a formal analogy? in a ?symmetrically stylised construction?, Jeffries assumes that past upward curves of development would inform the duration of the most recent boom. Of course, he concedes, there will be a downturn, but it will necessarily be a relatively mild one because of the pattern of the wave. In fact, in 2007 Jeffries and Harvey sought to postpone recognition of even this short ?pause?, continually refusing to recognise the crisis as it broke last year and repeatedly declaring that the events were either not occurring or, if they were, were probably not serious. Clearly, they felt the need not so much to explain the global financial crisis as to? explain it away.

This is important to us because Harvey is a former editor of Fifth International who broke from our analysis during the mid-decade boom, and who ascribed great significance to Jeffries? new perspective of a 1992-2015 long upward wave. Additionally, it is also useful to examine their theoretical errors because they provide a worked example of the inadequacies of long wave theory. Obviously, a central test of theory is the extent to which it can elicit accurate predictions of the tendencies in political and economic development. Before examining Jeffries and Harvey?s theoretical errors, let us first contrast our own predictions of the likely unfolding of the crisis with theirs, to cast light on which approach has greater explanatory effect.

In March 2007, five months before the credit crunch burst into public awareness, we tracked the emergence of the crisis, showing that the credit system was facing a serious tightening, that the USA was heading for recession, that this would have a significant effect on the world economy as a whole, and, finally, that this was driven by rising pressures on the profitability of US corporations:

?Despite being the world?s largest economy and still the most powerful nation on earth, the US is in a vulnerable situation. In January orders for durable goods fell by a massive 7.8 per cent. Predictions for economic growth have been revised downwards from 3.5 per cent to just 2.2 per cent this year. Investors are starting to worry that they will not make sufficient profits from their investments, and annual profit growth is now predicted to be under 10 per cent for the first time since 2003. In a survey last month by the US Business Council, three out of four chief executives of big companies expected growth of profits to slow down over the next year ? only 1.3 per cent expected profit growth to speed up.

? Even more worrying for the US economy is the end of the house price boom. Over there, house prices are actually falling for the first time in donkey?s years. This will limit the ability of ordinary consumers to spend their spare cash in the shops. People will be less inclined to borrow and spend ? and it is this that has been powering America?s boom, and the massive expansion of production in China too. Banks are

making it harder to borrow, and the numbers of people, who can?t pay their mortgages and lose their homes, has risen sharply and will continue to do so over the months ahead.
? Given that the United States makes up nearly a third of the world economy, a recession there will have major consequences for the rest of the world ? including countries like India and China, whose sharp growth has been spurred by US demand for consumer and durable goods.
? This month?s stock market slide exposed another feature of global capitalism?s instability: parasitism. Increasingly investors feast off one another?s investments, trading in a bewildering variety of instruments and ?derivatives?, all essentially charging one another for handling money, levying interest for lending money, or just betting in one way or another on the performance of each other?s investments. The fact that such investments do not have even the veneer of a socially useful purpose is, to the capitalist, neither here nor there? But the joke is on them: for all the froth of parasitic speculation, it cannot survive indefinitely without production of real value beneath it. When sufficient capital is withdrawn from real production, the speculative bubble must eventually burst ? stagnating and declining rates of profit in domestic manufacturing drive capitalists both to invest in cheap labour abroad and to direct their investments into ever more arcane parasitic forms. The wide array of weird and wonderful investments makes the system even more vulnerable.
? Beneath all the sound and fury of the market falls, behind all the explanations and denials, the official statements of confidence from the politicians, and the worried editorials in the bosses? papers, one thing is becoming pretty clear. While we do not know exactly when it will happen or how severe it will be, America is heading for recession and this will have a major impact on the capitalists and the working class everywhere.?12

Jeffries and Harvey most certainly did not see things the same way. On the contrary, Harvey waited until as late as August 2007 to predict that because companies held a lot of cash ?a major credit crunch does not look likely?.13 This is noteworthy for having been falsified before it was written. Already in August the central banks had poured millions of dollars and euros into the financial system, to increase ?liquidity?, i.e. ensure the banks had sufficient funds to keep lending.

We will examine Jeffries and Harvey?s justification for this and other false predictions below, and will look at their underlying theoretical mistake. But first, so that the reader can get an overall picture of just how disorienting long wave theory has proven to be, we will restrict ourselves to charting their catalogue of misjudgements.

There are many. A striking one is that Jefferies assessed the problems in the US housing market as being unlikely to lead to a recession. Unaware that the return of strong global inflationary pressures in 2007 meant that the central banks would no longer be able simply to buy their way out of crisis by lowering interest rates as the Federal Reserve did from 2001, Jeffries expressed an almost touching faith in the self-healing abilities of the system: ?If the central bankers have been able to avoid or lessen the effects of financial crisis for 15 years, why is it ?likely? now that the sub-prime crisis will cause a recession??14

The answer, of course, which continues to elude Jeffries, is that the globally deflationary environment that allowed cheap credit to be extended to lessen the effect of the last cyclical downturn in the USA has now come to an end. He didn?t notice, because, according to long wave theory, central bankers will not be prevented from ?avoiding or lessening? the effects of crisis through interest rate manipulation for another 8-10 years or so. Jeffries? new-found acolyte Keith Harvey gave another reason for misplaced confidence that the US economy would not suffer a crash. This time it was not the power of the credit system, but the rise of capital export:

?A growing number of top US companies are enjoying high overseas earnings as a result of global growth which compensates for lower domestic earnings and helps to prop up the stock market. So, the prospect for the current crisis triggering a full-fledged crash remains remote.? 15

That the stock market has entered a ?bear market? phase in which values have declined month in month out is unfortunate for Harvey. But most peculiar is his notion, which we will examine in more detail later, that the process of high overseas earnings compensating for lower domestic earnings would offset a crash at home. In the medium run it can do nothing of the sort, if the underlying stagnatory trends giving rise to ?lower domestic earnings? are not themselves overcome. Jeffries further predicted that the US economy would withstand the crisis without recession, and that this would prove his theory of the upward long wave correct:

?So far the ability of the US to absorb the effects of the quite major sub-prime crisis confirm the idea that with globalisation world capitalism has indeed escaped from [its] stagnation phase.?16

Not content with this litany of erroneous predictions, by November 2007 Jeffries was declaring that the credit crunch was pretty well over:
?it is becoming increasingly likely that the US has been able to ride out the summer?s credit crunch, notwithstanding the possibility and likelihood of further surprises over the next month.?17

In their arguments, Jeffries and Harvey will typically point to countervailing tendencies to the tendency of the rate of profit to fall, without noting their contradictions. They have done this when considering the role of cheap credit and capital export, but also, Jeffries ?deployed? another countervailing tendency ? cheap exports through devaluation of currency ? without pointing to the recessionary effect this has in aggravating domestic inflation:

?That is not to say that the drag of the recession in the residential housing and the reduction in demand that goes alongside it will not hit the US economy through the rest of this year and into next, but as we anticipated the fall of the dollar has enabled exports to take up a significant amount of the slack, unemployment remains low and wages are rising?.18

Embarrassingly for him, he concluded by stating that ?profits outside of the financial sector continue to grow strongly?, when in fact they fell sharply in the fourth quarter of 2007, as even Harvey admits. To leave the reader in no doubt that the worst of the crisis was, in his view, over, he asked a rhetorical question, steeped in unintended irony:

?But the question remains ? not why were they hit so hard by the sub-prime crisis and credit crunch ? the answers to that are obvious ? it is due to the unplanned nature of financial speculation, but why given the fantastic sums of money involved, have they been able to ride out such a serious crisis so relatively easily??19

Having failed to understand that cheap credit cannot always be deployed to offset crisis, and unaware of the very different constraints affecting the central banks in 2007 compared with 2001, Jeffries went on to argue that the run on the UK bank Northern Rock was primarily caused by the Bank of England?s weak policy response, and not by underlying developments in global production impacting on the liquidity and solvency of the banking system. Instead he emphasised how weak the crisis has been:

?What is most interesting about the present sub-prime crisis and the credit crunch that followed it is how limited its impact has been on capitalism to date. The major banks and financial institutions have thus far written off around $60 billion in bad debts and there is an expectation that there will be more to follow and yet, aside from the debacle of the Northern Rock, which was more a result of incompetence by the UK financial authorities than anything else, none of the major financial institutions of world capitalism have thus far collapsed or even come close to it.?20

In the same article he developed his theme that ?while the overall rate of profit remains so high, such a slow down or recession is far less likely and if it were to occur would probably be shallow and short lived.?21

He suggests that we are not at the crisis stage that normally takes place at the top of the industrial cycle, but that we are merely midway through the cycle as would only be the case if you were expecting an exceptionally long and extended upward phase of the business cycle, such as one might expect to see in a long upward wave:

?In fact it seems just as possible that if the capitalist economies are able to ride out the period of instability that has shaken the system since the middle of this year, then growth could accelerate next year as is typical of the latter half of the business cycle?.22

When you are in a hole, stop digging, as the saying goes. Sadly, Jeffries showed no such common sense. Even as late as January 2008, he was arguing that the credit crunch was drawing to a close and that the central banks? lowering of interest rates and extension of cheap credit had resolved the key problem in the financial markets.

On 4 January 2008 he wrote:
?? as the European, UK, US and Japanese banks have increased liquidity (i.e. loans to the financial markets guaranteed through central banks at low interest rates) and as the scale of the losses has become known, then the Libor, the inter-bank lending rate has returned nearly to normal. In that sense one important effect of the credit crunch could be drawing to an end, even if it leaves a legacy of tighter lending conditions for working class loans.?23

Still turning a blind eye to the figures revealing a sharp fall in US profits in the fourth quarter of 2007, he claimed:

?Fraught with risk as it is to make predictions, (in the sense of any prediction can be wrong) in my view the general high level of profits, not least in the USA and UK means that it is unlikely there will be a recession this year.?24

Simply ignoring the fall in profits, the rise of profit warnings, the fall in indices of consumer confidence, the rise of inflation, the bear market in stocks and the sharp decline in US GDP growth, he again repeated:

?while the sub-prime crisis has been extremely severe in the residential construction sector in the USA, consumption has not fallen off, wages and employment continue to expand, unemployment has marginally increased albeit remains at historically low levels and the US economy has, thus far, only experienced one quarter of relatively slow growth at the beginning of 2007.?25

And he wrote this in 2008.

At last Keith Harvey noticed the growing disjuncture between Bill Jeffries? analysis and reality. Tentatively, he tried to correct the picture. But, perhaps underestimating his readers? attentiveness, he did so without acknowledging that he was contradicting his own previous statements:

?So is the credit crunch over? While it has eased in some areas it remains severe in other sectors and is likely to get worse before it improves; so much worse that it is likely to effect economic output this year, pushing the US to near recession level by spring if not into recession.?26

He even came close to recognising that the global financial crisis and downturn in the US economy threatens to demolish the Permanent Revolution group?s theory of the upward long wave, saying: ?For sure, the length, depth and breadth of the US recession and its effects globally will test the strength and durability of the latest long wave in capitalist world economy.?27

If its ?durability? ? i.e. periodicity ? is tested and found wanting, then should he not be asking an entirely different question: whether the puncturing of the mid-decade credit-fuelled US and UK boom might cast doubt on whether globalisation has constituted a worldwide upward long wave at all? Maybe it is not the ?strength and durability? of the long wave that is being tested, but the schematic theory of the 25-year upward long wave?

The long march of the long wave: from Mandel to Harvey and Jeffries

Given that their group was founded in July 2006, amidst claims that our refusal to acknowledge the new long wave was a sign of our ?catastrophism?, history has been quick and ruthless in its treatment of Jeffries and Harvey?s theory. Yet superficially, when first examined, there was something rational, simple, theoretically symmetrical and even Marxist-sounding in their fundamental argument.

Jeffries provided a helpful summary:

?[We] have argued that the long upward wave of capitalist development which began with the collapse of the Stalinist states between 1989-91, has enabled the capitalists to escape the period of stagnation of the 1970s/80s. That is not to say that crisis and recessions may not occur, but they will be shaped by the overall period of capitalist development within which they take place. In periods of stagnation, they will be long lasting and deep. In periods of expansion they will be shallow and short lived.?28

On the face of it, this sounds similar to Trotsky?s observation, which we have already examined above, of periods of capitalist development ?when a number of cycles is characterised by sharply delineated booms and weak, short-lived crises. As a result we have a sharply rising movement of the basic curve of capitalist development.?29

The obvious difference between Jeffries and Trotsky?s analysis is the introduction of the concept of the long wave, derived from Kondratiev, which as we have seen Trotsky rejected. Shortly after abandoning his original analysis of the globalisation period ? which with a cruel twist of irony is being borne out ? Harvey wrote a piece attempting to give the vulgar long wave theory a Marxist gloss. In this task he drew heavily on the writings of Ernest Mandel, the leading theoretician of the post-war Fourth International. He explains, correctly, that Trotsky rejected Kondratiev?s concept of long cycles, but then follows Mandel in imagining that it is nevertheless legitimate to treat the long periods as following a lawfully determined temporal pattern: so long as we call them waves instead of cycles, and so long as we insist that the upswings of the long waves are determined by external exogenous factors, whereas their downswings are determined by the internal contradictions of capital itself.

This is errant nonsense on both counts, a clear example of Mandel?s long habit of reconciling Marxist and bourgeois theories, always in language redolent of the former, but always with a meaning and effect subsumed by the latter.

The first point is easy to dispose of. A wave, like a cycle, is a defined pattern of motion; motion determined by a formula, if you will. Of course no concrete manifestation of this in the real world will absolutely correspond to its mathematical formulation, just as no sphere will be exactly spherical and no circle exactly circular. But the underlying lawfulness of its shape is clear and corresponds to certain determining characteristics. So it is in nature with cycles and waves ? so it is in the real political economy of capitalism. The trade-industrial cycles of 7-10 years are governed by a material factor and its impact on overaccumulation and devaluation: the turnover of fixed capital. Like real geometrical forms when they are conceived not abstractly but observed concretely, in real life, they will have been shaped and reshaped also by chance phenomena ? they will not be of exactly the same length but will be roughly every 10 years or so. But insofar as they remain cycles, it is because of the underlying law determining their development.

As we observed, this is simply not the case for the factors shaping the meta-cyclical patterns of development. How can it clarify matters to call the meta-cyclical effects of the class struggle and geopolitics ?waves?? Unless the discovery of new continents, genocidal wars, proletarian revolutions, counter-revolutions? somehow run to schedule, like the corrosion of metal or the decay of bricks and mortar? Harvey claims that Mandel?s 50 year long waves ?are not statistical averages of any 50-year period that one happens to randomly choose, but correspond to real historical periods (wars, revolutions and counter-revolutions, new discoveries).?30 But he is at a loss to tell us why these phenomena should impart any temporal pattern ? any timescale ? to development. He tells us, perhaps making an ?obviously false analogy? that ?the movement of prices, interest rates and so on will show a definite and different marked trend in each of the phases?. 31 But again, this can be perfectly well explained without course to any schematic crypto-cyclical notion of a long wave.

By now aware of the need for some Marxian ballast to this questionable theory, Harvey goes on to tell us that:

?Crucially, where non-Marxists seek to explain the driving force behind these trends in such factors as the effect of ?bunched innovations? (Schumpeter) or long term infrastructural capital investments (Kondratiev) for a Marxist long wave theory has to be a rate of profit theory. So for Mandel ?the essential movements, those that determine the basic trends in the system, remain the fluctuations in the average rate of productive capital accumulation.? (E Mandel, Long waves of capitalist development).?32

It would be foolish to argue that the impact of the global, historical defined social, political and geographical conditions ? ?external? factors to the process of capital accumulation ? have no impact on the composition of capital and thus on profit rates. Indeed, as we note above, these are critical in shaping meta-cyclical trends. But again, the terrible absence here is explaining why these should force the cycles into a roughly 25-year upswing or downswing. The ?solution? that Mandel proposes and that Harvey swallows whole is to create another ?obviously false generalisation from a formal analogy?.

Before considering this, let us reprise aspects of the argument in part two of this journal pertinent to this question. We explained how Marx showed that the timescale of the upswing of the industrial cycle is governed by the turnover of fixed capital. As the creation of the average rate of profit means that crises of overaccumulation affect a large number of capitals simultaneously, and crises of devaluation occur reducing the value of many of these capitals simultaneously, the capitalists seeking to make major investments in fixed capital will tend to do so in larger numbers when machinery, buildings and credit are at their cheapest, i.e. in the aftermath of the crisis. The need to replace the fixed capital is determined by physical depreciation, availability of credit, innovation and competition. The physical component imparts a temporal structure to the development. This is an ?internal? or ?endogenous? factor in capital formation, accumulation and crisis.

We have also observed that whilst the upswing of the cycle has a temporal pattern imparted by endogenous factors, the length of the crisis phase and subsequent recessionary phase does not. These phases are determined by devaluation of capital and how effective that devaluation is in restoring the conditions for profitable accumulation. This is shaped not by ?endogenous? factors but by political and commercial struggle: between capitals, between nations, between classes. The external, ?exogenous? determining factors have no defined shape in time. So much is true for the trade-industrial cycle. So how does Mandel co-opt this Marxist theory for the purposes of Kondratievite long wave theory? Simple. Upon analysis Mandel?s learned trick is nothing more than to transpose a characteristic of the industrial cycle to the ?long wave? ? without the slightest logical legitimacy.

Let Keith Harvey explain:
?Mandel sought to improve Kondratiev?s theory by taking on board Trotsky?s criticisms of the ?stylised? nature of the former?s ?long cycles? and drew a distinction between the causes giving rise to a downward phase of the long wave and those that lay behind a new upward expansionary phase. To explain the downturn phase one should look to essentially ?endogenous? or internal factors; that is, the rising organic composition of capital ensures the TRPF [Tendency of the Rate of Profit to Fall] impacts more and more on the accumulation process and the counter-veiling tendencies have less and less effect.?33

The arbitrariness of this formulation is really quite striking. The downward phases of the cycle supposedly arise from the endogenous process of capital accumulation, specifically, Harvey argues, a general pan-cyclical increase in the organic composition of capital and, correspondingly, the tendency of the rate of profit to fall. But, in the upward phase of the long wave, one should apparently look to factors exogenous to the capital accumulation process. In making this theorisation, Harvey and Mandel reveal an astounding confusion of how Marxists should understand the relationship between the endogenous processes of capital accumulation and the spatial and temporal conditions in which that accumulation takes place. If, as must be correct, in the course of successive cycles the severity or mildness of the downward phases are shaped by exogenous factors, then this must surely be true both for upward segments of the curve of development and for downward segments.

Yet for Keith Harvey, the impact of historical conditions ? politics, class struggle, geography, inter-state relations, and so on ? on the ?wave? (or what we would call the curve of development) is supposedly reduced to naught in the downward phase, but suddenly becomes powerfully determining in the upward phase. Not only does this appear theoretically perplexing ? surely the spatial and temporal conditions are always going to constitute key moments in the totality of capitalist development ? but neither does it stand the test of historical, empirical analysis. Did the absence of a clearly dominant hegemonic imperialist power in the 1918-39 period not have a profound impact shaping the downward curve of capitalist development at this time?

Harvey?s account of Mandel?s theory, to be sure, carries with it inverted echoes of Marx?s theory of the industrial cycle, but the question remains: do these external class struggle events, scientific discoveries, geopolitical happenings, create a general 25-year periodicity? And if so, how and why? Harvey can then go on to quote Mandel, who tells us that in periods that show expansionary features across the cycles, the composition of capital is lowered and the tendency of profit rates to fall is offset:

?A sharp increase in the rate of surplus value, a sharp slowdown in the rate of increase of the organic composition of capital, sudden quickening in the turnover of capital, or a combination of all or several of these factors can explain a sudden upturn in the average rate of profit. In addition Marx indicated that among forces dampening the effects of the tendency of the rate of profit to decline are an increase in the mass of surplus value and a flow of capital into countries (and we should add sectors) where the average organic composition of capital is significantly lower than in the basic industrial branches of the industrialised capitalist countries.?34

Yes yes, we know ? we can naturally agree on this. But why is this a wave with a time-pattern? Mandel never answers satisfactorily; Harvey never answers at all. But no matter: Harvey believes he has got what he needs to make his case. Getting into his stride he shows that important elements of the international situation reveal a lowering of the organic composition of capital, defeats of the working class and an expansion of world trade. He tells us that: ?many of Mandel?s preconditions [for an upward long wave] can be argued to be in place since the 1990s? including:

? Significant defeats imposed on working class of North America and Europe during the course of the 1980s and 1990s, allowing for lowering of real wages, improvement in productivity and increase in the rate of surplus value.
? The restoration of capitalism in China, Russia and central Europe.
? An expanded market for commodities and services made by imperialist MNCs.
? Centralisation of capital through aggressive merger and acquisitions in the 1990s, giving global reach and economies of scale to major industries.
? Restoration of US hegemony in the 1990s, enabling it to reconfigure multilateral institutions in a manner favourable to its economic policies.
? Roll-out of new technologies since the mid-1990s (e.g. internet) which have developed new markets (e-commerce), allowed for relocation of key service and hi-tech industries, cut transaction costs and speeded up the turnover time of capital.35

Now, of course, these have been major features of the international situation with which we largely have no argument, although the scale and emphasis to be given to their continuing impact we will examine further below. But the problem is not that Harvey recognises these historical factors, which this journal has frequently pointed to, but the bald non-sequitur of Harvey?s conclusion about the timescale and perspective we should draw from the realities of globalisation. This can be seen most clearly in the way in which he concluded his 2005 tour de force with a most perfect amalgamation of concrete analysis and Mandelite/ Kondratievite schematism, one which we must quote in full:

?If there is an upsurge in US business investment to replace consumption boom that would signify a broadening and deepening of the expansion phase. In addition, Japan (the second largest economy) has clearly put the structural depression of the 1990s behind it and since 2000 has resumed growth based on rising capital investment. Further product and labour market reforms in Euroland would also lift profits and investment. If Japan and EU grows as expected in 2006 and the US, CIS/CEE and Asian recoveries are sustained this would be the first upward phase of a business cycle in which all major economies are firing on all cylinders at the same time since the mid-1980s. It would be prima facia evidence of a new expansionary phase.?36

Of course the feverish boom of 2004-06 fully convinced Harvey that the prima facie evidence was in place. But his projections for the duration of this long wave were marred by the theoretical absences and schematic assumptions of long wave theory:

?? The future of the expansion phase depends on China and increasingly on India? China?s industrial revolution fuels the expansion in the rest of Asia and increasingly Latin America. Its surplus profits are circulated as loan capital to the US to allow its deficit-financed expansion to continue. China underpins the dynamic component of European capital as exports of goods, services and capital increases there. China determines the global level of commodity prices, bond prices and ? in an open world market ? wage levels. India is in the forefront of hi-tech service and software industries, already has (unlike China) major global multinationals.

? Eventually, the exhaustion of the reserve army of labour in China and India will put upward pressure on wages, leading to an increase in the organic composition of capital as machines replace expensive labour and puts a downward pressure on profits. How far are we from there? Most commentators suggest the reserve army of labour will not be exhausted until after 2015. Between now and then the business cycle will function but the down phases are likely to be pauses in growth. Conflicts will mature, especially between US/Europe/Japan on the one hand and Russia/China on the other as all powers seek to monopolise and protect the material pre-requisites of their growth.?37

There are three points to be made about this utterly schematic projection. The first is that its periodisation just happens to coincide with a Mandelite/Kondratievite 25 year timescale (1990-2015), though like Mandel and Kondratiev it can show no coherent reason why this should be the case. The second objection we would raise is more substantive. The reason Harvey does give for the eventual exhaustion in 2015 of China?s expansionary impact on the world economy is extraordinary. He says it will occur when the reserve army of labour in China is absorbed into the employed proletariat ? i.e. when all the peasants and unemployed are working in capitalist industrial and agricultural production.

According to this neat pattern, the low organic composition of capital will have the effect of pushing profit rates up until such time as there are no more new unskilled workers to bring into capitalist production. Their impact of lowering the value composition of capital by expanding workers in proportion to constant capital (machinery, buildings, raw materials) would continue until there were no more of them to employ. At this point, he assumes, competition will force up wages, raise the organic composition of capital and drive profits down. Until then, it won?t happen. And thus in this world-historic period cyclical crises are likely to be little more than ?pauses in growth?.

History has been unsentimental in its treatment of this theory. The notion that capital will act rationally to lower its organic composition by absorbing new labour before it increases technology relative to labour, that the tendency of the rate of profit to fall is offset ?until? all the reserve army is absorbed, that only then will wages begin to rise: all this has nothing in common with Marx?s theory of crisis and is based on assumptions of capitalism?s harmonious development until such time as non-capitalist sectors are absorbed. In reality, we have seen this empirically falsified in April 2007, when US imports from China rose sharply in price. Wages, foodstuffs, oil, and land ? all have risen sharply in price in China, as we show in part one of this journal. This has put profits under huge pressure around the world. It proves the inherently unbalanced nature of capital accumulation even ? especially ? in countries with unbridled, ?soaraway? growth. And it rudely punctures the baseless assumption not only that Chinese expansion would continue until its reserve army is absorbed, but that the globalisation boom must necessarily continue for 25 years, until 2015.

To be fair to Jeffries and Harvey, despite the failure of their revived long wave theory, they have pointed to a major world-historic turning point altering the composition of capital. Their argument is the following. They say the restoration of capitalism in the former Soviet bloc and China had the effect of cheapening the cost of labour and constant capital, thereby offsetting the tendency of the rate of profit to fall. It lowered the organic composition of capital on a world scale, boosting profit rates. Cycles would therefore still occur, with their attendant crises and recessionary phases. But the upward phase of the cycles during such a period would tend to be longer and deeper than usual; the crises and recessions would tend to be shorter and shallower.

Clearly there is something in this. In 2004-06, when Bill Jeffries first formulated his theory a number of features of the world economy did seem to reinforce their view. The US/UK recession of the early 1990s gave way to an upturn in the mid-1990s. The seismic shock of the Asian crisis and the collapse of the Argentine economy did not lead to a world recession; and in 2000-01 the USA and UK suffered only a short and shallow recession. Chinese development ? which had been showing growth rates of over 10%

for the preceding decade ? now soared ahead as WTO admission gave a massive impetus to trade. By 2004 it was clear that Britain and America had entered a powerful recovery phase. Asian, African and Latin American GDP growth rose sharply. By 2005 Germany and Japan, which had been suffering from deep-seated stagnation from the mid-1990s onwards, were slowly and tentatively emerging into recovery.

Of course, according to Trotsky?s approach, the key geopolitical conditions shaping the proportional combination of constant and variable capital worldwide would be taken into account when assessing the likely dynamic of the cycle and the likely depth and seriousness of the next crisis and recessionary phase. But this process of analysis would in no way be prejudiced by assumptions about some fixed 25-year timescale of a long cycle à la Kondratiev. That Jeffries and Harvey were making such assumptions is clear from their misjudgements about the transition from the speculative frenzy of the last two years to the crisis phase of the cycle in 2007. At first they were painfully slow to recognise what was happening because they assumed we were halfway through the recovery phase of the cycle, and because since we are in an ?upward long wave?, this recovery phase would necessarily in their view be longer than normal.

That is why in 2007, despite the credit crunch breaking all around him, Jeffries expected economic growth to ?accelerate next year as is typical of the latter half of the business cycle?.

It is also why Harvey doggedly insisted that corporate debt was so low that the credit crunch would not affect the non-financial companies. In the early part of the recovery phase of the cycle, as we have seen, expansion is mainly funded out of retained profits not by credit.

Ignoring our arguments about how mark-to-market accounting and special investment vehicles were hiding corporate debt, ignoring evidence from national rather than corporate accounts which revealed that corporate debt was historically high, ignoring the very high credit intensity of US GDP growth and the growing weight of commercial and interest-bearing capital in US GDP, he at first argued that the credit crunch would not seriously affect the main levers of economic activity in the USA.

We can now return to one of Harvey?s statements that we have already partially cited in order to see the fuller, no less erroneous, picture he presented:

?If the credit crunch were to hit generally profitable businesses that have been doing well in recent years then a serious recession in the US could occur. But most companies are awash with cash, which they have used in the last five years to finance investment rather than asking the banks for credit to do it; so a major credit crunch does not look likely.?38

Underlying Harvey?s complacency was a simple misunderstanding. A growth in the mass of profit is not only a feature of the middle of the recovery phase. It can continue into the last phase of the cycle. That is why Marx observed (see the second article in this journal) that on the eve of the crisis it appears as if both capitalists and workers have never had it so good. It is Jeffries and Harvey?s prejudice about the pattern of the current cycle, derived from schematic long wave theory, that disarmed them from realising what was going on. It is a cruel fact that as a result they were deceived by the same ideological process that hypnotises the bourgeoisie in every speculative frenzy phase of the cycle.

The core error of Jeffries and Harvey is simple to understand. They based their schema on the assumption that Chinese development has lowered the organic composition of capital and raised profit rates globally. Of course, it is true that Chinese development was based on a lower OCC and higher profit rate? in China when compared to the West. But Jeffries and Harvey overlooked the contradictions of this phenomenon.

Two factors have been proven to be especially important to understanding how the disequilibrium between the USA and Asia has turned from encouraging the US boom into dragging the USA into crisis. The first is the outsourcing process, by which production in the USA has been replaced by purchasing components manufactured in the East. Of course US capitalists have derived superprofits from this application of cheap labour. But this does not lower the organic composition of capital or raise profit rates in the high-tech heart of US production. There profit rates continue to come under pressure, fuelling speculative activity and finally resulting in the collapse we have seen in the mass of profit in the last quarter of 2007 and the alarming profit warnings from very large and strategically important corporations, such as GE, this year.

The other factor is the vast expansion of trade and imports from China. As we have seen, cheap wage goods ? items consumed by workers ? lower the value of labour-power, boosting relative surplus value and the rate of exploitation. Of course, in the short term this boosts the mass of profit. But as any Marxist should recognise, lowering the value of labour-power (variable capital) increases the proportion of constant to variable capital. As we have shown in part two, neither a rise in the rate of exploitation nor the cheapening of the value of constant capital can be sufficient to offset this indefinitely. The organic composition of capital rises; profit rates ultimately begin to fall and this hits the mass of profit.

Jeffries and Harvey should have known this and should have warned of it. Instead, effectively shelving Marx?s theory of overaccumulation of capital, they focused only on how Asian development would lower the organic composition of capital worldwide, and projected this as something that would take place over the course of the next cycle too. Certainly, for a time the associated effects of importing cheap goods and therefore lowering the value of constant and variable capital in the West operated as countervailing tendencies to crisis, but they could not offset the tendencies to overaccumulation indefinitely. Resurgent inflation in China struck home in April 2007 and crisis has re-emerged, wrecking not only the USA?s credit-fuelled boom, but also Jeffries? and Harvey?s harmonist perspective of globalised capitalist development.

Harvey ignored the disequilibrium that exporting manufacturing to China would bring. As we have already seen, he tried to bolster his initial estimate that the credit crunch would not affect the ?real? economy by writing that US companies? overseas earning ?compensates for lower domestic earnings and helps to prop up the stock market. So, the prospect for the current crisis triggering a full-fledged crash remains remote.?39

Jeffries expressed himself more crudely but made the same point:

?The alleged stagnation of the world economy or overcapacity in capitalist manufacturing, propounded by Chris Harman and Robert Brenner amongst others simply ignores this absolutely fundamental shift of the direction and origin of capitalist production in the era of globalisation. The hollowing out of the imperialist manufacturers is more than made up for by the development of capitalism across the world and in particular by the transformation of formerly centrally planned economies, like China and the USSR into capitalist ones. This is really an elementary and absolutely fundamental mistake.?40

It is of course Harvey and Jeffries who have made a mistake. The ?hollowing out? of investment in high productivity industries in the advanced countries is caused by its high organic composition and is an expression of the tendency of the rate of profit to fall. Replacing it with production at lower organic composition in other countries cannot ?more than make up? for this, because the world economy remains composed of national economies, which capital strives to abolish but does not and cannot abolish. Thus, the US national economy is not merely held aloft by China?s development, because a lower organic composition of capital in China does not merely translate into a lower composition in the USA as if national economies no longer existed. The initially deflationary effect of the more backward country?s expanded trade development may boost profits and create an environment in which cheap credit can proliferate but, inevitably, as development proceeds in the ?emerging market? its organic composition rises, eventually popping the credit bubble it initially enables in the former. World development is not merely combined, it is uneven and combined; it is not merely globalisation of capital but globalisation of capital?s contradictions. Elementary and fundamental indeed!

Hoping to bolster their analysis, Jeffries and Harvey published on their website an article by US economist Fred Moseley. They did so to substantiate their claim, which is not disputed by us, that profit rates and the mass of profit rose during the boom phase of the cycle in the USA. Yet did their readers notice how Moseley concludes his piece?

?In sum, the US economy has been able to maintain a respectable rate of growth in the last three decades, in spite of lower rates of profit, because of the unprecedented explosion of debt for both capitalist firms and for households, much of which has been financed by an enormous, unprecedented inflow of foreign capital into the US. However, this increasing dependence of the US economy on foreign capital raises the very high risk that in the not-too-distant future, foreign central banks and foreign investors may no longer be willing to lend ever-increasing amounts of money to the US. If that happens, then the US economy would be in very serious trouble.?41

And yet our long wave theorists simply pass this disequilibrium by, choosing instead to focus on the ?virtuous? impact for capital of the opening of lower cost production in the east. Jeffries? supporter Graham Balmer concisely summed up Permanent Revolution?s analysis on its website:

?Capitalism gained a mass of capital, factories, offices, infrastructure, etc. virtually for free when the Stalinist regimes collapsed or capitulated to international capital. There is a wealth of data on the transition of the planned economies of Eastern Europe and China to market capitalism, their integration into the world economy (hence the debate on ?de-coupling?) and the tremendous growth in the export of capital from the imperialist nations to exploit the hundreds of millions of relatively cheap new workers. This forms the core of a Marxist analysis of globalisation ? a sudden cheapening of constant capital and a fall in the value of labour power on a global scale, for sure, workers across the world have not been the beneficiaries, but it?s been a boom-time for capitalists!?42

Note that for Balmer, as for Permanent Revolution, the ?core? of the Marxist analysis of globalisation is merely the effect of development in the former workers? states of lowering organic composition of capital. Its effect in magnifying the contradictions of finance capital and the world order is plainly not ?core? to their analysis. And this one-sideness has been their undoing. Jeffries has argued that:

?The question is not in the end, whether there is a business cycle or if capitalism is a system which is crisis prone, it certainly is, but whether or not the world economy is any longer in a period of downturn as the 1980s/90s and so far the ability of the US to absorb the effects of the quite major sub-prime crisis confirm the idea that with globalisation world capitalism has indeed escaped from that stagnation phase.?43

If the USA is shown not to have ?absorbed? the sub-prime crisis, but to have been pitched into a serious downturn, and if as the IMF predicts this gives rise to a significant global downturn, will Jeffries revise this view? And will he conclude that this will represent a failure not merely of his analysis, but of the long wave theory itself?

The contradictory nature of the globalisation period

A Marxist analysis of the current globalisation phase must surely take into account the impact of the collapse of the USSR on the composition of capital in the new period of world history which opened in 1991. Yet, unencumbered by the ?symmetrically stylised construction? of the 50 year super-cycle, we can also observe that, despite the strong booms and weak downturn phases in the USA and Britain between

1993 and 2007, and despite the burgeoning development of capital accumulation in Asia, key sectors of productive capital in the imperialist heartlands have been unable to break free from the structural overaccumulation of capital and associated tendency to stagnation of productive labour that afflicted it in the 1973-90 period.

This analysis has previously been developed in detail, notably in articles by Keith Harvey, written of course prior to his Damascene conversion to long wave theory, which not coincidentally occurred in 2005, at the midst of the credit fuelled boom of 2004-06.44

The conditions for the current period of globalisation were prepared in the late 1970s and 1980s in a global capitalist offensive which aimed to break out of the stagnating curve of development that had opened in 1973 with the oil shock and the end of the post-war boom. The 1944 Bretton Woods system of financial controls and dollar-gold parity was abandoned; new neoliberal economic methods were trialled with great political and economic brutality in repressive states such as Chile. But high structural inflation coexisted with a powerful depressive dynamic, resulting in a stagflationary recession in 1974-76. Keynesian counter-recessionary policies fuelled inflation; strong labour movements in Europe obstructed income controls; in much of the so-called Third World trade barriers and capital controls continued to obstruct ?free? investment from the stagnating imperialist powers.

The counter-offensive deepened in 1978 with the Volcker shock: a massive interest rate rise to 18% pushed through by Federal Reserve head Paul Volcker sought to drive excess liquidity and overvalued capital out of the system: i.e. correct a crisis of overaccumulation through a deliberate, sharp induction of devaluation and recession. The new world recession of 1979-82 had begun, and the era of the slump politicians Reagan and Thatcher had dawned; a major wave of bankruptcies swept the USA and Britain in 1980-82. Unemployment rose sharply.

As is well known, the 1980s saw a determined, systematic offensive of the Anglo-Saxon imperialists not only to break the power of their domestic labour movements but above all to break down barriers to trade and capital exports into the semi-colonial ?Third World.? They wanted to offset the tendency of the rate of profit to fall by establishing production based on lower labour costs, to effect economies of scale by increasing the size of productive enterprises, to bypass protective legislation and organised labour (which they called ?restrictive practices?) by investing in countries with tyrannical regimes, and to create conditions in which profit repatriation could be maximised without interference from tariffs, currency controls or taxation.

The international financial institutions took centre stage as instruments to effect this imperialist policy of prising open the semi-colonial world. Their principal weapon was debt. After the 1973 spike in oil prices, those Third World countries that had benefited from exporting oil had no significant financial infrastructure of their own, and lacked sufficient domestic markets to power profitable internal development. Their vast dollar wealth was deposited in western banks, who now sought customers for very large loans. With bank lending rates low in the mid-decade recession, the banks lent enormous sums to third world governments, resulting in a third world debt that sky-rocketed by 1982 to the hitherto unknown level of $827 billion.

The Volcker shock not only made it impossible for the Third World debtors to service their debts. By increasing the returns on US government bonds, it attracted capital investment away from backward (?developing?) countries towards the USA. As countries in Latin America ? notably Mexico ? and Africa found themselves unable to meet their debt repayments, banks simply stopped lending to semi-colonial countries.

The International Monetary Fund stepped in, with short-term debt relief programmes. And these packed a mighty sting in the tail. They were conditional on the adoption of Structural Adjustment Programmes which obliged the debtor nations to cut state spending on what pitiful welfare provision existed, to privatise state enterprises, to axe import controls and subsidies and, of course, to open up to foreign investment in and ownership of their domestic economies.

Yet still the existence of huge bureaucratically planned, non-capitalist economies in the USSR and China posed a tremendous obstacle to the self-expansion of capital on a global scale. At the geopolitical level the degenerated workers states also posed an alternative power, to which semi-colonial regimes seeking limited protection from the domination of western finance capital and striving to create a domestic market through import-substitutionist and state-stimulated development could orient. The intensification of the imperialist economic offensive in the 1980s went alongside a major intensification of military spending and rivalry ? the so-called Second Cold War ? with the aim of further exhausting the economies of the post-capitalist states. Already mired in bureaucratic stagnation, unable in the absence of working class democracy to raise labour productivity or meet the developing needs of their populations, the end of Stalinism was inevitable. The non-existence of a mass movement committed to the extension of working class democracy on the foundations of a regenerated socialist plan in the USSR meant that social counter-revolution was the only alternative outcome. In the USSR and Eastern Europe, the collapse of the ruling parties was followed by the assumption of power by capitalist restorationist regimes; in China the Communist Party quickly decided in 1992 to effect capitalist restoration itself.

The neoliberal offensive throughout the 1980s remained an imperialist political-economic response to the stagnatory character of the 1973-1990 period. Now with the defeat of USSR a new period of globalisation opened: a period shaped by the destruction of the workers? states, the partial and slow integration of a significant part of the proletariat of the former workers? states into capital i.e. into variable capital; a massive expansion of world trade and cross-border investment; an expansion of capital and its contradictions on a world scale.

Like the post-war boom, this new period of globalisation opened with the destruction of vast productive capacity: the closure and even outright scrapping of enterprises in Russia and China that could not be run for profit. Millions lost their jobs. Yet unlike the much greater destruction of 1939-45, the destructive process at the onset of the new globalisation period did not have the effect of eliminating overaccumulated capital and squeezing stagnatory effects out of the global system.

Nevertheless, the expansion of capitalist production in Russia and China and the global shift in power associated with the end of the bipolar world order constituted a historic shift, opening a new set of geopolitical relations under which the composition of capital was re-shaped globally. Without falling victim to schematic assumptions associated with long wave theory, it is essential to observe that the vast expansion of world trade and foreign investment, and above all the entry into the world market of scores of millions of workers with very low value labour power, had a massive effect on capital worldwide.

As we have shown 45 the restoration of capitalism in the USSR and China revolutionised the global pattern of investment flows. From 1991 there was a massive spur to western-based multinational companies purchasing privatised assets abroad, lending money to governments and companies in developing countries for export-oriented production, and in investment in new plant and machinery for production to be located or relocated in countries with cheaper labour costs.

As Harvey explained in 2003, before his adoption of long wave theory, after 1991, ?manufactures rose from less than a quarter of developing country exports in 1980 to more than 80 percent in 1998. Similarly, total capital flows to developing countries went from less than $28 billion in the 1970s to some $306 billion in 1997, in real terms? Official flows of aid were cut by more than half and private funding became the major source of capital for a number of emerging economies.? 46

Foreign direct investment grew across the whole of the 1990s, with investment in equity through private funds and pension funds rising from $0.01 billion in 1970 to £103 billion in 1996 alone. Between 1991 and 2000 third world countries undertook a total of 1,187 legislative and regulatory measures to liberalise foreign direct investment. In 1995 GATT, the General Agreement on Tariffs and Trade, was transformed into the World Trade Organisation to give a structure of international quasi-juridical force to trade and investment liberalisation; a huge surge of lending to the newly dubbed ?emerging markets? rose to a peak in the 1996-97 period.

The Asian boom led inexorably towards Asian crisis. In 1997 the Asian financial crisis saw a sudden exodus of funds from capital markets in south east Asia, more than reversing the capital flows of the preceding year. Whereas in 1996 $93 billion flowed into east Asian capital markets, in 1997 the crisis forced $105 billion out. The devaluation of the Thai baht led to rioting in the streets as inflation went through the roof; hundreds of companies went bankrupt overnight in Malaysia; and in Indonesia 40 million people ? one in five ? plunged below the poverty line.

As currency collapses fuelled sharp inflation, equities (share prices) plummeted. Lenders into Asian markets swapped their debt for equities at bargain basement prices, effectively seizing vast chunks of the Asian economies. The IMF bailed out states with loans on strict terms, further forcing open markets. Globalisation took another stride forward.

Nevertheless, this vast volume of repatriated fictitious capital found its outlet not primarily in surplus value producing core manufacturing of course, but in a renewed bout of speculation in the west ? the so-called dot com boom. Shares in companies that had zero assets and were never going to have any assets reached extraordinary heights in a classic example of the irrationality of the speculative phase of the cycle. Underlying the explosion of fictitious capital, as ever, lay the overaccumulation of capital and the tendency of the rate of profit to fall. In the USA during the course of the dot com boom real corporate profitability fell 15%, resulting in a violent stock market collapse in 2000.

It is customary for us today to view the downturn of 2000-2001 as a minor blip, even a pseudo-downturn. As the retraction in economic activity in the UK did not reach the level of a ?technical recession? (two quarters of negative GDP growth), some even claim that there was no downturn in that year and that we have seen 15 years of unbroken expansion in the metropoles. Yet in 2001 US manufacturing dropped six per cent, output in manufacturing fell 3 per cent in 2002 and the first two quarters of 2003, and between 2000 and 2003 three million jobs were lost in US manufacturing. 47

Rest assured that the effect of this on the future negative development of the US economy was certainly not ?more than made up for? by what followed the 2000 collapse: a massive cut in interest rates in America, and a vast growth of foreign direct investment in export-led production in China.

These two linked factors created an extraordinary new boom in the USA and UK. Following fast on the heels of the short recession of 2000-2001 it convinced many either that cycles were a thing of the past or that we were in the midst of a new upward supercycle. And indeed this boom was exceptional, but not in the way its enthusiasts imagined. It was extraordinary in the extent of its reliance on credit and even domestic household borrowing for its survival. And this was not its only vulnerability. Cheap credit in the USA and Britain was itself reliant on the deflationary effect of exports from China ? something that would itself be steadily undermined by the very development on which it relied: Chinese economic growth. The notion that the latest years of the globalisation phase have seen US capitalism overcome its structural overaccumulation and strong tendencies to stagnation has been revealed as a myth.

US capital?s response to the crisis of 2001 was to set in motion the most aggressive stimulus to credit-based expansion in US history through three years of negative real short term interest rates. Between January 2001 and the summer of 2003, the Federal Funds Rate was cut 11 times, from 6 per cent to just 1 per cent. As we showed in the summer 2006 issue of Fifth International, this led to an explosion of consumer debt and mortgage lending. House prices rocketed. Yet despite the enormous scale of this stimulus to effective demand, the US cyclical recovery was weak and sputtering.

In 2001, 2002 and 2003, GDP growth averaged just 1.7 per cent ? even when the vast rise in military spending is taken into account. A significant rise in GDP growth was not seen until 2004 and 2005. But do these figures signify that globalisation or the expansion of capital in China had opened a new period of cross-cyclical expansionary dynamic for the USA?

They do not. In 2004 GDP growth jumped sharply to 4.2 per cent and then 3.5 per cent the following year, leaving GDP growth for the first five years of the 2001-2005 industrial cycle at an average of around 2.56 percent, lower or equal to every other comparable phase of a cycle back to 1950. 48 Average annual growth of GDP, GDP per capita for employed people, capital stock, real wages, unemployment all were equal to or worse than in the depressive phase of 1990-95.

What is more, the recovery of employment was weak, rising by just 1.1 per cent in the first three years of the upturn following November 2001. This compares to an average of 8.3 per cent increase in previous periods of the recovery phase of industrial cycles.49

Private sector employment reached the levels of the pre-2001 recession only by May 2005. And even in the ?boom years? of 2004 and 2005, employment grew at just 1.3 per cent per annum, 33 per cent lower than the average for the entire period 1990-2000.

How could this be, given the powerful deflationary effect of Chinese development? First it is necessary to point out that low organic composition of capital production in China does not and cannot create some kind of ?lower global organic composition of capital? as the Permanent Revolution current suggest. It therefore did not spur industrial production or a long-lasting sustainable boom in America.

There is no ?global organic composition of capital?. This is a false notion which Marx explicitly rejected and which implies completely free flows of capital globally and the disappearance of the nation state: a mélange of Kautsky?s revisionist notion of ultra-imperialism and the more vulgar modern anti-globalisation theorists. Of course global capital smashes against the barriers of the nation-state, just as it smashes against the barriers of private property ? but it has not overcome them and nor will it. The world economy has not abolished nation states or national economies.

Of course this does not mean that there are no international average profit rates, formed through trade. There certainly are, and it is precisely because prices of production are formed, based on the cost of labour and constant capital plus average profit rate, that companies based in imperialist countries make a super-profit when exchanging with companies based in countries with a lower organic composition of capital and thus a higher average profit rate. But this does not imply that the organic composition of capital is equalised in all countries; on the contrary, the imperialist super-profit derives from the very fact of the disequilibrium in the composition of capital and labour productivity between the countries.

Thus to speak of the introduction of China into the world market as lowering the organic composition of capital globally is an outright error. It cheapens wage and capital goods that are of lower value, and thus restrains the value of constant and variable capital in the West. But, as we have seen, it cannot offset for long the tendency for constant capital to rise in value relative to variable capital in the advanced countries.

And it is this process that leads to crisis.,

The lower value and thus higher profit rate yielding products produced via low organic composition of capital in China only affected the rate of surplus value in the USA through lowering the cost of the reproduction of labour power. This boosts the rate of exploitation, but cannot permanently offset the law of the tendency of the rate of profit to fall ? indeed lowering the value of variable capital relative to constant capital through importing cheap consumer goods ultimately raises the organic composition of capital in the importing metropole and aggravates the long term tendency of the rate of profit to fall.

The key effect of Chinese development was deflation encouraging historically low interest rates ? a credit boom. The pattern of the growth in the most expansive years ? 2004 and 2005 ? demonstrates this very clearly.

By December 2005 manufacturing employment in the USA had sunk to its lowest level since 1945, more than 3 million few workers than July 2000 and 78,000 fewer than the previous year! Employment in telecoms, transportation, warehousing, utilities and wholesale trade had all fallen ? altogether for these industries the total fall in employment between 2000 and 2005 was 3.94 million. 50

Which industries grew? Exactly those one would associate with a credit bubble: financial services, including banking, insurance and real estate, grew by 563,000 jobs; leisure grew by nearly a million; construction by 45,000 (in the midst of a housing boom), professional services by 620,000; retail by 17,000 and health and education by a massive 2.4 million.51

Finally, annual net exports (the US trade deficit) went a further 60 per cent in the wrong direction over this period. 52

The picture has not improved since 2005. Quite the opposite. In November 2007 the US Federal Reserve cut its forecast for 2008 economic growth to a range of 1.8 per cent to 2.5 per cent ? due to tight credit markets and weakness in housing; this was widely regarded as being surprisingly optimistic in the circumstances. Now negative growth rates are being openly predicted by many, including Citigroup, the biggest bank in the USA, the Economist Intelligence Unit and others.

We must therefore conclude that despite the deflationary impact of the restoration of capitalism in China and the other former degenerate workers? states, even the most powerfully expansionary features of the phase of globalisation did not succeed in overcoming the fundamental overaccumulation of capital in the core of the US economy, and did not overcome the tendency to stagnation of the productive forces in US imperialism and the other imperialist powers. What is more, overaccumulation in China means that even this countervailing pressure is weakening.

So what can we say so far about the period of globalisation that opened in 1991?

Certainly we have witnessed the impact of vast employment-building Chinese capital accumulation after restoration of capitalism in 1992 and WTO accession 10 years later. The world hegemon the USA and its ally Britain (and thus the world economy) still faced industrial cyclical crises after 1992, but in 1998 and 2001 they were greatly ameliorated in force and duration because the deflationary effects of Asian development allowed counter-cyclical measures ? essentially cheap money/credit fuelling asset price booms ? without corresponding ?normal? inflationary pressures. Thus recessions in these countries have been abnormally shallow in this period ? because of capitalist development in former workers? states, and semi-colonies like India that became more integrated into the world market because of the geopolitical consequences of the end of the workers? states.

Nevertheless, this period was not and is not a long boom analogous to 1951-73. Repeated attempts to offload the burden of devaluation by the hegemonic powers left Germany in recession and stagnation throughout much of the 1990s with only mild and struggling recoveries to date. Japan has been in stagnation throughout the period and is only tentatively emerging now after almost a decade of near zero interest rates. The current emergence of recession in the US and dollar devaluation threatens to derail Japan and Germany?s hesitant recoveries, either holding them in low growth rates or pushing them into recession altogether. South East Asia and Latin America saw GDP growth but also bore the brunt of devaluation in the seismic crises of 1998 and 2000-2001.

Even more important, we have seen continued stagnation in the core sectors of the US economy: a short credit-fuelled, consumption-driven expansion running into crisis in 2007.

The period has seen the growth/extension and acceleration of the principal characteristics of the imperialist epoch as elaborated by Lenin in Imperialism: parasitism; monopoly; division, re-division; decline. The epoch remains more clearly than ever the highest stage of capitalism, preparatory to its transition to socialism.

As observed above, we continue to see high organic composition of capital in the west and thus massive countervailing and countercyclical action, nevertheless culminating in crisis. Counter-cyclical action by central banks aggravates inflation and international tensions; as the dollar?s world historic decline continues, so this aggravates rivalries with other exporting states.

The period has seen the ability of the West to utilise counter-cyclical measures in 1998 and in 2001 without the otherwise normal ruinous inflationary consequences ? but this possibility is now exhausted. The mid century boom in the USA and UK in 2004-06 undoubtedly restored capitalist ideological self-confidence, cosseted the petit-bourgeoisie and labour aristocracy, demoralised sections of the working class vanguard, pushing them to the right, and filled the fainthearted intelligentsia with awe at capital?s apparent resilience. But the crisis of 2007 reveals that these happy circumstances for Anglo-Saxon imperialist capital are coming to an end ? and with it the period of globalisation may be coming to a close, in crisis.

Thus whilst the period 1992 to 2007 differs from the preceding phase of 1973-1992 in its geopolitical relations and in the overall patterns of global development, it is not an expansionary period characterised by a predominant trend towards the development of the productive forces worldwide. Taking into account the long recession and stagnation in Germany and Japan, the seismic crises of devaluation in South East Asia and Latin America, and above all the weak recovery in the USA which left the core surplus value producing sectors of the US economy either declining or in very sluggish growth, we can conclude: overall the post-1992 globalisation phase remains one principally characterised by the tendency to stagnation of the productive forces. This has of course not been indicative of a lack of motion, but rather that the disequilibria of the global order, the uneven patterns of growth and decline, have failed to overcome the powerful trend to overaccumulation in the dominant imperialist countries.

Despite the frenetic development of production in important parts of the semi-colonial world, the globalisation period has been unable to release the economies of the most advanced imperialist powers from structural overaccumulation of capital. The predominant trend in the most advanced economies has remained the tendency to stagnation. The question for us today is not whether we are in a new long upward wave, but whether the period ahead will be one in which that stagnatory direction of the curve of development will be maintained, or whether a new period of decline of productive forces will open.

One thing is certain. The crisis of globalisation has opened in a series of related economic shocks. One year into the credit crunch, as of June 2008, food and fuel price rises are driving riots and protests across south and south-east Asia, Africa and Europe. The dollar?s decline is stoking inflation in the USA, as is the global asymmetry of China?s boom and America?s impending recession. Credit flows remain subject to deleveraging, and house prices are plummeting in the USA, Britain and Spain. Recession is the only way to remove inflation from the system, and the Fed is openly discussing interest rate rises to get it under control.

These shocks bring with them an inevitable offensive of the capitalist class, which is determined that the working class pays the cost of the crisis in job cuts, pay restraint, an end to fuel subsidies and declining real wages through inflation. Yet everywhere the resistance of the working class is hampered and constrained by leaders who have no answer to the bourgeoisie?s own explanation of the crisis. Why resist a three-year pay deal below the rate of inflation, if you accept the employer?s economic argument that ?higher pay causes inflation??

The purpose of the Marxist analysis of capital and its crises, is therefore threefold. To answer the apologists of the system, who told us globalisation would make poverty, inequality and instability things of the past, and deliver instead an accurate perspective of the crisis-ridden dynamic of the imperialist world order; to provide an accurate explanation of the causes of crisis, so as to assist the working class movement in rebutting the self-serving arguments of the employers; and finally to show that, to overcome capital?s paralysing limits, we need a globally directed struggle against capital itself.

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