

THE UNITED STATES ECONOMY AT THE TURN OF THE CENTURY:

ENTERING A NEW ERA OF PROSPERITY?

In the first twenty-five years after World War II, the US economy performed very well. The rate of growth averaged 4-5% a year, the rate of unemployment was seldom above 5%, inflation was almost nonexistent (1-2%), productivity growth averaged 2% a year or more, and the average real wage of workers improved significantly (approximately 60% over the entire period). Because of this outstanding performance, this period is often referred to as the "golden age" of the US economy (e.g. Marglin and Schor).

However, this long period of expansion and prosperity ended in the 1970s. Since then, the rate of growth has been slower (an average of 2-3% a year), and both the rate of unemployment and the rate of inflation have been higher. The term "stagflation" was coined to describe this poorer economic performance and the unprecedented combination of higher unemployment and higher inflation. During this period, productivity growth slowed to less than 1% a year and the average real wage of workers has declined approximately 15%. The "American dream" of ever rising living standards ceased to be a reality for many workers. For the first time in US history, many young workers fear that they will have a lower standard of living than their parents. Wallace Peterson's book on this period is entitled *Silent Depression: The Fate of the American Dream*.

The opposing trends of real wages in the two periods - increasing 60% and then declining 17% - is perhaps the clearest indicator of the turn from prosperity to stagflation. These trends are shown graphically in Figure 1. Bluestone and Harrison (1986) have called this reversal of trends the "great U-turn of wages." We can see that the average real wage in 1997 was roughly the same level as in 1965. The recent small increase of real wages has recovered only a small portion of the ground lost since the peak in 1973.

FIGURE 1 SHOULD BE INSERTED ABOUT HERE (see end of paper)

This turn from prosperity to stagflation in the US economy and the consequent decline of real wages was completely unexpected in the 1960s. For example, Herman Kahn, a well-known futurologist, predicted in 1967 that the average real wage in the US economy would more than triple by the year 2000 (Kahn 1967, pp. 176-80). A similar prediction - that real wages would increase 150% by the year 2000 - was made in a special issue of *Forbes* magazine the same year. From the perspective of the optimism of the 1960s (based on the trends of the early postwar "golden age"), the last quarter of the 20th century in the US economy has been a shocking disappointment.

During the last two years or so, the performance of the US economy seems to have improved. The rate

of growth has accelerated somewhat (to 3-4%), the rate of unemployment is below 5% for the first time since the 1960s, inflation also remains very low (around 2%), and real wages have increased a little (2-3)%. The stock market has been soaring beyond all expectations. The word "boom" is increasingly heard to describe the US economy these days. As a result, a growing number of economists, including some Marxian and radical economists, have concluded that these last few years mark a turning point in the long waves of US capitalism, and that the recent acceleration of growth is the beginning of a new "long-wave" period of expansion and prosperity, similar to that of the early postwar "golden age," with lower unemployment and inflation and steadily increasing real wages for the next several decades.

This paper will attempt to determine whether or not the US economy is indeed entering a new era of prolonged prosperity, similar to the "golden age", or whether the last two years will likely turn out to be only a temporary blip in the long period of stagflation that has plagued the US since the 1970s and which will continue into the 21st century.

1. THE DECLINE OF THE RATE OF PROFIT

To begin with, I will briefly summarize my explanation of the causes of the stagflation of recent decades (presented in greater detail in Moseley 1991 and 1997), and then examine what this explanation implies concerning the necessary conditions for an end to stagflation and a return to prosperity.

I and other radical economists have argued that the main cause of the stagflation of recent decades was a significant decline in the rate of profit in the early postwar period (Weisskopf 1979; Bowles, Gordon, and Weisskopf 1983; Wolff 1986; Duménil and Lévy XXXX; Shaikh 1992; and Brenner 1998; a similar decline of the rate of profit occurred in almost all the countries for which we have estimates). There are different measures of the rate of profit, but all of them show essentially the same strong downward trend during this period.¹ According to my estimates, shown graphically in Figure 2, the rate of profit declined 45%, from 22% in the late 1940s to 12% in the mid 1970s.²

FIGURE 2 SHOULD BE INSERTED ABOUT HERE (see end of paper)

As in periods of depression of the past, the decline in the rate of profit resulted in a decline in business investment and higher unemployment. One new factor in the postwar period is that many governments in the 1970s responded to the higher unemployment by adopting Keynesian expansionary policies (more government spending, lower interest rates, etc.) in an attempt to reduce unemployment. However, these government attempts to reduce unemployment generally resulted in higher rates of inflation, as capitalist enterprises responded to the government stimulation of demand by raising their prices at a faster rate in order to reverse the decline in their rate of profit. In the 1980s, financial capitalists revolted against these higher rates of inflation and have generally forced governments to adopt restrictive policies (less government spending, higher interest rates, etc.). The result has been less inflation, but also sharply higher unemployment and sharply reduced living standards. Therefore, government policies have affected the particular combination of unemployment and inflation that has occurred, but the fundamental cause of both of these "twin evils" has been the decline in the rate of profit.

In Moseley (1991 and 1997), I have argued that, according to Marx's theory, the two main causes of the

significant decline of the rate of profit in the postwar US economy were:

(1) a 40% increase in the composition of capital (the ratio of constant capital to variable capital), as predicted by Marx's theory and (2) an 80% increase in the ratio of unproductive labor to productive labor.³ According to Marx's theory, an increase in the composition of capital has a negative effect on the rate of profit because it means a declining percentage of the total capital is invested in labor-power, which is the source of profit. Similarly, an increase in the relative proportion of unproductive labor means that a larger percentage of the surplus-value produced by productive labor must be used to recover the costs of unproductive labor and thus a smaller percentage of surplus-value is left over as the profit of capitalists. According to this explanation, the relative increase of unproductive labor accounted for approximately 60% of the decline of the rate of profit in the postwar US economy and the increase in the composition of capital accounted for most of the remaining 40%.⁴ according to which the decline of the rate of profit was caused by an increase of wages that resulted from the workers' struggles of the late 1960s and early 1970s. It is argued that the lower rates of unemployment of this period increased the bargaining power of workers and enabled them to gain higher wages at the expense of capitalists' profits. My critique of the profit squeeze explanation is also presented in Moseley (1991 and 1997) and stated briefly in endnote 9 below.

From this Marxian perspective, the crucial factor which will determine whether or not the period of stagflation is ending and the US economy is indeed entering a new era of prolonged prosperity is whether or not the rate of profit has increased significantly since the 1970s, and has been restored to the higher levels of the early postwar period.

2. ATTEMPTS TO INCREASE THE RATE OF PROFIT BY CUTTING WAGES

In recent decades, capitalist enterprises have attempted to restore the rate of profit in a variety of ways. The main way has been to reduce the wages of workers. Various strategies have been used to reduce wages, including: direct cuts of wages (and benefits), the shift toward "contingent" jobs (such as part-time jobs, temporary jobs, etc.), "two tier" wage systems (in which new employees are hired at much lower starting wages compared to existing employees), and transferring operations to low-wage countries abroad (the desire to cut wages has been the main driving force behind the "globalization" of recent decades). The success of these strategies has been aided by the higher rates of unemployment that has prevailed since the 1970s.

From the perspective of workers, the effect of these attempts by capitalist enterprises to restore rate of profit by cutting wages has been the downward trend of real wages in recent decades that we observed above in Figure 1. Thus, the decline of real wages since the 1970s is not an accident or a mystery, but is instead the expected outcome of deliberate attempts by capitalist enterprises to reduce wages and restore profitability, aided by higher unemployment.

Another measure of the decline of wages in the US economy in recent decades has been suggested by Mishal, et al (1997): the percentage of workers who have "low-wage" jobs, where "low-wage" is defined as the hourly wage necessary to keep a family of four above the official poverty threshold (\$7.28 an hour in 1995). According to Mishel, et. al., this percentage of workers in "low-wage" jobs has increased steadily from 23.5% in 1973 to 29.7% in 1997 (pp. 149-56; this book is an excellent and comprehensive source on the current living and working conditions for US workers, and is updated every two years). Family incomes have not declined like real wages, but have instead remained more or less constant since the early 1970s (with cyclical fluctuations). The main reason for this not-as-bad performance of family

income compared to real wages is that the number of families with two wage-earners has increased over this period. For many families, the only way to maintain their living standards has been for more family members to enter the paid labor force. Bluestone and Rose (1997) estimate that the average hours worked by families in which both husband and wife are working increased about 20% from 1971 to 1988 (see also Mishel, et al., pp. 79-94 for a further analysis of increased family working hours). Furthermore, these data on family income are in terms of the median income. As we shall see below, family incomes have become much more unequal in the 1980s and 1990s. Therefore, a large percentage, and perhaps a majority, of US families have suffered a decline in real family incomes over this period. One way household consumption has been maintained, in spite of declining real wages and family incomes has been through increasing personal debt. Personal debt as a percentage of after-tax income has increased from around 70% in the 1970s to all-time historic highs of almost 100% in 1997.⁵ However, the higher debt load also makes households more vulnerable to personal bankruptcies, especially in the event of a downturn in the economy. Indeed the personal bankruptcy rate has increased steadily since the early 1980s and has increased even more rapidly to record levels (of about 6 per 100 households) during the recent "boom" years, with unusually low rates of interest. If interest rates were to increase and/or incomes fall due to a recession, then the personal bankruptcy rate would probably increase significantly. A lot of families would lose the cars, houses, etc. that they have purchased on credit.

Another way of maintaining consumption in spite of decline real incomes has been for households to spend a larger percentage of disposable income, i.e. to save a smaller percentage of disposable income. The saving rate in the US economy has always been lower than in most other advanced countries (around 5%) compared to 15% in Germany and 20% in Japan. In recent years, the saving rate in the US has declined further to around 2-3% and in the most recent quarter (the second quarter of 1998) has even fallen below 1%!

One important result of the declining real wages and family incomes has been an increase in the percentage of the US population living in poverty. According to government statistics, the percentage of the US population with incomes below the official "poverty line" has increased from around 11% in 1973 to around 14% in the mid-1990s - reversing a long period of decline in the poverty rate from around 25% in the 1950s. Furthermore, many researchers argue that these estimates understate both the absolute levels of poverty and the extent of the recent increase. Alternative estimates, based on a more consistent and reasonable measure of the poverty line, suggest that the percentage of the population living in poverty has increased by more than 50% in recent decades - from approximately 17% in 1973 to approximately 26% in 1989 (Ruggles 1990, p. 55). This percentage has almost certainly increased further since then (the official estimates of poverty have increased from 11.7% in 1989 to 13.8 in 1995).⁶ Hence during these recent decades of stagflation, the US economy has stopped making progress in reducing poverty and has instead gone into reverse. The extent of poverty in supposedly the richest country in the world is a shame and a disgrace.

The reduction of real wages has also contributed to a significant increase of inequality in the distribution of income in the US economy. The percentage of total income received by the richest 20% of families increased from 41.1% in 1973 to 46.5% in 1995, and the percentage of total income received by the

richest 5% of families increased from 15.5% in 1973 to 20.0% in 1995. Meanwhile, the percentage of total income received by the poorest 40% of families declined from 17.4% in 1973 to 14.5 in 1995 (data are from the US Bureau of the Census). (We can see that the richest 5% now receive considerably more income than the poorest 40%). From 1979 to 1994, the average real median income of the richest 20% increased by 30% and the average real median income of the richest 5% increased by 50%, while during the same period the average real median income of the poorest 20% declined by 10%. The US economy may indeed be booming for the wealthy elite, but it is definitely not booming for the majority of US workers, especially for those with the poorest jobs. Marx's "general law of capital accumulation" - that the accumulation of wealth of capitalists is accompanied by the accumulation of poverty by workers (Marx 1977, Chapter 25) - appears to have been all too true in recent decades in the US (and indeed around the world).

It was mentioned above that one widely-used strategy to reduce wages (and thereby restore profitability) has been the increasing proportion of various types of "contingent" jobs, such as part-time jobs, temporary "jobs", etc. According to one measure, the percentage of "contingent" jobs in the US economy has increased from approximately 18% in the 1970s to approximately 25% today. (Tilly 1996, Chapter 1). 80% of these contingent jobs are part-time jobs. Some workers prefer to have part-time jobs for various reasons (including lack of child care), but over the last two decades almost all of the increase of part-time jobs has been due to the increase of involuntary part-time employment. (Tilly provides an excellent analysis of the growing importance of part-time jobs in the US economy). "Temporary" jobs is one of the fastest growing categories in the Bureau of Labor Statistics classification; it has grown 10 times faster than total employment since 1980 and has grown from almost nothing to over 2% of the labor force.[7](#)

In general, these contingent jobs are much less secure than full-time, permanent jobs. These jobs will likely be the first to go in the next recession. Hence, even though the rate of unemployment is low, a much larger percentage of the labor force feels economically insecure, frustrated by their jobs, and worried about the future. This deep, underlying sense of economic anxiety is clearly seen anytime a major employer announces that they are hiring for a few hundred "good jobs" - i.e. full-time, decent paying jobs - and thousands of workers show up to apply.

The increasing prevalence of contingent jobs in the US economy is part of the explanation of why inflation has remained so low in the last two years even though the rate of unemployment is very low. In the past, when the rate of unemployment was this low, wage increases would accelerate and hence also the rate of inflation. However, this inverse relation between the rate of unemployment on the one hand and the rate of wage increases and the rate of inflation on the other hand - what macroeconomists call the "Phillips curve" - appears not to have been valid for the US economy in the last few years. The rate of unemployment has been declining and is now very low by historical standards, but wage and price increases have not accelerated.

However, the official estimates of the rate of unemployment do not distinguish between part-time jobs and full-time jobs. Hence, even though the official rate of unemployment is low, an increasing percentage of those employed have part-time jobs and thus the supply of labor is far from exhausted. The remaining excess supply of labor of workers with part-time jobs continues to put downward pressure on wages. Bluestone and Rose (1997) have presented a similar explanation of the failure of

wage increases and inflation to accelerate under the current conditions of a low official rate of unemployment.

Therefore, the attempts by capitalist enterprises to restore profitability by cutting wages have taken a heavy toll on workers. Their wages have declined and their job security has also declined. For many, the "American dream" of good jobs and ever rising living standards has become an illusion.

However, the very surprising - and alarming - fact is that, in spite of this general reduction of real wages, the rate of profit in the US economy has so far recovered only about one-third of its prior decline, so that the rate of profit today is still 35-40% below its early postwar peaks, as can be seen in Figure 2 (see Moseley 1997 for further discussion of these estimates). In other words, the widespread attempts by capitalist enterprises to increase their rate of profit, which have had such a negative effect on the living and working conditions of workers, have so far been only partially successful in restoring the rate of profit. This weak recovery of the rate of profit is the main reason why stagflation has continued into the 1990s and why stagflation is likely to continue into the foreseeable future.[8](#) [9](#)

I have argued in Moseley (1997) that, according to Marxian theory, the main cause of this weak recovery of the rate of profit, in spite of the decline of real wages, has been a continuing increase in the ratio of unproductive labor to productive labor. A thorough analysis of the causes of this weak recovery of the rate of profit is presented in Moseley (1997) and is beyond the scope of this paper. For the purposes of this paper, the main implications of this incomplete recovery of the rate of profit is that it suggests that the long period of stagflation in the US economy is not over and that the downward pressure on real wages is likely to continue, as capitalist enterprises continue to try to restore profitability to its earlier postwar levels.

3. INCREASING DEPENDENCE ON FOREIGN CAPITAL

Why then has the rate of growth in the US economy accelerated in the last two years, four years into an expansion when the rate of growth would normally be expected to slow down, especially since the recovery of the rate of profit has been so weak and incomplete? I do not have a complete answer to this question, but I would like to suggest one important factor which seems to have been generally overlooked: there has been a significant increase in the net inflow of foreign capital into the US economy since 1993. Since the early 1980s (when the US became a "debtor nation" - i.e. a net importer of capital - for first time since before World War I), the US economy has become increasingly dependent on foreign capital. The net annual inflow of foreign capital (i.e. the inflow of foreign capital minus the outflow of US capital abroad) averaged \$88 billion a year from 1983 to 1993 for a total of almost \$1 trillion.

TABLE 1 SHOULD BE INSERTED ABOUT HERE (see end of paper)

This increasing dependence on foreign capital by the richest nation in the world is historically

unprecedented, and is in sharp contrast to the US economy during the long early postwar boom, and especially also to the UK economy in the 19th century when it was the richest economy in the world.

But what is really striking is the sharp increase of the inflow of foreign capital since 1993. The net inflow of foreign capital increased from \$57 billion in 1990-93 to around \$140 billion in 1994 and 1995 and then increased again to \$195 billion in 1996 and again to \$263 billion in 1997.

These amounts for 1996 and 1997 were roughly 20% of gross private domestic investment in the US economy during these years. This is a tremendous infusion of capital, even by US standards. It seems highly likely that this large increase of the inflow of foreign capital into the US economy contributed significantly to the acceleration of growth in the US economy in the last two years. Various ways in which this inflow of foreign capital contributed to the acceleration of US growth will be suggested below.

An important cause of this recent sharp increase of the inflow of foreign capital into the US economy has been an increase in the perceived risk of investments in "emerging markets," especially in Latin American and more recently in Asia. This perception of increased risk in these countries has made the US increasingly attractive as a "safe haven" for capital. Over half of this recent inflow of foreign capital has gone into US Treasury bonds (currently the safest of all havens for capital). Also a significant portion of this increase of foreign capital has gone into the US stock market (see below for a further discussion of the contribution of this inflow of foreign capital to the recent stock market boom).

There are a number of ways in which the large inflow of foreign capital has probably contributed to faster growth in the US economy. In the first place, the inflow of capital increased the supply of capital in the US which led to lower interest rates than otherwise would have prevailed.¹⁰ The lower interest rates in turn stimulated investment spending which, through the usual "multiplier effect," produced a higher GDP and a faster rate of growth. Furthermore, the faster GDP growth resulted in larger-than-expected tax revenues and hence smaller-than-expected government budget deficits. The very rapid reduction of the federal budget deficit has been another pleasant surprise of the last few years. The smaller budget deficit in turn made possible a further reduction of interest rates - in a virtuous circle initiated in part by the increasing inflow of foreign capital.

Another important way in which the inflow of foreign capital probably led to faster growth in the US economy is through the stock market. The strong stock market rally of the last several years is due in part to the lower interest rates just discussed (which makes stocks relatively more attractive than bonds). In addition, as already mentioned, much of the recent increase of foreign capital has gone into the stock market, thereby boosting the demand for stocks further. In 1997, net foreign purchases of US stocks rose rapidly from \$12.6 billion in 1996 to \$66.9 billion in 1997. This was over three times the previous record of \$19.0 billion in 1993.

As a result of these and other factors, stock prices have increased roughly 50% over the last two years (and have increased 150% since 1993). This very rapid increase of stock values has greatly increased the wealth of the elite minority of the US population who own almost off of the US corporate stock. (In 1983, the richest 1% of families owned 89% of the personally-owned corporate stock; the richest 1% owned 62%; and the richest ½% owned 47%; source: Joint Economic Committee of the US Congress,

1986.) According to conventional macroeconomics, this increased wealth should have a positive effect on consumer spending (the "wealth effect") - on the consumer spending of the rich, this is, who have enjoyed this wealth windfall. This increased consumer spending should also have multiplier effects on the GDP and the rate of growth, similar to the increased investment spending discussed above. This faster growth again has increased tax revenue, reduced the budget deficit, etc. along the virtuous circle just discussed. Furthermore, the greater-than-expected capital gains income resulting directly from the rising stock prices has been another important source of unexpected tax revenue in recent years, thereby contributing further to lower budget deficits, lower interest rates, etc.

Another important beneficial effect of the lower interest rates, which is seldom mentioned, is that the debt payments by US non-financial corporations have been greatly reduced in the 1990s. In the late 1980s, many US non-financial corporations were suffering from very high debt burdens. Many economists and the business press were very concerned because the increased debt burden made the economy more vulnerable to widespread bankruptcies, liquidations, etc. and thus to a more serious economic downturn (Friedman 1988, Bernanke 1988). The size of this corporate debt has not been reduced in the 1990s, but the interest payments that must be made to "service" this debt has been greatly reduced, because of the decline of interest rates.¹¹ Hence, the dangers of bankruptcies and a more serious recession have been reduced. Therefore, the very sizable inflow of foreign capital in the 1990s, by contributing to lower interest rates, has helped the US economy to avoid (at least so far) a more serious financial crisis.

Of course, these beneficial effects of the inflow of foreign capital for the US economy

are counterbalanced by the opposite harmful effects for the countries that have suffered an outflow of capital in recent years. Most importantly, the outflow of capital from Asia in particular has produced a very severe and worsening depression. There is no doubt that the Asian crisis has deep and endogenous causes (a discussion of which is beyond the scope of this paper), but the immediate or "precipitating" cause of the collapse of the Asian economies over the last two years has been the massive outflow of capital from this region. The same international capital flows that contributed to a "boom" in the US economy have precipitated a depression in Asia.

4. WHAT LIES AHEAD?

How much longer can these widely divergent trends in the world economy continue? How much longer can the capital flows from "emerging markets" to the US remain at the very high levels of the last several years, thereby contributing both to a boom in the US and to a deepening depression in the "emerging markets" countries. These capital inflows could perhaps remain at this high level for a few more years. If the Asian crisis continues to deteriorate, then more capital will probably continue flee to the safe haven of the US, which in turn would make the Asian crisis even worse. However, this increasing polarization of the world capitalist economy could not go on forever. Before long, the deepening Asian depression would drag down the US economy (and the rest of the world economy) with it, in ways that will be discussed below.

If, on the other hand, these capital inflows diminish back to the earlier level of, say \$100 billion a year, then the rate of growth of the US economy would probably fall back at least to the 2.0 - 2.5% level that prevailed in the early 1990s.

In addition, the Asian crisis has also begun to have negative effects on the US economy - mainly so far through a reduction of US exports to Asian countries. Most economists are predicting that this negative effect on US exports will be small, because total US exports are only 12% of US GDP, and because the percentage of total US exports that go to Asia (including Japan) is only about 30%. So far the decline in US exports to Asia has been about 20%. If this is the end of the decline, as many economists seem to think, then the negative effect on the US GDP would be less than one percent. However, if US exports to Asia continue to decline, then the negative effect on US growth will be greater. For example, if US exports to Asia were to decline by 30%, and if US exports to the rest of the world also decline as an indirect result of the Asian crisis, then the overall negative effect could be to lower the US rate of growth 2-3%, which would almost certainly land the US economy in a recession.

Furthermore, in recent weeks, the escalating fears about the Asian crisis seem to have brought the US stock market boom to a halt. Now there seems to be a real possibility of a significant stock market decline in the near future (this seems more likely every day as I write this in the hot days of August 1998). If a stock market crash were to occur, then consumption would decline sharply (especially the consumption of "high-income goods" such as houses, cars, computers, TVs, stereos, restaurants, vacations etc.), which would further propel the US economy into recession.

In addition, if the Asian crisis does indeed continue to worsen, then the danger increases that one of more of the Asian countries will default on their loans to US banks and other US creditors (or, more precisely, that Asian banks and private corporations will default on their loans). Most of these loans, which were originally short-term, have been rescheduled and the term lengthened to 2-3 years. Whether or not Asian borrowers will be able to repay these loans when they become due early in the next century depends on how the Asian crisis develops between now and then. If the worst of the crisis is over, and these economies start to recover in the next year or two, then most borrowers should be able to repay their loans. However, if the crisis continues to worsen, then many borrowers will probably be forced to default on these loans in the next few years.

The more immediate question is whether these Asian borrowers will be able to pay the interest on their loans over the next year or two. The rate of interest of the rescheduled loans is 2-3% higher than before, which will make "servicing" these loans more difficult. Even more importantly, the 50% devaluation (or more) of the Asian currencies in the last year has doubled (or more) their dollar debt obligations in terms of their own currencies. Full payment of these interest installments does not seem very likely.¹² Defaults on these interest payments would of course result in losses for the US banks. If these losses are significant enough, this could lead to a "credit crunch" and higher interest rates in the US (as banks restrict their lending to compensate for these Asian losses), which in turn would further push the US economy into recession. The IMF "bail-out" loans to the Asian countries are designed precisely to enable the Asian borrowers to repay the US banks and other foreign creditors. But there is no guarantee that the design will work. It all depends on how bad the Asian crisis gets.

An additional danger is that Japanese banks might be forced by their own economic crisis to cease to export capital to the US and may even start to withdraw its existing capital in the US back to Japan in order to satisfy their own domestic liquidity needs. This withdrawal of Japanese capital from the US (or even the cessation of additional lending) would have similar negative effects on the US economy as defaults by Asian borrowers - a credit crunch, higher interest rates, etc. - and thus would be yet another factor pushing the US economy into recession (or worse).[13](#)

If a recession in the US economy were to occur over the next year or two, then this US recession would in turn have devastating effects on the rest of the world economy, and especially on the Asian countries. The main hope for recovery for the Asian countries from their current crisis is to increase their exports to the "booming" US market (an earlier hope was to increase their exports to Japan, but that hope has evaporated as Japan itself has fallen into its own recession). If the US economy falls into recession, then the US demand for Asian exports would decrease, rather than increase. Without their main hope for recovery, the Asian economies would likely remain in a serious depression for years to come. And if the Asian depression continues, then they will almost certainly not be able to service their debt and repay their loans to US banks.

On the other hand, if a serious recession in the US economy is avoided, then the Asian crisis should provide US companies with an opportunity to buy up the assets of bankrupt Asian companies at bargain basement prices. The business press is full of stories about US executives flying all over Asia looking for the best assets at the cheapest prices. According to Kim (1998), the S. Korean government has taken in upon itself the task of deciding which bankrupt Korean companies should be allowed to die and which should be offered for sale to foreign investors. In this case, one important result of the Asian crisis would be the increasing ownership of Asian assets by US companies, i.e. the increasing domination of the world economy by US capital. (Tabb 1998 emphasizes this possible outcome of the Asian crisis.) This purchase of the assets of bankrupt firms by surviving firms happens in every depression. This time, for the first time, this process of liquidation and the concentration of capital will probably have a significant international dimension. The low purchase price of Asian assets would also raise the global rate of profit of US companies, perhaps thereby contributing to at least a partial solution of the decades long profitability problem of US capitalism.

The probabilities of these various outcomes is difficult to estimate, but at least it seems fairly certain that the recent "boom" in the US economy has been due in large part to a temporary inflow of foreign capital and that this "boom" will almost certainly be short-lived. The recent "boom" is not an indication that the long period of stagflation is over. Very soon, the US economy will almost certainly fall back to the slower growth that prevailed in the 1980s and early 1990s. Whether or not the slower growth turns into recession is a crucial question. Under the best of circumstances of slow growth but no recession, real wages are not likely to increase very much, if at all, as in the period of stagflation since the 1970s. The "American dream" will continue to be elusive as US capitalism continues to try to restore its rate of profit. And if slow growth turns into recession, then there is an increasing danger that this US recession will trigger a world-wide capitalist depression.

I hesitate to venture a longer-run forecast for the US and world economy, but if history (and Marx's

theory) is any guide, a period of declining profitability and increasing debt will eventually be followed by a period of depression, characterized by significant and widespread bankruptcies which raise the rate of profit for surviving firms and eliminates much of the existing debt, thereby making possible another period of expansion and prosperity. In other words, a return to prosperity requires a prior depression. It may be possible to continue to avoid such a depression for a few more years, but without such a depression, a return to the more prosperous conditions of the early postwar "golden age" is not very likely.

It is even more difficult to predict what the response of US workers will be to continued economic stagnation and stagnant real wages (at best) or to another worldwide capitalist depression (at worst). So far, US workers have been surprisingly passive in accepting declining real wages and declining job security. However, much of this passive acceptance has been based on the optimistic premise that the years of "pain" will soon be over and that the US economy will soon return to the more prosperous conditions of the early postwar period, with its steady and substantial increases of real wages. Continued stagnation, or worse, would invalidate this premise. Perhaps then acceptance will turn into resistance.

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NET CAPITAL INFLOW INTO THE UNITED STATES, 1983-1997

U.S. Foreign Net
Capital Capital Capital
Outflow Inflow Inflow

1983	- 61,573	83,380	21,807
1984	- 36,313	113,932	77,619
1985	- 39,889	141,183	101,294
1986	-106,753	226,111	119,358
1987	- 72,617	242,983	170,366
1988	-100,087	240,265	140,178
1989	-168,744	218,490	49,746
1990	- 74,011	122,912	48,181
1991	- 57,881	94,241	36,360
1992	- 68,622	154,285	85,663
1993	-194,609	250,996	56,387
1994	-150,695	285,376	134,681
1995	-307,207	451,234	144,027
1996	-352,444	547,555	195,111
1997	-426,938	690,497	263,559

Source: Survey of Current Business, July 1998

ENDNOTES

1 Brenner's estimates of the rate of profit decline less than the other estimates (30% compared to around 50%) because he utilizes newly revised estimates of the net capital stock (the denominator in the rate of profit) which are based on a new method of calculating depreciation. These new estimates of the capital stock increase less than the earlier estimates and hence Brenner's estimates of the rate of profit decrease less than the earlier estimates. However, the new method of calculating depreciation (called the "declining balance" method) is suspect, in my view. This method assumes in effect that industrial buildings and commercial buildings and other types of structures last forever, so that depreciation occurs at a much slower rate. According to the old method, structures were fully depreciated in an average 36 years. According to the new method, after 36 years roughly 40% of an asset's original value has not yet been counted as depreciation costs. The average lifetime of 36 years assumed in the old estimates may be too short (although there is no systematic evidence that it is) but surely the mean lifetime of structures is less than infinite and is probably less than 50 years. According to the revised estimates, after 50 years about 20% of the original value of structures has still not yet been depreciated. Therefore, Brenner's estimates almost certainly understate the decline of the rate of profit.

2 My estimates of the rate of profit are for the Business sector as a whole. Estimates for the Non-Financial Corporate Business Sector are also frequently used and these estimates show essentially the same downward trend; for example see Weisskopf 1977).

3 Unproductive labor refers to labor employed within capitalist enterprises, but engaged in activities of circulation (sales, accounting, finance, advertising, etc) or in activities of supervision (management, direct supervision, record keeping, etc.). According to Marx's theory, the labor employed in these functions of circulation and supervision do not produce value and surplus-value, and hence are unproductive from the standpoint of capital. Circulation labor does not produce value and surplus-value because the exchange of commodities is assumed to be essentially the exchange of equivalent values. Similarly, supervisory labor does not add to the value of commodities because this labor is not technically necessary for production, but is instead necessary because of the antagonistic relation between capitalists and workers in capitalist production over the intensity of labor of workers. Since unproductive labor produces no value, its wages must be paid out of the surplus-value produced by productive labor.

4 The other main explanation of the decline of the rate of profit in the postwar US economy has been the "profit squeeze" explanation presented by Weiskopff and Wolff and others,

5 These levels of personal debt are much higher than in the 1920s when home mortgages and consumer loans were much less developed than they are today.

6 The poverty rate for African-Americans is even higher - roughly three times as high as for white Americans.

7 Roughly three quarters of these contingent jobs are held by women. Most of these contingent jobs are in sales and clerical and service occupations, which have a higher concentration of women workers.

8 Brenner argues that there has been a "substantial recovery" of the rate of profit in the US economy since the 1970s. However, Brenner's own estimates show less than a 10% increase in the rate of profit over this period, and, as Brenner himself notes, his estimates of the rate of profit are still 20-25% below the earlier postwar peaks. Furthermore, I argued above in footnote 1 that Brenner's estimates understate

the decline of the rate of profit in the early postwar period. If this underestimation is corrected, then Brenner's estimates of the rate of profit would probably be about 30-35% below the earlier peak, which is broadly in agreement with my estimates which remain 35-40% below the earlier peak. This is a "substantial recovery" in the rate of profit.

9 The main point of my critique of the profit squeeze explanation of the decline of the rate of profit is that it cannot explain why the recovery of the rate of profit in recent decades has been so weak and incomplete. If the cause of the prior decline of the rate of profit were rising workers' power and rising wages, then surely the last two decades of higher unemployment and falling wages should have taken care of this problem.

10 We saw above that the saving rate in the US economy is now less than 1% of after-tax income. Under normal circumstances, one would expect that such a low saving rate would lead to higher interest rates, which would in turn have a negative effect on investment spending, etc. However, in this case, the increasing inflow of foreign capital has provided the necessary savings and has enabled the US economy to avoid the negative effects of higher interest rates. In other words, the inflow of foreign capital has enabled the US to eat its cake (increase consumption) and have it too (maintain investment).

11 Interest payments as a percentage of gross earnings (profit plus interest) for non-financial corporations have been halved from a peak of 38% in 1990-91 to 19% in 1997.

12 Wade and Veneroso argue that "only truly heroic improvements in the trade balance could garner enough foreign exchange to cover interest payments falling due in the next several years." (p. 12)

13 The dependence of the US economy on Japanese capital was the main reason the US government vetoed Japan's proposal in the summer of 1997 to create an "Asia fund" which would be used to help their fellow Asian nations pay off their debts. US officials feared that more Japanese capital for Asia would mean less Japanese capital for the US. See Wade and Veneroso, p. 20. There is talk in Asia of reviving Japan's idea of an Asian fund, which could bring this potential problem for the US economy to the fore.