Two exchanges on the US economy

Nick Beams
20 February 2002

Dear Editor,

In your article "Claims of US 'recovery' look premature," Mr. Beams claims that since investment spending has not risen, the consumer spending is not going to reflect a future upturn in the economy. I feel his logic is misleading and incorrect. First there must come an increase in consumer spending to make an increase in investment spending appear profitable for firms. Only then will the investment spending rise. So, thus the increase in consumer spending is in fact a good sign. On the other hand, his point that doing so on credit is dangerous is a very nice point, and the increasing amount that the US consumer depends on credit is quite frightening.

Thank you,

UA

Dear UA,

Your criticism of my analysis might have some validity if the downturn in the US economy had been caused by a fall in consumption spending, perhaps precipitated by an increase in interest rates by the Federal Reserve Board, or some other factor. In such a situation, a rise in consumption spending might indicate that the economy was moving into a recovery phase.

But in this case the recession is not the result of a fall in consumption spending. It has taken place despite consumption remaining at relatively high levels—largely as a result of increased consumer borrowing.

Unlike other recessions in the post-war period, the present downturn has been sparked by a fall in business investment spending following the collapse of the share market bubble from April 2000. All sections of industry are characterised by overcapacity, which means that even with high levels of consumption spending little new investment can be expected. Businesses will be more than able to meet demand with their existing levels of capacity.

Your criticism reflects an assumption that lies at the heart of bourgeois economics. This is that the direction of the economy is determined in the final analysis by consumer demands. In fact, as Marx drew out, it is production which determines the level of consumption demand. New investment, in anticipation of greater profits, leads to spending on the employment of workers, capital equipment and raw materials. This is turn generates further spending, by wage workers and by the producers of the means of production. In other words, so long as profits are rising, or at least steady, investment increases, leading to expansion throughout the economy, generating the conditions for further expansion.

However, if rates of profit begin to fall, then this process goes into reverse. Falling investment leads to a fall in productive consumption—the expenditure on raw materials and capital equipment—followed sooner or later by a fall in consumption spending by wage workers. The Fed's interest rate cuts over the past year have been largely directed to trying to prevent this consumption downturn. But it has only achieved this result through an unsustainable increase in debt.

Recent figures on US productivity underscore the extent of the downturn. They show that, notwithstanding relatively high levels of consumption spending, private sector output has fallen in each of the last three quarters, along with the number of hours worked.

To the WSWS,

If the cause of the crisis is that capitalists are making too little profit, does it follow that Bush is right and the rich need a deep tax cut so that they will have more profit?

Something is wrong here.

DP

Dear DP,

I cannot see what the problem is. Bush is acting in the interests of the class he represents, in particular that section of the capitalist class which has been most clearly connected with the looting and outright swindles associated with so much of the so-called "new economy" in the latter half of the 1990s. His close association with Enron is not accidental.

The downward pressure on profit rates is not a recent tendency, but has been in operation, subject to fluctuations, since the end of the post-war boom in the mid-1970s. Throughout this period we have seen the increasing drive by all governments to claw back social services and other concessions they made in the past while handing out tax cuts to corporations and the wealthy.

This is because all social service expenditures represent, in the final analysis, a deduction in the surplus value available to be distributed to capital in the form of profit. The same process is at work in the privatisation of government-owned business and services with the aim of opening them up as profit-making ventures.

This brings us to the wider question: what is the cause of the pressure on profit rates? Marx's analysis revealed that the driving force behind this tendency was the increased productivity of labour. While the sole source of profit is the surplus value extracted from the labour of the working class (blue collar, or white collar, intellectual and/or manual), increased productivity reduces the amount of labour embodied in the production process, and therefore the mass of surplus value, and eventually profit, available to capital.

Here we come to one of the essential contradictions of the capitalist profit system. Increased labour productivity is the basis for increasing the material wealth and living standards of all members of society.

However, in conditions where it produces a downturn in the rate of profit—such as we have seen over the past 20 years—it leads to greater attacks on the living conditions of the working class, the overwhelming majority of society, and the producers of all wealth. Something is, as you put it, "wrong here."

The solution is the complete reorganisation of society and the economy. Production for profit dictated by the struggle on the market must be replaced by production for need. Private ownership and the capitalist market must be replaced by social ownership and democratic planning so that the wealth produced by the labour of working people becomes the basis for their social advancement, rather than the enrichment of the few.