The return of “secular stagnation”

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Since the official end of the US recession in 2009, following the global financial crisis, the conventional wisdom from the Federal Reserve, the US central bank, has been that various “headwinds” are responsible for the failure of the American economy to return to anything resembling its previous growth path.

The underlying assumption has been that the financial crisis of 2008–2009 did not represent any kind of fundamental breakdown in the capitalist economy, but was merely a downturn in the business cycle, albeit a very severe one, from which there would be a return at some point to a “normal” pattern of economic expansion.

However, the press conference of Fed chairwoman Janet Yellen on Wednesday, following the decision by the Federal Open Market Committee not to lift interest rates, saw a marked shift. While her prepared remarks stuck by and large to the official script that the prevailing “headwinds” would ease over time, a rather different assessment emerged during Yellen’s question and answer session with reporters.

In view of the fact that the Fed’s outlook for interest rates had been revised sharply down, even though its projections for gross domestic product growth had not, Yellen was asked whether there had been “a dramatic change in the Committee’s view on the relationship of GDP to [interest] rates.”

Her answer indicated there had, or at least that behind the façade of official pronouncements the view is developing that a fundamental shift is underway.

She noted that the so-called “neutral rate”—that is, the interest rate needed to keep the economy growing at near full employment—was “quite depressed by historical standards” and that “many estimates would put it in real or inflation adjusted terms at near zero.”

Yellen referred, according to the usual script, to “headwinds” and what she called the “lingering effects of the financial crisis,” which were expected to “ease” over time. “But there are also more long lasting or persistent factors that may be at work that are holding down the longer run neutral rates,” she added.

Chief among those factors was “slow productivity growth, which is not just a US phenomenon, but a global phenomenon.” There was considerable uncertainty, but “productivity growth could stay low for a prolonged time” and we have “aging societies in many parts of the world that could depress this neutral rate. … The sense that maybe more of what’s causing this neutral rate to be so low are factors that are not going to be rapidly disappearing but will be part of the new normal.”

Yellen’s comments followed the warning by the Conference Board, a major US economic think tank, that productivity growth could go negative this year for the first time in more than three decades.

While she did not use the term herself, Yellen’s remarks point to the emergence of what former Treasury Secretary Lawrence Summers and others have referred to as “secular stagnation.” This term was first coined by economist Alvin Hansen in 1938 to describe a structural condition in the capitalist economy where, no matter how low interest rates go, there is no growth because the level of demand, particularly investment, is not in a cyclical downturn but permanently insufficient to ensure economic expansion.

Yellen’s reference to “aging societies” as an explanation for what she clearly recognises as a shift in the global economy, recalls nothing so much as the explanation of the classical bourgeois economist of the early nineteenth century, David Ricardo, who, when confronted with the tendency of the rate of profit to fall, ascribed it to the declining fertility of land and the fall in productivity in agriculture. As Marx pithily remarked, horrified by this prospect which called into question the historical viability of the capitalist economy, Ricardo took flight to the sphere of organic chemistry. Likewise Yellen, when confronted with persistent economic trends, seeks refuge in demographics.

In opposition to Ricardo, Marx explained that the real barrier to expanded capitalist production was not a product of nature, but of capital itself—private ownership of the means of production and the profit system.

Economic trends and tendencies reaching back over the past quarter century underscore the point made by Marx. Following the end of the post-war boom and the downturn in profit rates at the end of the 1960s and early 1970s, global capitalism experienced a series of crises, exemplified above all by the persistence of what was known as “stagflation”—low growth and recession combined with high inflation rates.

This crisis was temporarily overcome through an onslaught against the social position of the working class—the mass sacking of air traffic controllers in the US by Reagan in 1981 and the forcible state-suppression of the 1984–85 miners’ strike by the Thatcher government in Britain were key turning points—and the exploitation of new areas of cheap labour through the globalisation of production.

But the limited upturn in the rate of profit this produced did not bring about a return to the conditions of relative economic stability which marked the post-war boom. On the contrary, from the time of the October 1987 US stock market crash, world capitalism has been marked by increasing financial turmoil.

It became increasingly dependent on the injections of cheap money from the Fed and other central banks to quell ever-more severe financial storms—from the Mexican financial crisis of the early 1990s, the Asian financial crisis of 1997–98 and the collapse of Long Term Capital Management, the collapse of the dot.com bubble in 2000–2001, leading to the financial crisis of 2008 set off by the bursting of the sub-prime mortgage bubble.

The Fed and other central banks responded to that crisis as they did in the past, with massive injections of cheap money. But despite the spending of trillions of dollars in the purchase of financial assets and the lowering of interest rates to zero and even below, there has been no revival in the real economy. The only effect of these measures has been to boost financial speculation to unprecedented heights, while producing ever-widening social inequality and worsening wages and social conditions for the world’s working class.

Economic history does not repeat itself. But the capitalist economy does have laws of motion, producing discernible trends and tendencies which find their expression not only in the economy but in politics.

The year 1914 is forever etched in history as the year of the outbreak of World War I. But it was economically significant as well. It marked a downturn in profit and growth rates that, despite all efforts to overcome it, continued through the 1920s and 1930s, resulting in the Great Depression.

These underlying processes produced a contraction in the world economy which led inexorably to the outbreak of World War II as the major capitalist powers engaged in an intensifying struggle for contracting markets and profits, first by use of economic nationalist methods—increased tariffs and the formation of currency blocs—and then by military means.

Today’s world is marked by the return of these conditions: the stagnation of the world economy, glutted markets in a series of commodities and industrial products, persistently low levels of investment, the driving force of economic growth, currency conflicts and intensifying financial crisis, to name but a few examples.

And they are inevitably leading in the same direction as in earlier decades: a world war for the division and re-division of the world economy, with potential nuclear consequences and the destruction of civilisation itself.

The fact that the objective contradictions of capitalism have now managed, at least partially, to have drummed their way into the heads of the overseers of global capitalism, such as Yellen, is an indication of the advanced state of the economic crisis.

It must be a signal to the international working class that the urgent issue before it is the struggle for an international socialist program for the overthrow of the reactionary and outmoded capitalist nation-state and profit system and the building of the world party of socialist revolution, the International Committee of the Fourth International, to lead it.

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