A Modern Money View of the Global Financial Crisis

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Abstract

The paper argues that it is important to recognise the sub-prime crisis for what it is—an "epiphenomenon". The underlying drivers of the crisis have been twofold, with each factor a product of the neoliberal regimes implemented as a direct result of an unprecedented shift in power from labour to capital since the early 70s. On one hand, we have witnessed real wage repression within the advanced industrial economies (despite notable productivity growth). On the other hand, national governments have embraced fiscal conservatism. The resulting policy of fiscal withdrawal has sucked real wealth out of national economies. This modern money view of the crisis is contrasted with the Braudelian analysis of Giovanni Arrighi.

Introduction

A commonly held view about the global financial crisis is that it represents a process of information failure on a grand scale. To lower their borrowing costs (under both the Basel-I and, more recently, the Basel-II arrangements), corporations have drawn upon securitised assets which bundle together relatively low risk and relatively high risk IOUs derived primarily from bank lending to the household sector. Due to the disconnection between the issuers of these IOUs, those responsible for their securitization, those drawing on securitized assets as collateral, and the ratings agencies with responsibility for rating the newly created composite assets in terms of their risk profile, the ratings applied have been too generous. In turn, the insurance risk (in the form of credit default swaps) has been on-sold at unrealistic prices to mortgage insurers such as AIG (the latter having conveniently located its activities in post-Thatcherite London, with its deregulated financial sector.

While accepting the broad terrain of such a narrative, this paper argues that it is important to recognise the sub-prime crisis as an "epiphenomenon" of a deeper set of political drivers. While other scholars such as Giovanni Arrighi, have provided similar structural interpretations of the crisis, by drawing on Regulation Theory and a Braudelian analysis of history in the longue durée, the paper argues that such interpretations suffer from a profound pessimism, which serves to undermine the prospects for a mobilization of progressive forces around struggles for the "right to work". The next section of the paper sets out a modern money analysis of the crisis. This is followed by an overview of Arrighi’s approach. The final section of the paper compares and evaluates these two competing interpretations.

A Deeper Explanation of the Global Financial Crisis

Despite the excessive concentration and leveraging of this insurance risk—a phenomenon that was rendered possible through the conversion of such operational risks into the form of derivatives, it has

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1 Blinder (2009) describes how perverse incentive schemes have contributed to excesses in financial institutions.
been the issue of dodgy IOUs at the beginning of the process that has served to undermine the entire chain of financial activity. This is where analysis must begin.

The underlying drivers of the crisis, however, have been twofold. On one hand we have witnessed real wage repression within the advanced industrial economies (despite notable productivity growth)\textsuperscript{2}. On the other hand, national governments have embraced fiscal conservatism. The resulting policy of fiscal withdrawal has sucked real wealth out of national economies. Each of these factors can be considered as being a direct product of the neoliberal regimes implemented within advanced industrial nations as a direct result of an unprecedented shift in power from labour to capital since the early 70s.

The following graph plots historical data on unemployment rates that starkly reveals the achievements of the post-WWII period of full employment.

\begin{center}
\textbf{Australian official unemployment rate since 1861}
\end{center}

\begin{figure}[h]
\centering
\includegraphics[width=0.8\textwidth]{unemployment_rate.png}
\caption{Australian official unemployment rate since 1861.}
\end{figure}

\begin{center}
\textit{Source: Billy Blog; "The challenges of labour underutilisation and low wages", Tuesday, August 19th, 2009}
\end{center}

The chart below depicts data on wages and productivity growth. It shows the widening gap between growth in these two series over the past 25 years.

\begin{center}
\textit{Source: Billy Blog; "The challenges of labour underutilisation and low wages", Tuesday, August 19th, 2009}
\end{center}

\begin{figure}[h]
\centering
\includegraphics[width=0.8\textwidth]{wages_productivity_growth.png}
\caption{Wages and productivity growth over the past 25 years.}
\end{figure}

\textsuperscript{2}Empirical evidence for this conjecture is relatively easy to find. Data on the wage share of national income is available for most OECD nations. In Australia, wage share data is published by the Treasury. For the US, more detailed breakdowns of income distribution can be found in Duménil and Lévy, 2004.
This phenomena is clearly reflected in the decline in Australia’s wage share over the same period.

Australia’s Wage Share
In the absence of a developmental state that can intervene heavily in capital markets to promote high levels of investment, the paper argues that the accumulation process has accordingly been fuelled by credit-driven consumption (i.e. effective demand), under unsustainable conditions because financial institutions have increasingly attempted to lend to households under conditions where borrowers are increasingly less likely to repay the loans (this ‘weak link’ in the financial system has been aggravated by the increasing precariousness of work). Fiscal withdrawal on the part of the state has aggravated the problem of unsustainability because government surpluses destroy wealth in the form of net financial assets and require that the non-government sector go into deficit.

In accordance with the modern money perspective, governments do not need to ‘finance’ their deficit spending. When it spends on goods, services, or financial assets provided by the non-government sector the government issues cheques drawn on central bank. In turn, private sector bank accounts at the central bank are credited. This process is reversed by taxation. As such, taxing transfers no real resources to government. As the issuer of fiat currency, the government provides the only unit acceptable for payment of taxes. From a macroeconomic perspective, the horizontal relationship established by transactions between banks, firms and households are less significant than the vertical transactions between the government and non-government sectors. Horizontal transactions net out to zero while vertical transactions have to power to create or destroy net financial assets (Mitchell and Juniper, 2008). Net Financial Assets are equal to currency plus reserves (the monetary base) plus any outstanding government securities. Sectoral balances as a percentage of GDP are shown in the following graph.

**Sectoral balances, Australia, 1974 to 2007, per cent of GDP**

When the Federal Government runs a budget surplus a well known accounting identity, \((S - I) = (G - T) + (X - M)\), confirms that this must be reflected in a deficit on the part of the non-government sector. Total private savings \((S)\) is equal to private investment \((I)\) plus the public deficit (spending, \(G\) minus taxes, \(T\)) plus net exports (exports \((X)\) minus imports \((M)\)), where net exports represent the net savings of non-residents. Deficit spending by government the only source of net financial assets (net
savings) for non-government sector. Budget surpluses on the other hand, destroy private sector savings and reduce national income. In the absence of any intervention by the monetary authorities, deficit spending would drive the interest rate on government bonds to zero. To set a positive target rate of interest, the net liquidity added when government spending and purchases of treasury bonds fall below the amount of tax imposed, must be absorbed through the sale of government bonds. The interest rate targeted through such a bond sale will then be positioned somewhere between the ‘operational rate’ and the rate paid on excess reserves. For comparison with Australia, sectoral balances as a percentage of GDP are shown for Japan in the following graph. Japan’s budget deficits are matched by private sector and Rest-of-the-World surpluses.

**Sectoral balances, Japan, 1988 to 2007, per cent of GDP**

Japan’s on-going deficit position, however, made little or no contribution to inflation or the level of interest rates as shown in the following set of charts.
The existence of fiat currency or state-issued money implies the possibility of unemployment. Government spending creates employment and provides agents in the non-government sector with the money they need to pay their taxes. Unemployment arises if net government spending is too low given the need to pay taxes and the desire of agents in the non-government sector to net save. As such, wage cuts would only reduce unemployment if they had the ability to lower the desire of these non-government agents to net save! Accordingly, the Centre of Full Employment and Equity and other members of the “Economists for Full Employment” network argue that the state has an obligation to achieve full employment through deficit spending on public sector employment schemes. The following graph reveals, by way of contrast, the on-going decline in total public sector employment in Australia.
Under these proposed public sector employment schemes, full time employment would be offered at the minimum wage to those who were previously unemployed or under-employed. These employment programmes would be complemented by infrastructure spending and investments in training and skills formation. As the non-government sector recovered from unemployment-creating downturns in the level of economic activity, it could attract job-ready workers from the public sector by offering higher wages, better opportunities for career development, or better working conditions and more challenging work.

Many orthodox economists are opposed to job creation schemes implemented through deficit spending, purportedly because they cause asset price bubbles and contribute to outbreaks of inflation in the price of goods and services, at the same time aggravating balance-of-payments problems. In part, these economists sheet home blame for the crisis on global imbalances, which have lead to huge flows of funds from developing nations into the US. This inflow has allegedly contributed to the ‘problem’ of low interest rates, which in turn has exacerbated asset price inflation (especially in the housing sector, where lax government policies had encouraged unsustainable mortgage lending to low income groups) (See Gruen, 2009, for a good example of this kind of vapid orthodox analysis).

The view that low interest rates cause asset price inflation is effectively based on some kind of Monetarist notion that real rates of return are determined by the real forces of productivity and thrift. This is a viewpoint that should have disappeared entirely from the economics profession after the capital debates successfully undermined the intellectual credibility of theories of income distribution based on the marginal productivity of productive factors. In contrast, Keynes steadfastly argued for low interest rates to encourage ‘euthanasia of the rentier’.

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3 In multi-sectoral growth models of the Leotieff-Neumann-Sraffa variety, real rates of return are of course constrained by the dominant eigenvalue in the capital matrix. Given this ceiling, however, the resulting rates of return on capital depend on the range of historical and normative factors that determine the distribution of
The notion that global imbalances have contributed to asset price inflation (or inflation in the prices of goods and services) is equally suspect. For example, Chinese capital inflows into the US economy have primarily assumed the form of purchases of government bonds, which can readily be accommodated without abandoning interest rate targets. A more defensible culprit is inflation in resource prices driven by high growth in the Indian and Chinese economies over the last decade. Both forms of inflation, however, are best dealt with by fiscal policy. Significantly, public sector employment can increase even while governments engage in policies of fiscal restraint. Under a job guarantee, the pressure to lower inflation derives from the anchor provided by the minimum wage as high wage jobs in the non-government sector are replaced by low wage jobs in government. Similarly, mortgage-related policies in the US that were designed to redress inequities in the division of wealth across ethnic lines could easily have been sustained if public insurance was made available to support households that could be exposed to adverse economic changes.4

The argument that full employment policies aggravate imbalances on the trade account is a well known marginalist response to workers’ struggles over the right to work. Empirical evidence suggests that there is no detectable statistical relationship between policies of sustained deficit spending and inflationary depreciation of the exchange rate.

It will be seen that this modern money view of the crisis stands in stark contrast to the analysis of Giovanni Arrighi. Again, the arguments of the paper are not entirely inconsistent with Arrighi’s longue durée perspective on the crisis. From a modern money perspective, The main weakness of his approach is that he underestimates the economic powers of the modern state to overcome economic crises. This is because he considers interventions on the part of nation states to be profoundly constrained by the contradictions associated with the process of capital accumulation. In simple terms, Arrighi’s position is that post-war interventions by government have overcome realization crises so that any remaining crises of accumulation must derive from the more intractable problem of the falling rate of profit.

Arrighi’s Approach to Financial Crises

In the early 1970s, Arrighi was a member of the Gruppo Gramsci, co-founded by Madera, Passerini and Arrighi, and then the Colletivi Politici Operai (CPO), which became known as the Area dell’Autonomia. At that time, Arrighi’s (2009, 67) widely read article on the capitalist crisis, originated in an exchange between himself as a theoretician and activists involved in the liberation movements in southern Africa and the campaigns of Italian workers. The specific motivation for his theoretical intervention was to demonstrate that “crises occur whether you struggle or not—they’re not a function of workers’ militancy, or of “mistakes” in economic management, but fundamental to the operations of capitalist accumulation itself” (Arrighi, 2009, 67). For me, the fundamental question left unanswered in this paper, however, is how economic managers should respond to such crises.

income between workers and capitalists (for a recent discussion of these issues see Salvadori, 2003). More specifically, Kurz and Salvadori (1998) demonstrate the mathematical equivalence between the optimal growth paths obtained in New Growth Theory models and those derived from neo-Ricardian models which have simply replaced intertemporal optimization of consumption with a Cambridge-style distributional equation to achieve model closure.

4 David Gruen (2009) examines these aspects of mortgage policy in more detail.
In this early paper, Arrighi contended that crises are indissolubly linked to the existence of capitalism itself. His reasoning proceeds as follows: the fundamental contradiction is between the goal of accumulation (namely, the valorization of capital) and the means by which this goal is pursued (the development of social productivity and the social character of production),

Whilst production (whose growth depends principally on the proportion of the social product which goes to the capitalists and is transformed into means of production) tends to increase, consumption (whose growth depends principally on the proportion of the social product which goes to the workers and which is transformed into means of consumption) tends to contract (Arrighi, 1978, 3).

This underlying contradiction can be manifested in two different ways. First, a realization crisis arises when commodities cannot be sold due to the restricted base of consumption. Second, a fall in the rate of profit can occur when “constant (or diminishing) proportion of the social product is insufficient to remunerate, at a constant rate, the ever-increasing mass of capital that the capitalists have to invest per unit of product.” (Arrighi, 1978, 4)

In both cases, “…the crisis is manifested as a fall in the rate of profit and overproduction of commodities: in the first case (rate of exploitation ‘too high’) the rate of profit falls because there is overproduction of commodities and surplus-value cannot be completely transformed into profits; in the second case (rate of exploitation ‘too low’) there is overproduction because the fall in the rate of profit brings about a diminished demand for means of production.”

In other words, “there will be a crisis both with a rate of exploitation which is ‘too high’ and with one which is ‘too low’. In the former case, however, the burden of the crisis falls on the working class. In the second case, it falls on capital and unproductive social strata. (Arrighi, 1978, 5) The rate of exploitation is governed by the relation of forces between capital and labour, which in turn, is influenced to capital’s benefit by the scale of concentration of capital and to labour’s benefit by increases in inter-capitalist competition.

During the earlier epoch of competitive capitalism, this competition prevents prices from rising and reduces the tendency for the rate of exploitation to rise. The crisis of 1873-96 marked a period of transition from competitive to monopoly capitalism in Great Britain and Western Europe. Now workers can be attacked on two fronts, with nominal wages being reduced and prices raised through restrictions in supply (rather than through cuts in productive capacity and stock levels). Stagnation is thus displaced by ‘stagflation’.

The capitalist state is also the product of these contradictions, which limit its capacity to act in the interests of capital-in-general. Interventions to overcome realization crises by increasing society’s power of consumption may weaken the resolve of workers to sell their labour or accept subordination to the production regime. Deflationary interventions may thus be required to restore the relative bargaining of capital over labour.

Arrighi’s subsequent work in Italy focused on migrant workers from the south “who were brought into the northern industrial regions as scabs, in the 1950s and early 1960s. But from the 1960s, and especially the late 1960s, they were transformed into class-struggle vanguards, which is a typical experience of migrants.” (Arrighi, 2009, 68)
After moving to Binghamton in 1979, Arrighi engaged in critiques of the work of both Immanuel Wallerstein and Robert Brenner, especially the former’s notion that relations of production are determined by their position in a core–periphery structure and the latter’s view that the relations of production determine position in the core–periphery.\footnote{His subsequent research on the migration of Calabrian workers distinguished between three possible paths. First, there was full proletarianization, second, there was Lenin’s ‘American’ route, of small and medium farms, embedded in the market, and third, there was the Swiss route of long-distance migration, followed by investment and retention of property back home.}

In the Postscript to the 1983 second edition of his text, *The Geometry of Imperialism*, Arrighi argued that “the Gramscian concept of hegemony could be more useful than ‘imperialism’ in analysing contemporary dynamics of the inter-state system.” This insight was further developed in the text, *The Long Twentieth Century*, which was published in 1994. Arrighi concedes that the work of Braudel exercised a dominant influence over this book, He nevertheless complains of Braudel that he has no theoretical framework, or rather, that he is “so eclectic that he has innumerable partial theories, the sum of which is no theory”\footnote{His subsequent research on the migration of Calabrian workers distinguished between three possible paths. First, there was full proletarianization, second, there was Lenin’s ‘American’ route, of small and medium farms, embedded in the market, and third, there was the Swiss route of long-distance migration, followed by investment and retention of property back home.} (Arrighi, 2009, 71). According to Arrighi (2009, 71), the crucial distinction between Braudel and his American counterparts is the former’s view that “the system of national states, as it emerged in the sixteenth and seventeenth centuries, was preceded by a system of city-states; and that one has to look for the origins of capitalism there, in the city-states.”

Harvey (Arrighi, 2009, 71) asks whether the major insight of Braudel was the notion that “financial expansion announces the autumn of a particular hegemonic system, and precedes a shift to a new hegemon.” For Arrighi (2009, 71-2) the logic of this process, which he notes Braudel does not supply, is, “that when competition intensifies, investment in the material economy becomes increasingly risky, and therefore the liquidity preference of accumulators is accentuated, which, in turn creates the supply conditions of the financial expansion.” Inter-state competition for mobile capital then “creates the demand conditions for the financial expansion”. Here, Arrighi (2009, 72) draws upon Marx’s idea that the autumn of a particular state, experiencing financial expansion, is also the springtime for another location: “surpluses that accumulate in Venice go to Holland; those that accumulate in Holland then go to Britain; and those that accumulate in Britain go to the United States.”

The key aspect of the dynamic model of financialization that Arrighi (2005a,b) expounds in his two-part essay, “Hegemony Unravelling” are alternating phases of material and financial expansion:

In phases of material expansion money capital (M) sets in motion an increasing mass of commodities (C), including commoditized labor power and gifts of nature; and in phases of financial expansion an expanded mass of money capital (M') sets itself free from its commodity form and accumulation proceeds through financial deals (as in Marx's abridged formula MM'). Taken together, the two epochs or phases constitute what I have called a systemic cycle of accumulation (MCM') (Arrighi, 2005b, 3).

Recapitulating the analysis of earlier works, Arrighi (2005b) identifies four major cycles: the Genoese-Iberian cycle, stretching from the fifteenth through the early seventeenth centuries; a Dutch cycle, stretching from the late sixteenth through the late eighteenth centuries; a British cycle, stretching from
the mid eighteenth through the early twentieth centuries; and a US cycle, stretching from the late
nineteenth through the current phase of financial expansion.

Arrighi (2005b, 4) argues that, during the phase of financial expansion, the accumulation of surplus
capital in liquid form had three main effects:

First, it transformed surplus capital embodied in landscapes, infrastructures, and means of
trade and production into an expanding supply of money and credit. Second, it deprived
governments and populations of the revenues that they previously derived from the trade and
production that were no longer undertaken because unprofitable or too risky. Finally, and
largely as a corollary of the first two effects, it created highly profitable market niches for
financial intermediaries capable of channeling the expanding supply of liquidity into the hands
either of governments and populations in financial straits, or of public and private
entrepreneurs intent in opening up new avenues of profit-making in trade and production.

In the case of transition from Dutch to British hegemony, “…the plunder of India enabled Britain to
buy back the national debt from the Dutch and to start the Napoleonic Wars nearly free from foreign
debt”. Arrighi observes that this imperial conquest “facilitated the six-fold increase in British public
expenditure in 1792-1815”, which played a decisive role in shaping the capital-goods phase of the
industrial revolution. Moreover, “it initiated the process of conquest of a territorial empire in South
Asia that became the principal pillar of Britain's global power (Arrighi, 2005b, 12; citing Arrighi &

During the war Britain did continue to function as the banker and loan-raiser on the world's
credit markets, not just for itself, but also by guaranteeing loans to Russia, Italy and France.
This looked like a repetition of Britain's eighteenth-century role as "banker of the coalition.”
There was nonetheless one critical difference: the huge trade deficit with the United States,
which was supplying billions of dollars' worth of munitions and foodstuffs to the Allies but
required few goods in return. "Neither the transfer of gold nor the sale of Britain's enormous
dollar securities could close this gap; only borrowing on the New York and Chicago money
markets, to pay the American munitions suppliers in dollars, would do the trick." When
Britain's credit approached exhaustion, the US threw its economic and military weight in the
struggle, tilting the balance to its debtors' advantage. Mastery over the European balance of
power had shifted decisively from British to US hands.( Arrighi, 2005b, 14)

In his 1999 work, Chaos and Governance, Arrighi points to the fact that social conflict and financial
expansion can precede one another (as with the late 1960s and early 1970s crises when social conflict
preceded the financial expansion) or can occur simultaneously (as with the first half of the twentieth
century which, he suggests, was precipitated by a period of intense intercapitalist rivalry).

Harvey (Arrighi, 2009, 76) points to a gap in Marx’s analysis of crisis, relating specifically to the
question of how class struggle actually works around the finance–state nexus. Arrighi responds by
observing that, “[t]he relationship between workers’ and subaltern struggles and financialization is
something that changes over time, and has recently developed characteristics that it didn’t have
before.”

Harvey (Arrighi, 2009, 92) commends Arrighi for his “appreciation for the flexibility, adaptability and
fluidity of capitalist development, within the framework of the inter-state system”, all the while
acknowledging that, from the vantage point of his longue durée perspective, “patterns emerge that are
astonishingly clear, almost stark in their determinacy and simplicity”. Arrighi (2009, 93) emphasizes the fact that the analysis of capitalist development must follow the process of hegemonic accumulation from one place, where “the ‘spatial fix’ has become too constraining, and competition is intensifying, to another one, where a new spatial fix of greater scale and scope enables the system to experience another period of material expansion”. Moreover, he highlights the fact that Harvey’s concept of ‘spatial fix’ is dualistic, embracing both “fixity of invested capital, and a fix for the previous contradictions of capitalist accumulation”. In *The Long Twentieth Century* Arrighi called the onset of financialization, 

…the signal crisis of a regime of accumulation, and pointed out that over time—usually it was around half a century—the terminal crisis would follow. For previous hegemons, it was possible to identify both the signal crisis and then the terminal crisis. For the United States, I ventured the hypothesis that the 1970s was the signal crisis; the terminal crisis had not yet come—but it would (Arrighi, 2009, 90).

Arrighi confesses to having erred in thinking, in the early 1990s, that the Belle Epoche of American capitalism was over. In his response to Harvey he now acknowledges that,

..it was Clinton who actually oversaw the Belle Epoque, which then ended with the financial collapse of the 2000s, especially of the Nasdaq. With the bursting of the housing bubble, what we are observing now is, quite clearly, the terminal crisis of us financial centrality and hegemony.

This raises the obvious question of where the next hegemonic power is likely to arise. Arrighi cautiously reasons that,

There are large national—in fact, civilizational—states, like China and India, which are not bigger than the United States in terms of space, but have four or five times its population. So now we are switching to a new pattern: instead of going from one container to another, spatially larger, one, we are going from a container with a low population density to containers with high population densities. Moreover, previously it was a switch from wealthy to wealthy, in terms of countries. Now we are going from very wealthy to what are still basically poor countries—China’s per capita income is still one-twentieth that of the United States (Arrighi, 2009, 93-4).

Accordingly,

If China does emerge, as I think it will, as a new centre of the global economy, its role will be radically different from that of previous hegemons. Not just because of cultural contrasts, rooted as these are in historical–geographical differences; but precisely because the different history and geography of the East Asian region will have an impact on the new structures of the global economy. If China is going to be hegemonic, it’s going to be hegemonic in very different ways to the others. For one thing, military power will be far less important than cultural and economic power—particularly economic power. They have to play the economic card far more than the us ever did, or the British, or the Dutch. (Arrighi, 2009, 89)

In summary, Arrighi views the global financial crisis as a ‘signal crisis’ representing the final period of transition from one hegemonic system of power (headed up by the US) to another (headed up by China). In *The Long Twentieth Century*, Arrighi (1997, 157) attributes financial profit taking to: (a)
over-abundant liquidity seeking financial opportunities for investment; (b) the redistribution of income/wealth; (c) the re-allocation of liquidity to new centres of organization. The capitalist State plays a significant role in this forced redistribution of the wealth and income of other classes, but it does so within an environment dominated by the necessity for transition. The resulting movement, out of less profitable and into more profitable, avenues of production and exchange becomes a key factor in the supersession of financial expansion, insofar as it lays the ground for a new phase of material expansion.

Evaluation and Conclusion
For Arrighi we have seen that the modern capitalist State can dramatically influence economic outcomes through its interventions in the process of income generation and distribution. For one thing, it can overcome realization crises and redistribute wealth to promote a transition from one regime of growth to another. For another, it can even facilitate the full-scale transition from one hegemonic power to another. It is considered to be increasingly impotent, however, Arrighi assumes that the sole remaining cause of current economic crises is the falling rate of profit. Nor, from a Braudelian view, can the state block hegemonic transitions, which thus serve to determine the ultimate ambit and extent of any government interventions.

The empirical determination of the respective weight of realization crises and crises associated with the tendency for the rate of profit to fall within an existing hegemonic power is difficult to achieve. This is primarily because Arrighi applies Marxist categories that depart notably from National Income Accounting conventions (see Shaikh and Tonak, 1994). The notion that the rate of profit might fall due to a rise in the organic composition of capital: one which could only temporarily be offset by a rise in the rate of exploitation, would appear unassailable on strictly theoretical grounds, as confirmed by the debates occasioned by David Laibman’s unsuccessful defence of the Okishio theorem.

Empirical studies suggest that profit rates in the US fell from the late 1960s until the early 1980s before recovering unevenly through to the late 1990s (Alemi and Foley, 1997; Dumenil and Levy, 2005). Shaik and Tonak’s study is revealing but somewhat dated—unfortunately, Simon Mohun’s more recent (2005) ‘improvements’ to their work only go through to 2001. Shaik and Tonak partition their estimates into two major periods. From 1948 to 1980, “…the rate of surplus value rises modestly by almost 22%, the adjusted value composition rises by over 77%, and the adjusted materialized composition rises by over 56%” (p. 124). Thus, the rate of profit falls by almost a third over this period. The second period “…represents the Reagan-Bush era from 1980 to 1989, in which the capitalist class unleashed a systematic assault on worker’s living standards and working conditions” (p. 129). The Marxian rate of profit recovers a mere 7% of its initial (1948) value over this period due to an almost doubling of the growth in the rate of surplus value and a slowing of growth in the value and materialized composition of capital. However, conventional measures of profitability actually decline more rapidly due to a dramatic rise in the ratio of unproductive labour (Table 5.6, pp.115-117). Much of the blame for falls in the rate of profit is attributed to a rising proportion of unproductive relative to productive labour (primarily reflecting an underlying shift in the organizational control of enterprise and growth in public and private sector service activity), although a rising ratio of capital to labour also contributed to the profit downturn. Unfortunately, there is a dearth of empirical evidence on more recent trends that might shine more light on the current crisis.

6 The Wikipedia entry on the Okishio Theorem (http://en.wikipedia.org/wiki/Okishio%27s_theorem) affords a remarkably comprehensive coverage of this debate
In contrast, empirical evidence suggests that Australia is recovering strongly from the current recession due in no small part to current fiscal settings. The following graph plots indexes for government and private sector spending over both the 1991 recession and the current recession for comparative purposes.

![Government and Private Spending during Two Recessions](image)

**Source:** Billy Blog; “GDP is growing but further stimulus is required”; September 2nd, 2009

Despite the modesty of the Rudd Government’s spending (both unemployment and underemployment are rising notably) it seems to have prevented the on-going decline experienced in the seven quarters after the 1991 recession. In particular, private sector investment already seems to be recovering in marked contrast with the 1991 recession. And this despite a very weak comparative growth in net exports over the current recovery.
In conclusion, in the absence of convincing empirical research, it is both dangerous and illegitimate to claim on *a priori* grounds that the current financial crisis solely derives from such falls in the rate of profit, especially when much evidence points to a retreat, on the part of increasingly neo-liberal national governments, from full employment policies. The danger resides in the fact that such pessimistic presumptions undermine struggles for the right to work on the part of progressives in the workers movement in both developing and developed nations. If workers fail in their on-going efforts to win recognition for their rights-to-work it seems obvious that prospects for renewal of any socialist project are even further away from realization.
From Arrighi’s own admissions, it would seem that any distinction between a ‘signal crisis’ and one of lesser dimensions, as determined by the prospects for transition, is surely a distinction that can only be made with the wisdom of hindsight. This must raise suspicions about the virtue of the concept as a theoretical and strategic instrument.


