

Immanuel Wallerstein: Secular Stagnation, or is it worse?

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The world's economists have been wrestling with something they have found difficult to explain. Why is it that stock market prices have continued to go up despite the fact that something called growth seems to be stagnant? In mainstream economic theory, it's not supposed to work that way. If there's no growth, market prices should decline, thereby stimulating growth. And when growth recovers, then market prices go up again.

Those who are faithful to this theorizing say that the anomaly is a momentary aberration. Some even deny it is true. But there are others who consider the anomaly to be an important challenge to the mainstream theorizing. They seek to revise the theorizing to take into account what many are now calling "secular stagnation." The critics include various prominent persons, some of them Nobel Prize laureates. They include such different thinkers as Amartya Sen, Joseph Stiglitz, Paul Krugman, and Stephen Roach.

While each of these persons has a different line of argument, they share some beliefs. They all believe that what the states do has a large impact on what happens. They all believe that the present situation is unhealthy for the economy as a whole and has contributed to a significant increase in the polarization of real income. They all believe that they should try to mobilize public opinion to put pressure on governmental authorities to act in specific ways. And they all believe that, even if the present unhealthy and anomalous situation may

last for some time yet, there do exist appropriate state policies that will make possible a less polarized and unhealthy economy.

In short, and this is my main point here, none of the critics are ready to go further and accept the argument that the capitalist system as such has entered a phase of inevitable decline. This means that there does not exist any governmental policy that will restore capitalism's functioning as a viable system.

Not so long ago, secular stagnation was a term used by many analysts primarily to describe the state of the Japanese economy beginning in the 1990s. But since 2008 the use of the concept has been applied to diverse areas - Eurozone members as Greece, Italy, and Ireland; oil-rich states as Russia, Venezuela, and Brazil; recently the United States as well; and potentially such previously strong economic actors as China and Germany.

One of the problems for those who seek to understand what has been happening is that different analysts use different geographies and different calendars. Some are talking of the situation state by state and some are trying to assess the situation in the world-economy as whole. Some see secular stagnation starting in 2008, others in the 1990s, still others as of the late 1960s, and a few as of even earlier.

Let me propose once again another way of viewing secular stagnation. The capitalist world-economy has existed in parts of the globe since the sixteenth century. I call this the modern world-system. It has steadily expanded geographically, finally encompassing the entire globe since the mid-nineteenth century. It has been a very successful system in terms of its guiding principle, the endless accumulation of capital. That is, seeking to accumulate capital in order to accumulate still more capital.

The modern world-system, like all systems, fluctuates. It also has mechanisms that limit the fluctuations and push the system back to equilibrium. This looks like a cycle of ups and downs. The only problem is that the downs never return to the previous low point, but rather to one somewhat higher. This is because, in the complex institutional pattern, there is resistance to going all the way down. The real shape of the cyclical rhythms is two steps up and one step down. The point of equilibrium is therefore moving. In addition to the cyclical rhythms, there are secular trends.

If one measures the abscissa of the trends, they move toward an asymptote of 100%, which of course they cannot cross. Somewhat before that point (say, about 80%), the curves begin to fluctuate wildly. This is the sign that we have moved into the structural crisis of the system. It bifurcates, meaning that there are two different, almost opposite, ways to choose the successor system(s). The only thing that is not possible is to make the present system operate in its previously normal fashion.

Whereas before that point, great efforts to transform the system resulted in little change, now the opposite is true. Every small effort to change the system has great impact. It is my argument that the modern world-system entered into this structural crisis circa 1970 and will remain in it for another 20-40 years. If we wish to assess useful action, we need to bear in mind two different temporalities, the short term (at most three years) and the middle term.

In the short term, what we can do is minimize the pain of those most negatively affected by the increasing income polarization that is occurring. Real people live in the short term and need some immediate relief. Such relief, however, will not change the system. Change can come in the middle run as those favoring one or another kind of successor system obtain sufficient strength to tilt the bifurcation in their direction.

Here is the danger of not going far enough in critical analyses of the system. Only if one sees clearly that there is no way out of persistent stagnation can one in fact become strong enough to win the moral and political struggle. One prong of the fork stands for the replacement of capitalism by another system that will be as bad or even worse, retaining the crucial features of hierarchy, exploitation, and polarization. The other prong stands for a new system that is relatively egalitarian and relatively democratic.

In the years to come, there may be upturns that seem to indicate that the system is functioning again. Even the level of employment in the system as a whole, the key measure of the state of the system, may rise. But such a rise cannot last long because the global situation is too chaotic. And the chaos paralyzes the readiness of both powerful entrepreneurs and simple persons to expend their remaining capital in ways that will risk loss and therefore their survival.

We are in for a wild ride and a very unpleasant one. If we are to behave sensibly, clarity of analysis is the first requirement, followed by moral choice, and political judgment. The bottom line is that we are way past the point in which there is any way that capitalism as a historical system can survive.