Paul Mattick with John Clegg and Aaron Benanav: The Economic Crisis in Fact and Fiction

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Paul Mattick's most recent book, *Business as Usual: The Economic Crisis and the Future of Capitalism*, was just published by Reaktion Books. In late April, he sat down with John Clegg and Aaron Benanav of the journal *Endnotes*.

Rail: Recent reports suggest that the economy is growing again. The unemployment rate is stabilizing, or even declining, and the Dow is trending upwards. So was the crisis really that deep? What makes you think that we haven't already seen the end of it?

Paul Mattick: Quite a few things. One is the ongoing difficulties in the world as a whole with regard to state finances and unemployment. It is a mistake to look simply at the United States. This is a global problem. There has been a parade of fiscal crises in Europe: in Portugal and to a certain extent Spain. The attempt to master the crisis has led to deepening depression-conditions in England and Greece. It has even reached China, where apparently high growth rates are leading to seemingly problematic rates of inflation—exactly like the pseudo-growth of the 1970s, which generated high inflation rates in the west. Even with respect to the United States, and I wouldn't be so impressed by measures such as employment going up and down. To a certain extent, this reflects the fact that people are dropping out of the labor force. There are of course minute changes from month to month in the number of people who get jobs, but overall conditions remain extremely poor.

It's also worth remembering that the GDP growth rate is an artificial construction. For example, since economic theory assumes that everyone who receives money is being paid for some service or good that has been produced, whenever someone from Goldman Sachs gets a bonus, that appears as part of the growth figures. If you give Lloyd Blankfein a $35 million bonus, it's assumed that he has performed $35 million worth of services. The truth is that the growth rates are increasingly a measure of activity in the financial sector, so even today, all this remains completely imaginary. It's nice if a person here or there gets a job, but the truth is the city of Detroit is still 25 percent smaller than it was ten years ago. The unemployment rate in Tampa, Florida—which I happened to read about today—even if it is one percent lower than it was last month, is still 11 percent. All over the world unemployment rates remain high. There is very little lending from banks, very little investment, and very little actual economic growth.

Rail: You spoke about this being a world crisis. Could say a little more about the major state responses to the crisis? How coordinated were those responses at a global level? Were there differences in the way that the crisis was handled between the US, Europe and East Asia, or between rich and poor countries?

Mattick: I don't think the responses are very coordinated. As always in a period of crisis, there is an increase in competition: the different regions jockey to do the best they can for their national capitals. In the United States there was a small attempt at stimulus. It largely took the form of trying to preserve the financial structure, which is important not just in the United States but for the world economy. In Germany, they sat back and hoped that they would be able to export capital goods to other countries, while in the weaker economies of Europe, there were very serious collapses. The governments of Ireland, Spain, Portugal and Greece are now trying to safeguard the positions of local financial operators, to bail out the bond holders, to bail out the banks and to force local populations to bear the brunt of it. So the Euro bloc has become weaker as the better off countries, especially Germany and to a lesser extent France, find themselves having to pay for the collapsing situation in the weaker countries. In China, again, there is a different situation, because China doesn't have a normal capital market. The Chinese government controls internal finance and created an enormous amount of debt in order to stimulate the Chinese economy, which is now running into serious problems. They've spent two years building empty cities and financing real estate bubbles. Now they seem to be reaching the limit of this, which people are very afraid of, both in China and in the rest of the world.

So each part of the world deals with the crisis on a different basis. If you have a lot of oil, like Qatar or Saudi Arabia, then you can sell it to the West and have a lot of money to play with. You can spend $36 billion trying to lower the level of protest in your cities. But if you don't have any money, like Egypt, then you have to deal with a restless population. You are dependent on the richer countries propping you up.

Rail: Turning to the explanation of the crisis, we've often heard that the crisis was a matter of financial deregulation, but an alternative explanation common focuses on global trade imbalances between the US and China. To what extent are these imbalances responsible for financial bubbles, and can they be corrected?

Mattick: Well, there are of course trade imbalances, but the question is, why are there imbalances? Production facilities have tended to move from high-wage areas to low-wage areas. For example, the United States moved production from the northern and middle-western states to the south, then to South America and Asia. Rather than investing in new machinery, companies are trying to increase profit rates by lower the cost of labor power globally. In China, a large percentage of production occurs in facilities that are the result of foreign investment. So there is a Chinese economy, but the Chinese export-economy mostly just assembles goods that are produced elsewhere. Europe, the United States and certain countries in Asia, like Japan or Taiwan, are moving production to China, where extremely low-wage workers put together stuff that is then shipped to the rest of the world. So to an extent the appearance of a shift of production to China is an illusion. These are Western companies hiring Chinese workers—and paying a portion of the proceeds to the Chinese bureaucracy, so they'll provide the production facilities and police the labor force. These factories remain dependent on Western investment and Western consumers. This is simply part of the attempt to lower labor costs in the West.

Rail: Internet econo-blogger Tyler Cowen recently wrote a book claiming that the US economy has been stagnant for the last forty years. He blames this stagnation on the exhaustion of existing technologies: "We have failed to recognize that we are at a technological plateau." Would you agree with this explanation?

Mattick: No. You could say that the Western economy—not just in the United States but in Western Europe also—entered into a period of crisis in the mid-1970s. So for forty years there has been, not exactly stagnation, but very low levels of growth compared to the period right after the Second World War. Of course, there has been a lower level of technological development in this period than there was in the past. But this is largely due to the fact that there has been less money to invest. You could say if they had gigantic quantities of money available, companies today could probably develop solar power. After all, they have to find some substitute for fossil fuels. They say that it's too expensive—but it's too expensive because there isn't sufficient capital to invest in the production of new forms of energy. To say that it's too expensive is simply another way of saying that capital is not generating quantities of profit sufficient for developing new technologies. The problem isn't that there aren't enough scientists in the world, or enough mathematicians or solar workers. The problem is that they don't have enough money. That also explains why, even with the existing technology, they're not able to employ millions of people in Asia, Africa and Latin America. There simply is not enough money to continue at the given scale of investment. So it's easy to blame this on a kind of failure of science, but that's not the problem. The engineers are there, the science is there. The problem is that nobody has the money to invest in it, and that is a failure of capitalism to generate enough profit to continue its expansion.

Rail: But how much truth is there in this idea of stagnation, more generally? Wasn't there a recovery in the 1980s? To what extent is the crisis today related to the crisis of the 1970s?

Mattick: I think this is the crisis of the 1970s. What you had from the 1980s onwards was various kinds of speculative bubbles. There was a certain amount of gain—gains made by moving the labor force to low wage areas. But since labor is only a small part of the productive system at the present time, there has been a low rate of profit and little technological development. So, beginning in the mid-1970s, there has been a steady shift away from investment in production and into investment in speculation, the buying and selling of companies, mergers and acquisitions, finance, etc. Much of what was called globalization in the 1990s was simply the buying and selling of stocks in various parts of the world. You can even see this in the vocabulary. As I point out in my book, what used to be called developing nations are now called developing markets—but the markets they have in mind are stock markets and real estate markets. There has been a general flow of money from investment in production to investment in finance. From the mid-1970s on—as Professor Robert Brenner of UCLA points out—there has been a decline in levels of investment decade by decade, and a decline in profitability, and this is simply another way of describing a situation of stagnation.

What's going on now is the reappearance of the crisis that should have happened in the mid-1970s. The key idea in my book is that this crisis was put off by the creation of debt in all these forms: private debt, public debt, government debt. This was a historical novelty. There was a Keynesian idea during World War II that you could borrow money and then stop. But after the war, they were so afraid there would be a new crisis that they started to maintain, at all times, some low level of government spending. When the Golden Age ended in 1975, they got scared. There was an enormous outpouring of credit—and the invention of new credit instruments. And they managed in one way or another to put off the crisis for forty years. But there was a limit.

Finally it came in 2008—they just couldn't keep the whole thing going any more. The apparatus of debt had been erected on a foundation of IOUs, which became so great that it couldn't be sustained with respect to the actual production of value. I think this is a major event. I might be wrong—economics is not an exact science—but I think this is a deep depression. Some might compare it to the depression of the 1930s, but governments today don't have the money they had in 1930. There is no repetition in history—that's why you can't learn from the past—so this is an absolutely unique situation: a major depression, but one in which the Keynesian apparatus is no longer available because the money has already been spent. The US has 14 trillion dollars in national debt. So now they just don't know what to do.

Rail: Could you tell us what actually explains the long-term decline in the world economy since the 1970s?

That's very complicated and contentious. Unfortunately, I believe that economics is a field in which the theories are mostly fake. Economics is more like a religion than a science. I think there is really only one explanation of the long term development of the capitalist system which seems to make sense, and which describes what has actually happened. This is the theory Karl Marx outlined *Capital*, which was published in the 19th century. This is a strange fact because today, for example in physics, no one would say we still have to read Newton. But the truth is that in the analysis of capitalism we have not advanced very far beyond Marx.

Basically Marx's idea is that capitalism, like every society, is an organization of the human production process, which means that people work on their natural environment and transform it into forms that they can consume. Human beings are peculiar in that this process is culturally rather than biologically determined. In our culture today, social reproduction is dependent on the fact that access to natural resources is controlled by a small group of people, through the medium of money. Which means that the people who actually control the production process are interested not in production per se, but in an increase in their social control, which we call the making of profits. Goods are only produced if they can be produced in such a way that the owners of the production process—of capital—are able to make a profit. But since the human labor involved in the production process is the only source of the increase in social wealth, and since, under capitalist conditions, the attempt of owners of industry to compete with each other leads to a displacement of labor by machinery, this leads—in a way which is very hard to explain in a few minutes—to a decline in the rate of profitability. Marx thought that the cure for this tendency would be the recurrent phenomena of depressions. In a depression, capital investments are devalued, which allows the labor performed using the existing means of production to count for more. So depressions should lead to periods of prosperity. Roughly that seems to be what has happened in the history of capitalism. There has been a tendency for periods of prosperity to lead to depressions, and periods of depression to lead to renewed prosperity. This process has been going on, more or less, since the beginning of the nineteenth century. We are now in a renewed period of depression, due to the large expansion of capital that took place after the Second World War.

This is an almost meaningless description of an extremely complicated phenomenon, but the truth is there is no simple way to talk about it. It's a very complex system, and it has to be analyzed in rather abstract terms. But as far as I can see, the history of capitalism as a system has pretty well confirmed Marx's analysis, even though he made it very close to the beginning of capitalism. And I see no reason therefore to not accept that analysis as the explanation of what's going on today.

Rail: But hasn't economics made some advances since the 19th century? If not in contemporary academic economics departments, then at least through the great economists of the past hundred years, like Friedrich Hayek, Joseph Schumpeter, or John Maynard Keynes. Haven't they added something?

Mattick: Friedrich Hayek has a mathematically sophisticated version of the mid-18th century theory of the economy, which was somewhat inaccurate then and even more inaccurate now. The one figure who made some progress is Keynes, who understood that the economics he had learned in college was inadequate to explain the events of his own lifetime, particularly the Great Depression. He could see that the theory that people like Hayek still believed—that capitalism is a system which fully utilizes all natural and human resources—was nonsense. Not only had there been crisis after crisis in the 19th century. There was now a crisis in the 20th century that was very serious. So he could see that capitalism is unable to utilize fully the resources that nature and human beings put at the behest of the economy. Keynes was driven back to a version of theories from the early-19th century, when people questioned—in response to the development of capitalist crises of the beginning of that century—the dogma that capitalism was a completely rational, welfare-maximizing system. Keynes had the idea that if the capitalists were unable or unwilling, for various psychological reasons, to utilize their social resources to create full employment (and thus the full use of natural and human resources), then the government should step in and borrow resources to do so. By the time Keynes had this idea, governments had already been doing this: Hitler in Germany and Roosevelt in the United States. But the falsity of Keynes's analysis of the situation was shown after the Second World War, when it turned out that even during the ensuing period of prosperity, it was impossible for capitalist governments to cease to prop up the economy. The capitalist economy was not able to create a real prosperity on its own basis. It was still dependent on the government for additional finance. So the whole idea—that capitalism was naturally efficient but that under certain conditions inefficient, that in those moments the government could prime the pump, get the system going, and then withdraw—turned out not to be true. Thus Keynes's theory was already recognized by the 1970s to be a failure, which accounts for the disappearance of Keynesianism in academic economics and the rise of various anti-Keynesian economic theories—and even this von Miesean return to a primitive belief in the trucking and bartering of goods as the foundation of social peace.

Rail: Speaking of Keynes, your father (Paul Mattick) wrote something of underground classic on the subject—Marx and Keynes—in 1962. To what extent did you rely on your father's work when writing Business as Usual? On the surface, at least, we noted a stylistic difference between these two books. Does that indicate any difference of method?

Mattick: No, I would say not. And actually I would say that my father was very much a pupil of an earlier Marxist theorist, Henryk Grossman, who in one sentence of his great book *The Law of Accumulation and Breakdown of the Capitalist System* already had the entire content of *Marx and Keynes*. Grossman pointed out that, since the government is not an economic actor—it does not own economic resources—government involvement in the economy can only be at the expense of the private economy. It cannot be profit-creating and therefore cannot solve the problems of capitalist profitability. What was important about my father's book is that it was a kind of thought experiment. The book was written in the late 1950s, although no one was willing to publish it. Everyone believed then that Keynesian methods had put an end to the business cycle, that the economy could now be controlled or even fine-tuned by government interventions. So my father said, let's assume that Marx's analysis is correct—what does that imply for the future of Keynesian methods? And he predicted more or less what happened: that Keynesianism would be unable to prevent a return of the business cycle—and even that the next depression would take the new form of a combination of inflation and stagnation. So you could say that it was one of the few examples in the history of social science in which there was an experiment, in which somebody said: okay, here's this thing that people are doing all over the world—will it work? If this theory's correct, then it can't work. It didn't work, so he was right. But actually I would say the credit doesn't belong to my father. It belongs to Mr. Marx. It was simply an attempt to say that if Marx was right, then Keynes must be wrong. And it turned out that Marx was right and Keynes was wrong. But this was something that no one was willing to recognize. So this book is completely unread, completely unmentioned, completely unnoticed. But from a scientific point of view it's an interesting phenomenon—that someone was able to make a prediction in social science that turned out to be correct. The fact that it has been ignored shows that, as a friend of mine once said, social science is mostly social and not very much science.

Rail: Contemporary left-economists, often relying on Keynes, have criticized recent austerity measures as detrimental to the recovery effort. Yet you argue that reductions in deficit-spending, with all their consequences for living standards, would be a necessary element of any real recovery on a capitalist basis. What would you say, then, to the workers who occupied the capitol building in Wisconsin? Are they acting in vain, or even against their own interests, if they want to retain their jobs?

Mattick: I would say that they are acting in their own interests insofar as what they are really fighting for is not the economy, but their pensions, their food, their living standards, their rent, etc. They are under an illusion if they think that their welfare is concordant with the welfare of the economy. People have to learn that the welfare of the economy, in a moment like this, is in contradiction to their own welfare. In Wisconsin, workers apparently went along with their unions, who were willing to sacrifice their members' living conditions in order to prop up the Wisconsin economy. A more rational point-of-view on the part of Wisconsin workers would be to say, to hell with the Wisconsin economy!—we want food, we want boats to go sailing on the lake, we want pensions, and we want nice schools for our children. The truth is there is now a real conflict between the interests of ordinary people, so-called—that's to say the working class—and the interests of the capitalist economy. The preservation and future prosperity of capitalism demands the impoverishment of the population, and if they prefer to be impoverished to save capitalism, well then, they will be impoverished. The instinctual desire not to be impoverished seems to me a intelligent one, but the problem is that they don't yet understand that capitalism is not going give them back their pensions and their wages.

Rail: Does that mean that it's simply impossible to fight against cuts?

Mattick: I think that anti-austerity struggles have to become more radical. They have to concentrate on immediate material goods. For example, there are now millions of people who have been thrown out of their houses. There are a lot of empty houses, so people have to begin moving into those houses. There is a lot of food, so people have to take the food. If factories have closed, people need to go into the factories and start producing goods. But they cannot expect that employers are going to give them jobs. If they could be employed profitably, they already would be, as I say in the book. And they can't expect the government to give them jobs. The government doesn't have any money. But that doesn't mean there aren't important ways to fight austerity. This is still a rich country. There's all sorts of stuff around. People have to begin to take the stuff that's there. They have to demand the immediate improvement in their living conditions—very concrete things. So instead of asking for work, which they cannot get, they should just ask for food. A very intelligent move would be to say, OK, you can't give us jobs—then just feed us, feed us for nothing. It's not like there's no food.

Rail: Your book ends on a somber note—the vision of a coming catastrophe at once economic and ecological. We were hoping for a little more optimism from someone who believes, as you've said in another article, that another world is possible. Is this just an empty gesture or phrase? What is that other world, what does it look like, and what can people do to make it a reality?

Mattick: Well that’s what is so frustrating because it’s so obvious. We have this enormous productive apparatus. We have a world full of buildings, offices, schools, factories, farms, and technology. And there is absolutely no reason why people shouldn’t simply take that stuff and start using it. What holds them back is that, on the one hand, it doesn’t occur to them that they can do it and, on the other hand, that the police, the army—an enormous apparatus—prevents them from doing it. The way people are raised makes it very hard for them to think that you can just take this over, that this belongs to you. It’s funny—I was reading an article written in 1831 by the French revolutionary Blanqui with the wonderful title: “The man who makes the soup deserves to eat it.” He says it’s all very simple: if all the owners of capital were to disappear, the world would be exactly the same—you would have the same farms, the same factories—but if all the workers disappeared, then everyone would starve to death. We have not advanced one bit beyond that point of view. The problem is that people are so used to the existence of capitalism, they’re so used to the idea that you have to work for somebody else, that they don’t see that they can just take it over. What will move people to take that step? I think that it takes a very drastic experience to push people out of their normal mode of behavior.

This is why—although I don’t like catastrophe and personally I’m terrified by it like everybody else—you can see that there is a positive side, too. Let’s take a very present-day experience. People in Egypt have lived in tremendous poverty for a long time. But in the last year, the price of food went up by something like eighty percent. It just was too much. There was an enormous uprising. They got rid of Mr. Mubarak and his sons, and now they have General Tantawi—the army officers call him Mubarak’s poodle—Mr. Tantawi is running the country. So instead of Mubarak, his poodle is running the country. Nothing has changed. They’re in exactly the same position. Now they find—oh my God, it’s bigger. People think, OK, well, the next step would be to fight the army, but that’s a more serious problem. As long as the army was not willing to shoot you, you could get rid of one or two people. Now, how are you going to fight the army? You would have to have enormous strike movements and it would be very bloody, so you can see why people are scared.

However, it’s not impossible. The coming catastrophes are going to be gigantic—I read recently that the Indians are now building a wall between India and Bangladesh. They know that 100 million people are going to try to get into India just to live because of floods due to global warming and rising sea levels. So they are preparing to kill 100 million people. The American government is preparing militarily to prevent Mexicans from storming into the United States, as people starve in Mexico. So this is what the future holds. The existing situation is poised on an edge of catastrophe, which might take fifty years to unfold. At some point, people will have to deal with it. I don’t know if that’s optimism.

When I was younger, it seemed like it was about to happen: people in the streets, freedom, socialism—but it turns out that the human race is sluggish. The task is also scary. The army is big. Society is hard to understand, and no one really knows what’s going on. And it’s millions of people, and there’s religion, and there’s parents. I walk down the street, and I think, it’s just insane—don’t people know what’s happening? In 75 years this whole area is going to be under water, and they’re worrying about what kind of jeans they want to buy! It’s hard to imagine that what you experience right now is not going to be there in twenty years. During the First World War, it took until 1916 before the big demonstrations began in the cities of Germany. And it took another two years before people finally said, we’re not going to fight anymore. And that was rather mild—the First World War was nothing compared to the Second, and that was nothing compared to what’s coming now. Nearly 60 million died in the Second World War. Now we’re talking about hundreds of millions starving to death and drowning. So that’s why I’m not chipper about it. Socialism or barbarism, as Luxembourg said. Those are our two alternatives.