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Economy

Behind the Economic Turbulence

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Suzi Weissman interviewed Robert Brenner on February 10, 2019, for her "Beneath the Surface" broadcast on KPFK in Los Angeles, released on her Jacobin Radio podcast on February 12. The transcript has been edited for publication here.

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Suzi Weissman: Welcome to Jacobin Radio. Today we're going to talk about the state of the economy. I've invited Robert Brenner back for the hour in conversation on politics and the economy, matters of great confusion if you read the business pages and hear the politicians all touting record low unemployment, rising wages, and the recovery of the stock market.

Yet the Federal Reserve has stopped raising interest rates, wages are stagnant, precarity and insecurity are the norm and teachers are striking to force states to stop under-investing and save public education.

So, what's the real story? Let's just start with the stock market. To say that there's extreme volatility is a huge understatement, and at the same time, Fed policy on interest rates is itself very volatile. So what is going on?

Robert Brenner: It's not really a very pretty story. From the time of the Great Recession of 2008-9 to today, the Fed has maintained a policy of super-low interest rates in fact, zero or below zero interest rates. If you take into account price increases, the real interest rate has been zero or below for much of the time.

Low interest rates were the government's main tool to restore order in the markets, and to stabilize the economy in the wake of the financial markets' crash and the economic slowdown.

In the past, it was common sense to get increased demand directly, through deficit spending, by way of big masses of government spending. But we are in a new era when this is no longer politically in the cards.

With the same goal of stability, the Fed carried out so-called "quantitative easing," which called for the Fed to buy up huge masses of financial assets with the aim of keeping up their prices, and indirectly keeping down the cost of borrowing.

The result was to create a truly insane asset price bubble asset price bubbles arose, in fact, everywhere, from artworks to raw materials, to houses, and above all in the stock market. I think everybody knows this because it's been on the front pages for almost a decade now.

The S&P composite index rose from around 1000 in 2009, at its bottom in the wake of the crash, to close to 2900 at the peak last December, almost tripling in that interval.

The result was to turn just about anyone who could afford to invest in stocks into a successful investor, a financial genius. They borrowed at ridiculously low rates, guaranteed by the Fed, and they kept their money in the market as it went up and up. People in this audience probably know some people like that; too few of them actually are people like that.

But after almost a decade of this policy, which was designed to make the rich richer, whatever else it did, the excuse

of stabilizing the economy was wearing pretty thin especially because the government and the business press were announcing ever more stridently that the official unemployment rate had fallen to record lows, and the economy was experiencing full, even over-full employment.

If that were the case, it was agreed, there would soon be runaway wage growth and, in turn, uncontrollable price rises. Up to this point, wage stagnation in the face of full employment appeared as a mysterious paradox. So the Fed felt enormous pressure to return to normal in order to head off wage-driven inflation before it got out of control.

Rising and Falling

So the Fed began the slow but steady rise in interest rates. At the same time, it began to reverse its quantitative easing policy, selling off rather than buying Fed assets, again pushing down the prices of financial assets which meant pushing down the stock market rather than driving it up.

In the month of December 2018, after the Fed had told everyone it was continuing with this policy, stock prices fell the greatest of any month in memory, if not in history. As the month progressed, one-day falls became ever huger, and it looked like a total collapse was going to happen.

Would the Fed keep up its policy of slow but steady monetary tightening? This was the question everyone was asking. In the end, the Fed lost its nerve, discontinued its policy of slowly raising interest rates and selling off financial assets. Voila! There was another about-face, and the stock market has already come pretty close to having made up for its recent swoon.

SW: How is it possible? Everybody who was watching in December was thinking that this was going to be another 2007-8 free fall of the stock market and the economy. How could conditions change so much in one month's time to explain first this new bust, and what now people are touting as a new boom?

RB: I think there are really two closely related things going on here. In the first place, the Fed and many others have believed that the economy is much stronger than it actually is.

In particular, the Fed and others in the government believe that they see in front of them a tight labor market. With the official unemployment rate so very low, they've thought that runaway wage growth and runaway inflation are about to break out. They conclude that they have to raise interest rates to cut off this development before it starts.

But in fact the job market is really much weaker than is widely thought. As a result, when the Fed persists in raising interest rates in the face of what is really a weak economy, it threatens to cause a crash and a recession.

That's what we've seen recently: The Fed persists in tightening, the stock market goes down, and the economy is suddenly in deep trouble, as you would see if you read the Financial Times every day.

In the second place, and relatedly, the Fed and others believe that the record run-up of the stock market is ultimately based on a strong real economy. But in fact, the real economy has been unbelievably feeble across the board the main trends in the economy have been historically, unprecedentedly bad.

The stock market rise is not based on strong fundamentals; its foundation is instead just the Fed's ultra-low interest

rates. So when the Fed raises interest rates, as it just did, it tanks the stock market and in turn destroys what little growth the real economy has been capable of providing.

In short, the stock market needs the same artificial policy of "bubblenomics" that was introduced by Alan Greenspan in the 1980s, continued by his successor Ben Bernanke, and continues today under Jerome Powell.

A Closer Look at Employment

What about the labor market? No one can deny the fact that we've seen job creation month after month. This has brought us to full employment, at least according to the figures of the government, and supposedly a great economy. But what is the actual evidence, the actual state of jobs and the labor market?

The unemployment rate, according to the Labor Department and the Fed, is now under four percent, which truly would be super low if the unemployment rate measured by the government today meant the same thing as that rate did in the past. A below-four-percent rate would have indicated a super strong economy, a super tight labor market, and we would indeed have expected very fast rising wages and accelerating inflation.

But what's the reality? The official unemployment rate, as people might know, measures the percentage of the labor force who are unemployed but as measured by the government, the labor force itself only includes people who either have jobs or are looking for work.

The key point is that it does NOT include people who have stopped looking for work because they have become discouraged and thus dropped out of the labor force. In dropping out of the labor force, they cease to be counted as unemployed.

The labor force participation rate the proportion of the total population ages 18 to 64 who are employed or looking for work fell sharply at the time when the crisis hit, and is still far from returning to its level then, of 2007.

Put another way, the employed proportion of the actual population capable of working is still a long way from reaching its level before the crash. That percentage was about 63% in 2007, but even now, after so many months of adding labor, it is still between 2-3% below that level. So this is hardly full employment, even if it looks like it.

The bottom line is that there's nothing paradoxical about stagnant wages. The demand for jobs has still to come back to what it was in relation to supply of jobs. The labor market is still not all that tight, so wage pressure is not all that high.

In addition, equally important and this is a very big deal you can't just look at the numbers hired, the numbers who have been employed, but what sort of jobs they are getting. And if you have an audience, as we probably do, which has been going through this labor market over the last decade, they're having to take much worse jobs than they had before the crisis hit.

That each worker's job pays less than their previous one makes it even more understandable that there's no reason to expect runaway wage gains and runaway inflation.

In following a traditional policy of raising rates to respond to what it believes to be strong labor market, the Fed has

been operating under quite a false assumption. It should be no surprise that it eventually disrupts both the financial markets and underlying economy.

Economy and the 2016 Election

SW: Trump is claiming of course that "the state of the economy is strong," but the Democrats don't disagree. They simply deny that Trump is responsible for it. Democrats and Republicans are both trying to take credit. Are they both wrong?

RB: This is really a crucial point, not just economically but politically. These claims of a strong economy are, and should be, wearing quite thin. After all, what happened in 2016?

Trump's rightwing advisors, Bannon and Mercer, understood that the economy was weak, that people were not finding work or were landing crappy jobs. This provided the starting point, in fact the ultimate basis, for Trump's so-called populist presidential campaign and for his victory.

I won't belabor this I've talked about it on your show still, I can't resist shouting out the fact that the economy has been getting weaker for close to a half a century, outside of the bubbles when it was driven artificially by the great stock market run-up of the 1990s and the equally ill-fated housing price run-up between 2002 and 2007.

First: Wages, as most of us know by now, aren't a lot higher than they were at the end of the 1970s. We've had a whole generation experiencing wage stagnation and since the Great Recession, it's been even worse.

Second: What about capital accumulation, meaning investment, the driving force of the capitalist economy? The period roughly between the end of World War II to about 1973 is known as the postwar boom, and was indeed a highly expansionary period across the board. But that expansion ended in the 1970s.

Since the '70s, the growth of plant and equipment in the private sector has fallen steadily, decade by decade, business cycle by business cycle, and hit rock bottom in the period since the Great Recession. By the 1990s the growth of plant and equipment had already dropped to half of what it was during the postwar boom.

Third: Most telling of all is labor productivity, which economists focus on for good reason because it gives us the best measure of how much people can afford, given what their costs of production are. High labor productivity allows for a correspondingly higher surplus available to invest.

Amazingly, since the 1970s growth in labor productivity has been the lowest it's been in a century. Comparing labor productivity growth from the 1970s until today, we find it is significantly lower than the 1920-1948 period, which included the Great Depression.

Another way to look at this is that in the period between 1973 and the present, the growth of labor productivity has stagnated at about 1.5% per year, leaving out the bubble years of 1995-2007.

Stock Prices and Stagnant Profits

SW: How do we account for a runaway stock market, if the labor market is not tight and the real economy has been weak?

RB: It's completely in keeping with all the other things we've seen about the economy. Looking at the non-financial sector because the financial sector is not a very good sector to understand profit-making directly in the private sector minus finance, profits have been pretty much flat over the last 4-5 years, and in fact going all the way back to 2012.

In 2012, profits outside the financial sector hit \$1.5 trillion, and by 2017 were only around \$1.6 trillion. They've been fluctuating in that range throughout the intervening period. So there has been barely any increase. Profits have stagnated while stock prices have skyrocketed, with the consequence that stock prices have completely lost touch with the underlying values of the corporations they represent.

Robert Schiller, the famous economist, has shown in his calculations that the ratio between prices and profits is higher today than it has been at any other point in recorded history, except for two interesting years 1929, the year of the great stock market crash that led into the Great Depression, and 1999-2000, which led immediately in to the famous high tech crash of 2000-2001.

What is making the stock market soar, and the rich super-rich, is the Fed's stimulative policy of bubbleonomics: low interest rate and buying up financial assets which we call quantitative easing. But it hasn't succeeded in driving up anything else, especially the productive economy. No wonder that the stock market went into that swoon as soon as the Fed made clear it was serious about tightening monetary policy, then made a recovery when it changed its mind.

SW: How do we account for this bizarrely weak economy, one in which the rich have been making off like bandits? You've often said it's because of insufficient demand, and that insufficient demand is why capitalists aren't investing and hiring more, why they aren't spending more money, why, in fact, they are still hoarding money. To speak to this question of insufficient demand, you've argued that the answer is the problem of overcapacity on a world scale.

RB: I'll start with the weakness, and try to move to this pretty weird economy that has now emerged. There's been ever-intensifying competition on a world scale, going from Germany, Japan and the East Asian Newly Industrializing countries (NICs), the East Asian Tigers, and above all this giant of China.

Each new wave of manufacturers is producing ever more cheaply than those that came before, because each in turn has an ever lower-priced labor force but also can imitate the technology of its predecessors. So what's overtaken not just the U.S. economy, but the world economy, is that manufacturing output is growing everywhere, but without reference to the market.

This has meant that everywhere it has become ever more difficult to invest in new plant and equipment, hire labor, and sell on the world market and actually make a profit in so doing. That is not a development that was just confined to the United States and to Europe and Japan, but has overtaken China itself, which is suffering from the same difficulty of overinvestment leading to over-capacity.

The fall in the rate of profit is the link between over-capacity and falling or insufficient demand. With low profitability, companies have smaller surpluses to invest, and less motivation to do so. They have to get their costs down in order to remain competitive, so they put downward pressure on wages. The government helps by reducing government services, so that corporate taxes can be reduced.

So you have a combination of lower demand for investment goods (plant and equipment), for consumer goods, and for government services a problem of falling demand in the aggregate, the immediate cause of the economic slowdown.

Equally to the point, companies come to see, over time, that even if it looks like they can make a profit in the short run, taking account of how things have evolved in the world economy during recent decades, they are likely to come up short in the longer run, because a new set of lower cost producers will come on line and prevent them from realizing their investments.

American policymakers first came up against this problem in the 1970s, and it hit them in the gut in a way they had never thought could happen. After all, American manufacturing had been the world leader and the world model since the Civil War, and especially since the turn of the 20th century, dominating its competitors right into the middle 1960s.

But then, quite suddenly, you have this process of intensified competition leading to a fall in the rate of profit, and government authorities have no answer. They try, on the one hand, to help the capitalist producers by reducing the exchange rate of the dollar, by reducing the cost of borrowing, and introducing measures of trade protection.

At the same time, they make the standard turn to Keynesian deficit spending. But despite their help both on the so-called "supply side," to lower the cost of production in America, and on the demand side by the end of the 1970s profit rates had fallen significantly further, by a total of 50% in manufacturing.

So by the time we hit 1980, there is demoralization throughout the entire postwar liberal establishment, comprised of both Republicans and Democrats. The so-called neoclassical-Keynesian synthesis had totally failed, and they didn't really know what to do.

What's New About Neoliberalism

SW: You're describing an economy that seems to be at an unprecedented impasse. How does the capitalist class get out of it?

RB: In this unprecedented predicament what you quite properly term an unprecedented impasse government policymakers, politicians, capitalists, and the rich fumbled around for something new.

They did in the end come up with something new that did allow them to transcend the underlying impasse although exactly how this happened is still not entirely clear. Over the course of the 1980s a completely new framework of political economy emerged.

Almost everyone has noticed this, and they've called this new framework "neoliberalism," and I think that's okay. But it is misleading in some fundamental respects.

In the first place, most people talk about austerity, a relentless attack on workers as central to neoliberalism. That's understandable, but there's nothing particularly new or special about austerity and an attack on workers' wages and conditions as a response to falling profitability.

You don't need a new system, neoliberalism, to have that. Every capitalist generation has done that when faced with

falling profits. So austerity has been a central fact of our world, our economy, all through this period, but it doesn't define a new period.

Secondly, much more to the point I think, in talking about neoliberalism, people have talked about the freeing up of the economy from any sort of essential regulation or government control in effect, opening up every possible arena to the intensification of competition.

This is particularly evident when we look at the freeing up of world trade and world investment to international competition. We call it globalization. And this I think is very much worth noting as a new, or relatively new, feature of the period from the late 1970s and early 1980s.

However, there's a real problem with focusing simply on freer markets and increased competition as at the core of neoliberalism. In my opinion, a development even more at the heart of the new framework of political economy goes, in a sense, in the opposite direction of freer markets and more intense competition.

This is the new tendency of the most elite layers of finance, of managers of nonfinancial corporations, and top leadership of the political parties to see to the upward redistribution of wealth to themselves by political means. What's essential here is the opposite of competitiveness: It is access to special privileges that directly yield wealth, thanks to political position or connection.

So we have the forging of an alliance among leading capitalists running corporations, the very rich, and political parties controlling governments, which began with marriages of convenience but soon became an unbreakable chain. It is about dealing with this problem of low returns on investment the difficulty of making profits by putting new plant and equipment together with new workers, and selling the product on the market and making a lot of money.

That difficulty has led to skipping, if you will, that process of earning money as the grandparents of today's capitalists did, by way of productive investment in farms, factories, offices. Instead, what we have is a whole series of new institutions and new policies which make possible the upward redistribution of wealth to the top, the absolute top, layer of the economy.

So, these people don't have to go through the complex and risky processes needed to increase the size of the pie and getting a share of that making profits while paying wages. They can cut to the chase and simply force wealth upward to themselves.

The key here is politics, which allows for upward redistribution of wealth through various political means. What are the ways? We don't have the time here to list them all, but the main channels are very familiar.

First, tax cuts. Every administration, Republican or Democrat, from Carter on has implemented huge cuts in taxation.

The Politics of Financialization

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Secondly, as governments have financed themselves increasingly by way of borrowing, we've seen that rich people are making huge fortunes simply by buying government debt and collecting the interest on it almost a foolproof way

of making money. They buy government debt, and their returns are pretty much certain.

Thirdly, governments have stopped enforcing anti-monopoly legislation, and this has had a particularly "positive" effect in the central segments of today's economy, namely the high tech producers. What you essentially have is a new form of protectionism – the enforcement of so-called intellectual property rights.

Thanks to stronger intellectual property rights, firms are able, for example, to have their innovations protected from competition for much longer than in the past because patents last much longer than used to be the case. It's good to be Apple.

Fourthly, there's privatization, just taking activities that had been carried out by governments – health, education, pension, and so forth – and just handing them over to the capitalists and the rich to make a private profit on them.

Finally – here I'm going to have to foreshorten a long discussion – we have the rise of the financial sector, which is no doubt the main base of the new political economy of upwardly distributing wealth through political means.

Here we have the classic political alliance between political parties and financial firms of all sorts, where the financial firms get privileges from the politicians and parties in government and the financial firms hand over money to the politicians and parties to pay for their political campaigns and make the very top political leaders extremely rich.

So, to put it very schematically, governments deregulate certain financial activities to allow those who first enter to make super-profits, do their best to protect those activities so as to limit competition, and then, when the losses inevitably begin to mount, organize the expected bailouts.

I have to cut very short this story of financialization, but I do want to get to one key aspect of this rise of finance that perfectly exemplifies the new political economy of making money through the politically driven upward redistribution of wealth, and this allows me to connect with a big theme of the first part of our discussion.

This is what we would call "bubblenomics:" the turn of the Federal Reserve to driving up the stock market through keeping interest rates artificially low. Bubblenomics makes for the most rapid creation of "wealth" – of course, it's not really wealth, it's paper – but owners of stock invest in them and ultimately cash them in, and make a fortune so much more rapidly and cleanly than they ever could if they had to go through the whole process of investment in production.

This bubblenomics is at the center of this new upward redistribution of wealth and helps us understand more clearly the Fed's easy money policy that I was discussing earlier.

So how do we assess the payoffs provided by this new economy of politically-driven upward redistribution of wealth? We now have the epochal research by Piketty and Saez who enabled us to get to the heart of the process by researching what they call top income earners.

Their results are now pretty well known, and extraordinarily revealing. During the postwar boom, we actually had decreasing inequality and very limited income going to the top income brackets. For the whole period from the 1940s to the end of the 1970s, the top 1% of earners received 9-10% of total income, no more. But in the short period since 1980, their share, that is the share of the top 1%, has gone up to 25%, while the bottom 80% have made virtually no gains.

Now, hopefully, we can see the big picture. On the one hand, capitalists and the very rich are not investing much or employing many workers. This is not because they wouldn't like to, but, unlike the period of the great postwar boom, they can't do so profitably.

There's limited opportunity to actually get rich by investing in plant and equipment and software and hiring new people the way their grandfathers did. So, it is understandable that we have the lowest levels of investment, the worst productivity performance, and the lowest wage growth, on the one hand, and the stock market run-up on the other.

It could not be clearer, in my opinion, that what's making rich people ever richer and this is the sum of politically sponsored favors secured from the political parties in control of government.

...And Financialization of Politics

SW: So this new economy that we've been living in for decades, as you've just stated, is literally political to its core. The question then is what this means for society as a whole and not just for the 1%?

RB: I think we can clearly see the payoff today of this way of looking at things, and I mean at this very moment. Most strikingly, there has been and quite understandably a loss of interest on the part of the ruling class, the rich, the elites, in any longer securing from governments the things that the state has classically provided for capitalism.

The capitalists classically wanted, and the state has provided, a whole series of services that the capitalists cannot easily provide, and the whole of society, above all the working class, has made sure the capitalists get these: state provision of infrastructure, state support for education, state support for health and welfare.

The capitalist class is not very nice, nor particularly generous, but they need these things if they're going to have a productive economy. And not only the capitalists but also the population benefits from them.

The case of Korea, where these things get provided as a matter of course, is no accident. Korea is one of the few countries that still maintains and depends on a productive economy, featuring manufacturing.

But if the capitalists, the rich, the elites, don't depend any longer on a productive economy if they are not making money, to anything like the extent they once did, on profitable investment in capital and labor then they don't depend on the state to carry out its traditional implementation of these functions.

So what we've seen is that the capitalists, the rich and the leading politicians have been not just neutral, but pushing actively against the state carrying out these functions. This is because they don't want the state to "waste" its money on these functions, for the simple reason that they don't want to pay taxes to finance them.

Throughout the postwar boom, we had quite decent levels of government investment in plant and equipment, fixed assets of all kinds. The construction of the interstate highway system comes immediately to mind. But you also had the impressive growth of public education, including universities.

You even had a massive, if strictly limited, increase in state financed health care, for example through Medicare. Growing government investment made all these things possible.

But starting around 1970, when the international crisis of overinvestment leading to over capacity began to bring down the rate of profit in a big way, that investment by the state began a long process of deceleration. The amount of new investment ceased to keep up with this using up and wearing out of government owned fixed assets.

The age of government plant and equipment, remained, on average at around 14 years through the postwar boom which meant that the state was keeping up new investment fast enough make up for depreciation. But from then on, the age of government capital increased steadily and without cease, and is now, on average, 27 years.

Collapse and Fightback

The collapse of state investment is crumpling before us in every way. It has meant, as people are aware, a deepening crisis in infrastructure. If you go over a bridge, you're likely to fall into a river; trains are not just regularly late, but going off the track.

Infrastructure in high tech, telecommunications in particular, is far behind that in Asia, where the speed of the internet and quality of mobile phones easily exceed our own.

Then there's basic healthcare, which we hardly need to discuss with this audience. Here, where what's pretty much a right throughout the rest of the capitalist countries is still quite controversial for the American elite, including among declared Democratic Party candidates in the coming election.

Perhaps most prominently, there's been the reactionary bipartisan consensus on public education. Thanks to the Clintons, Bush, and Obama long before Trump we've seen a systematically implemented bipartisan disinvestment in public education, the proliferation of charter schools, privatization, and teaching to the test.

In Los Angeles, where we live, it's been hitting us in the face for years, until it makes me cry, it's so wonderful the recent victorious LA teachers' strike, which is of course part of a spectacular upsurge of teachers' struggles across the country, from Chicago to the Red States and now throughout California.

SW: What you're saying has really sobering, if not depressing, implications. But the top 1%, or maybe 0.1% have been able to get away with this for so long because there's been no fightback. The latest Bureau of Labor Statistics shows that we've just been through the period with the least amount of strikes in recorded history. But spectacularly, that has changed in the last year with teachers and public sector revolts which are continuing apace and show no sign of slowing down. So what has all that meant for us, and especially in this period of the beginning of a fightback?

RB: The message could not be clearer, and is really very sobering. If people are going to get these services that they need for a decent life if they're going to get the education or health or infrastructure or new skills training or money for a decent retirement they are going to have to fight for it, to impose it on a ruling class that emphatically does not want it.

The LA teachers showed the way in their recent strike when they proclaimed that they are fighting for the common good, and that they can get this only by fighting for it, against the powers that be. For most of the people who listen to this show, it means that we're going to have to do it against the wishes of this country's political leadership, not just of the Republican party, but the Democratic party as well.

The Democrats have pursued all these policies designed to speed the upward distribution of wealth by political means, in the same way if not so fast as the Republicans have and they are not even yet agreed on nationally supported healthcare.

SW: So how does this relate to the Green New Deal that's been advanced by Alexandria Ocasio-Cortez, Bernie Sanders and so many others?

RB: In the past, the government has supported the economy in the most conservative possible way, basically through subsidizing and assuring the profits of private corporations. The limit to this can be found in the dependence on what its supporters call "Keynesian" policy, or the so-called "neoclassical-Keynesian synthesis."

This is also called demand management or deficit spending. What this means is that they have the most conservative, most market-based possible means for supporting demand. They reduce taxes, which means that government deficits rise, and government deficits press indifferently on the economy, supposedly to stimulate it in a neutral manner, allowing the most promising industry to thrive.

But what we know is that this will not work today. Stimulating demand in general does not get us investment, let alone investment that stimulates other investment. As we have seen it is very difficult to invest profitably in this country, or anywhere else, in this period.

To get some indication of this, just look at the historic Trump tax breaks, which are creating ever greater deficits and putting money for free in the hands of capitalist and the rich but eliciting little or no investment or growth.

What is meant by Keynesianism today has no chance to bring about a transformation of the economy that depends on the creation of new industries and imposing the regulations necessary to make it a Green New Deal.

So what we need is I think we have to pay attention to the rhetoric here is not really a Keynesian policy (as it is commonly understood). It is direct state intervention.

Think of the New Deal, which we now understand had much more government investment than we thought; and think about sadly, but a good example what happens during wartime focused state support and supervision of investment, immediately designed to bring a specific outcome.

We need to move, in other words, against the natural tendency of the private capitalist economy today and that means we need to force a state policy of investment that would never be supported in any other way.

[Against the Current](#)

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