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Review of the book:
The Long Depression: How it Happened, Why it Happened, and What Happens Next
By Michael Roberts (Haymarket Books, 2016)

Reviewed by Jack Rasmus

Marxist economics is first and foremost about how exploitation of labor enables and drives the accumulation of capital, and in turn inevitably results in fundamental instability in the capitalist economy. The causal relationship between exploitation and capital accumulation is expressed by Marx in two key economic variables—the rate of surplus value (RSV), representing exploitation, and what Marx termed the organic composition of capital (OCC), a ratio between *fixed capital* in the form of machinery, raw materials, etc., and *variable capital*, or labor input to production, on the other.
From these two ratios, RSV and OCC, Marx derived a third, defined by combining the first two, called the *rate of profit*. Marx further argued the rate of profit had a tendency to decline over time unless offset by "countervailing forces," which historically also ebbed and flowed over time as well, but which nonetheless would prove temporary over the long run. Thus, in the long run, the falling rate of profit tendency (FROP) eventually prevails and leads to a breakdown of the capitalist economy and its system.
Michael Roberts's book, *The Long Depression*, is perhaps one of the best recent books in the Anglo-American tradition of Marxist economic analysis to argue that the FROP tendency is the primary force and economic variable explaining capitalist crises.[1]
Roberts's definition of what constitutes a "crisis," however, is broadly defined. On the one hand, crisis refers to a basic breakdown of the capitalist system, as Marx argued. But in Roberts's terminology, crisis also can mean a deeper and more prolonged business cycle contraction—or what he calls a "Long Depression." This raises an important question: is the FROP the primary cause of capitalist business cycles—whether long depression, depression, great recession, or whatever—or is it an explanation for the eventual breakdown of the capitalist economy, as the exploitation of labor intensifies long term, but still cannot yield sufficient profit to finance capital accumulation?

In chapters 2 and 3 of the book, Roberts identifies two definite "long depressions"—one in the late nineteenth century, from 1873 to the late 1890s, and a second, the great depression of the 1930s. He further suggests in chapter 5 that the great recession that began in 2007–08 is perhaps the start of yet another, a third long depression.

In the post-World War II period, the rate of profit fell steadily from 1950 to 1980, but did not result in another long depression after 1980, according to Roberts. The reason for the apparently aborted depression by 1980 was the introduction of neoliberal reforms circa 1980 in the US and UK that restored profitability. That profit restoration was nonetheless weak and lasted only until the late 1990s, according to Roberts, after which the rate of profit began to fall once again, culminating eventually in the "great recession" that emerged in 2007–08, thus raising the possibility of yet another long depression. As Roberts notes, "The Great Recession was just the start of what has turned into a long depression, the third that capitalism has experienced in 135 years."[2]
But, characterizing 1873–1898 as the first "long depression" is not quite historically accurate. The first depression (in the United States at least) occurred between 1837 and 1844, caused by the collapse of the canal-building boom of the preceding decade, the corresponding collapse of canal bond markets, the outflow of foreign capital from the United States back to Britain, and the collapse of the US banking system. The collapse of US banks and credit markets led in turn to widespread non-bank business failures, severe production contraction, unemployment, and wage decline. There is no reliable industrial profit data to argue that the canal bond collapse was caused by a falling rate of profit; but there is ample empirical evidence that widespread business failures followed, not preceded, the financial crash of 1837.

The period 1873–1898 was also not a single contraction of a "long depression," but was distinctly divided into two separate depressions; first in 1873–1879, then a robust recovery as US manufacturing and industry expanded rapidly in the 1880s, and then another depression from roughly 1892–1898. [3] Again, bond markets collapsed in 1872–73, this time associated with railroad failures, precipitating a banking crash, which froze credit markets and resulted in non-bank business failures, severe unemployment, and wage collapse. The 1892–93 depression was preceded by a booming stock market in the 1880s; and then bond markets collapsed, bringing down credit markets, banks, and the real economy.

The three nineteenth century depressions represent severe and protracted business cycle contractions—severe depressions of five to seven years. These were relatively short-term business cycle contractions, albeit severe and wreaking great suffering on working classes in particular. It is difficult, however, to find any clear argument in Marx that FROP is the primary cause of such five to seven year capitalist business cycles.[4] Nonetheless, the Anglo-American Marxist economics tradition argues that FROP does explain short-term business cycles—whether in depression or "great recession" form.

Mainstream economics fares even worse in explaining short-term business cycles, whether recessions, great recessions, or depressions. It has a poor track record explaining differences between these forms of contractions, and an even poorer record predicting them, or explaining how they differ quantitatively and qualitatively. Mainstreamers explain by adverbs: i.e. great recessions are *worse than* "normal" recessions but *not as bad as* depressions. But adverbs explain nothing.

In addition to his ardent defense of FROP and his frequent reference to historical case examples, another definite plus for Roberts's book is its running critique of mainstream economists, their inability to explain what causes great recessions and depressions, and their repeated failure to predict when one is about to occur.

Chapter 5 provides a useful brief overview and critique of mainstream economic schools of thought—from conservatives like Eugene Fama and Greg Mankiw, to monetarists like Ben Bernanke, to other well-known academic "stars" of contemporary economics like Paul Krugman. Although Roberts sometimes confuses Krugman and friends with Keynes (when in fact Krugman and company are not really Keynesians but hybrid versions of Keynes and pre-Keynesians), Roberts's critique of mainstream economics in chapter 5 is nonetheless a useful summary of the fundamental differences between a Marxist economic analysis and contemporary mainstream economic analysis á la Krugman and friends. [5] In so doing Roberts makes it clear he remains a strong adherent to the FROP tendency view as the primary causal force of capitalist business cycles and crises defined as cycles.

Not all Marxist economists place the FROP as the key cause of capitalist crises, however defined. A growing number of European and Asian Marxist economists, like the German Michael Heinrich, think otherwise, and argue that evidence exists in Marx's still unpublished German notes that show Marx himself began to reconsider the FROP tendency's central importance to explaining crises.[6] To his credit, Roberts does not attempt to ignore or hide this alternative interpretation, although he clearly rejects it in favor of his own that the FROP tendency is primary.

In chapter 6 Roberts takes on the topic of what is the causal relationship between unchecked expansion of credit and debt and capitalist crises. Like many in the Anglo-American tradition, he argues a one-way, linear causality—from FROP in real production to financial speculation and credit-debt excesses. It is the FROP that causes capitalists to resort to the desperate search for profits in financialization. Thus FROP ultimately determines financial booms and busts, and not the other way around. Capitalists in recent decades are not shifting to financial asset investment because it is more profitable than real investment; they shift because the FROP is slowing profits from real asset investment. It is because FROP is depressing the rate of profit that capitalists are turning to financial speculation, according to Roberts.

There is clearly a strong correlation between slowing profits growth from production and slowing real investment in the twenty-first century, at least in the advanced economies of the United States, Europe, and Japan. But that correlation can also be explained by an opposite causal effect than that suggested by FROP. FROP may not be causing financialization; financialization may be causing FROP. Or maybe the causal effects go both ways—i.e. there's a dialectical relationship between financial and real investment, between profits from production and profits from financial investing.[7] But to argue opposite causality, or even mutuality, is to argue FROP is not the primary determinant of crises.

Chapters 7 through 11 are excellent case examples—addressing the United States, Europe, Japan, and other major economies—in which Roberts also makes a case for FROP. They are well worth a read. Roberts's admirable mixing of historical cases and examples, with his strong theoretical defense of FROP, combined with a rolling critique of mainstream economics, characterize these chapters, as they do throughout much of the book.

What's missing in Roberts's defense of the FROP view of capitalist crises is any reference to other approaches to explaining crises that Marx himself suggested, but did not develop to the extent he did with his exposition of the FROP thesis. Marx himself referred to "realization" crises and "disproportionality" crises as other approaches to explain capitalist instability, not just the falling rate of profit.

The pursuit of alternative explanations of "realization" and "disproportionality" (between production and finance) necessarily requires analysis into the realm of "exchange values" and consideration of the "full circuit of capital"—i.e. that part of the circuit of capital that occurs post-production and not just in the process of production; that is, the circuit that capital takes after production and therefore after the production of value and profit from productive labor only, on which FROP analysis is based.

In other words, FROP analysis may not be wrong; it may just be only "half right." Marxist analysis must focus more on exchange values and financial forms of capital that arise post production, and disrupt the full reproduction of capital (to use Marx's term), i.e. the full circuit of capital and not just the first half of that full circuit. The growing disproportionate growth of financial forms of capital compared to production forms may be destabilizing capitalism in the twenty-first century.

The primacy given to the FROP thesis by Anglo-American Marxist economic analysis today may, in effect, be holding back extending Marxist analysis pursuing alternative directions and analyses, preventing integrating the FROP with financial forces that are increasingly precipitating, and perhaps even determining capitalist crises in the twenty-first century.

Perhaps in his next book Roberts will expand upon his chapter 6. In the interim, readers who want to understand the FROP thesis and approach to capitalist crisis explanation will find no better book, and one that is nicely enhanced by historical case examples and an informative running critique of mainstream economics and its dismal failures today.

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1. It is assumed the reader is acquainted with Marx's three basic equations—RSV, OCC, and FROP—and their relationships. If not, see Roberts' chapter 1 for a basic description. How Roberts calculates the FROP can be found in Appendix 1, 273–76.
2. Roberts, *The Long Depression*, 94.
3. To prove that the FROP was the cause of any of these three "great depressions" of the nineteenth century is almost impossible, however, since data on profits is scant and unreliably incomplete.
4. The 1930s Great Depression in the United States lasted from 1929–1933 in its first phase—about five years. In 1933–34 the economy then stagnated, followed by a brief recovery in 1935–37 driven by the New Deal. A second relapse into depression occurred 1937–38, but it was clearly precipitated by a policy shift gutting the New Deal. It was thus not due to FROP but to policy. Reversal of the shift once again led to modest growth 1939–40. Thus the Great Depression of the 1930s was primarily a five-year deep contraction to which FROP may apply, but the 1935–40 period was determined by government policy shifts and not profits performance.

5. For example, Keynes concluded his great work, *The General Theory*, with a condemnation of modern capitalism, declaring the system was plagued by an inherent drive toward income inequality and added that capitalism could not solve the problem of unemployment over the long run. Such condemnations would never appear from the pens of Krugman and other “liberal” (hybrid) mainstreamers, and even less so from their more conservative academic cousins. Roberts’s references to Keynes’s views appear from third parties’ commentary on Keynes. More direct references to Keynes’s works would have been more convincing.
6. See Michael Heinrich, *An Introduction to the 3 Volumes of Marx’s Capital*, Monthly Review Press, 2012.
7. This argument of a mutual causal effect is proposed in detail in Jack Rasmus, *Systemic Fragility in the Global Economy*, Clarity Press, January 2016, chapter 11, “The Shift to Financial Asset Investment.”