1992 - today a new long upward wave

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Cycles

But capitalism is not characterised solely by the periodic recurrence of cycles otherwise what would occur would be a complex repetition and not dynamic development. Trade-industrial cycles are of different character in different periods. The chief difference between them is determined by quantitative interrelations between the crisis and the boom period within each given cycle. If the boom restores with a surplus the destruction or constriction during the preceding crisis, then capitalist development moves upward. If the crisis, which signals destruction, or at all events contraction of productive forces, surpasses in its intensity the corresponding boom, then we get as a result a decline in economy. Finally, if the crisis and boom approximate each others force, then we get a temporary and stagnating equilibrium in economy. This is the schema in the rough.? (The capitalist curve of development: Trotsky 1923)

In addition to the normal business cycle, the approximately seven yearly ups and downs of capitalist economy, are distinct long waves of capitalist development, each consisting of generally three cycles, either up or down.

We can roughly divide the history of capitalism since into these periods.
1850 (counter revolution in Europe) ? 1870 (Paris Commune) Long upward wave
1870 ? 1890 (opening of imperialist epoch) Long downward wave
1890 ? 1914 (World War I) Long upward wave
1918 ? 1939 (World War II) Long downward wave
1945 ? 1973 (End of Bretton woods) long upward wave
1973 ? 1992 (End of Stalinist states) long downward wave
1992 ? today Long upward wave

Each of these phases is characterised by certain common characteristics, but crucially the direction of the long wave determines the scale and effect of the business cycles within them. In a downward wave, the recessions are deep and their social effects convulsive, the recoveries short and feeble. In an upward wave, the recessions are short and weak, the recoveries strong and overwhelming.

So why business cycles?

The approximately seven yearly business cycle has been a feature of the capitalist economy since its inception. It occurs because of the capitalists need to replace certain massive capital investments at regular intervals. Through the life of say a steel plant, semi conductor complex, or car factory, ongoing repairs take place on a daily basis. But after a certain period, advances in technology and the cumulative effect of wear and tear mean ongoing day to day repairs are no longer adequate to patch up the factory. An entirely new development is necessary. Initially the plant allows the capitalist a significant economic advantage, their productivity is high, they are efficient and can gain a surplus above normal profit rates, as the life of the factory continues however, day to day repairs become more expensive, new inventions mean there is an increasing opportunity cost to persisting with the old technology, the capitalist has to set aside increasing amounts for replacing their entire factory. Hence profitability and demand throughout the economy decline, until the capitalist replaces the entire plant, launching a new cycle underway. While it is true there is always ongoing replacement of plant and machinery, there is a strong tendency towards synchronisation of this process, invest in your new plant too soon and the low demand will see you go bust before the demand for your product is there, wait
to long you’ll be inefficient and go bust. Massive capital investments are often inter dependent, the new factory requires a speedier and more efficient delivery of parts, it must ensure the super markets are able to deliver its products quickly when required, the replacement of one part of the economy requires the replacement of all its dependent partners. And in addition as these massive capital investments are undertaken with the co-operation of a tiny number of imperialist financiers, it is not difficult to see why and how they synchronise their investments to ensure the optimum conditions for their factories to come on line. So an observable business cycle develops.

So why long waves?

(Note: this is only a compressed and schematic version of the economic driving forces underlying the long waves. Evidently political and social events, e.g. a war in a strategic country, or successful revolution, could bring the long upward wave prematurely to an end, however, given that the long wave requires a certain geo-political settlement in order to exist, this is not the most likely scenario - while always a possibility.)

At the outset of an upward long wave a given set of technical advances exist which have not been exploited to their full potential because both the geo-political/social settlement which framed the downward wave prevented them and the low profit rates, arising from a high organic composition of capital in downturn phase, meant their introduction was not worth the risk.

The upward long wave begins with the application of this accumulation of inventions which together form a new technological basis for capitalist production. This new technological basis allows the immediate and rapid development of the productive resources, taking advantage of the stores of redundant and under performing capital accumulated during the downturn, a rapid improvement in profit rates takes place as rates of surplus value are intensified as productivity rises.

As the new technological basis becomes the standard for capitalist production its advantages become generalised, efficiency savings and productivity improvements reinforce each other as more and more sectors are embraced by the new technology. The competitive advantage of the first few sectors far from being eroded is reinforced and compounded, increases in the intensity of surplus value continue.

The confidence gained from the fruit of their investments encourages the capitalists to more and more adventurous projects, which generally succeed. The pace of development increases.

Finally the entire world embraces the new technological basis and the limits of that potential are reached. A new lower socially necessary labour time of production is established. The excess profits resulting from the intensification of surplus value generated in the first two cycles disappear. The long downward wave begins.

The downward phase is the inevitable result of the falling rate of profit generated by the working of the capitalist system itself. With one crucial difference, unlike the upward phase, the downward phase requires the bourgeoisie to complete vital political strategic tasks in order to permit a new upward phase to take place, in short successful wars and counter revolutions.

In the downward phase the technical limits of the upward wave have been exhausted, new inventions exist but they are unable to revolutionise the entire technical basis of production. The high organic composition of capital resulting from the upswing means they are not profitable. In addition the convulsive developmental power of the upswing undermines the geo-political settlement which allowed the capitalists in the upward phase the free trade and free reign for their investments world wide which are a pre-requisite for the efficient exploitation of the world. They are restricted by extra-economic factors from achieving maximum profit rates i.e. rivalry with imperialist competitors, growth in working class expectations, the class struggle of the workers. To enable a new upward phase to take place, they must resolve these problems.

If we look at the period since 1992 until today we see that it fits all of the theoretical pre-requisites necessary to qualify as a long upward wave. But not only does it fulfil this theoretical analysis but there is powerful empirical evidence to
support the theoretical premise.  
But first let’s briefly analyse the post war settlement and the previous two phases of upturn and down turn.

**Post war long wave upward wave 1945-1973**

Why did it happen?

The long wave after World War II took the entire Trotskyist movement by surprise. Conditioned by their expectations of immanent revolution in the previous twenty years, they were unable to accurately appreciate its scope or power. Unwilling to abandon their hopes in the rapid ascent to power, they revised the revolutionary programme rather than try to explain why new objective circumstances created by the war prevented their growth and radically curtailed their opportunities.

The long wave after WWII is the most powerful (yet) in the history of capitalism. Not surprising. The war achieved all of the pre-requisites necessary for a new and massively expanded phase of capital accumulation.

? The scale of destruction across Europe, the former industrial heartland of the world, and Japan, meant that the organic composition of capital was radically reduced, what?s more the fact that a whole new wave of capital had to be created from scratch meant it was introduced on the most technologically advanced and productive basis.

? The defeat of the working class by fascism, nazism and patriotism in the democratic states, meant that living standards, the cost of reproduction of labour power, was markedly reduced, notwithstanding the introduction of certain reforms, such as the welfare state.

? The hegemony of the US and the dismantling of the colonial system meant there was unhindered world trade, barring the existence of the workers states.

? The new technological basis, already presaged in the development of the US during and just prior to WWII, electrification and the car provided the technical means for the upswing.


By 1973 the technological potential of the post war phase had reached its limits. While their were still advances the massive accumulation of capital in the upward phase had raised the organic composition of capital, reducing profits rates and preventing their systematic and widespread introduction.

In addition the improvements in living standards and opportunities amongst the working class meant that their were determined to push on towards the future they had been promised and come to expect. The massive growth in productive technique meant that the existence of the workers states, taking approximately 1/3rd of the world?s surface out of the orbit of the capitalist market, meant that the imperialists were increasingly constrained.

The rise of Europe and Japan started to erode US hegemony further weakened by the defeat of the Vietnam war in 1974. France in 1968 was a harbinger of things to come, revolutions exploded across the world, Chile 1970, Spain 1976, Portugal 1975, Iran 1979, Nicaragua 1979, etc, etc. The cold war intensified, with the election of Ronald Reagan and star wars. In order to clear the way for a new long wave of expanded accumulation the imperialists needed to destroy the workers states, defeat the workers movements, defeat the national liberation struggles, smash the idea of socialism and communism. They achieved all of their objectives by 1990.

**New long wave 1992 ? globalisation**

Globalisation is the perfection of imperialism, for the first time the entire globe is the orbit for imperialism and echoing the emergence of the imperialist epoch in the 1890s it is the rising potential imperialist powers in particular China but also India and Russia that we see the most marked development, just as Germany and the USA challenged the old imperialists of Britain and France before.
The technical basis for the new upward phase is computerisation and the internet and the fact that the massive scale of industrial development today requires a world market as a pre-requisite for its existence.

Where’s the proof?

In the numbers.

Consider Fig 3.1 Real Output Growth. It charts both the downward long wave from 1930 to 1992 and the beginning of the upward wave which followed it. In stark contrast to the post war period the trend is markedly down with three serious down phases in the business cycle, 1975, 1982 and 1992.

As is expected as the long wave developed the crises became more serious. Significantly in my opinion therefore the crisis of 1990, bucks this trend. Rather than continuing the downward direction, it is slightly shallower than its predecessor and is followed by a mild slowdown in 2002. If the long downward wave was still operating it should have been worse than the recession of 1982.

The recovery following the recession of 1992 was not as rapid as that following 1982 but because that crisis failed to solve any of the fundamental problems facing imperialism it was repeated in 1990. It’s important to remember when considering the numbers that we consider the trend, the direction of growth first of all, rather than the totals outside of the trend. And the advantage of this analysis is that it has a predictive element. It can be confirmed or refuted by events. If it is correct the second downward phase of the business cycle which we are about to enter, will be a shallower slowdown than that of 1998 followed by stronger growth.

The point is that in my view we should not expect a serious recession in this period, but be flexible enough to recognise events can confound any theory.

This year 2004, world growth will hit 5% for the first time in 30 years. If the downward phase that begun in 1974 was continuing, then far from seeing a recovery in growth we would see an accelerated decline. From 1996-2005 world growth reached 3.8% compared to 3.3% for the period from 1985-96. The 1990 crisis which marked the transition from the last period to the new showed a recovery from the previous low point in the cycle in 1982 where there was actually a global recession.

The crisis of 2000 was similarly shallower than 1990. So we see as we would expect, shorter shallower recessions, longer booms, the business cycle lengthened from 4 years in the 1980s to 6 years in the 1990s.

Most critically there has been a decisive shift from the old world to the new. Growth rates for the emerging world including the CIS, Africa, China and India have either grown sharply or remained markedly higher than for the old imperialist countries, still suffering under the burden of over accumulation.

Their proportion of world trade has exploded, most dramatically demonstrated by China see Fig 2.1 and 5.7 as has investment in them by the imperialists. Their weight in the world economy is reaching a critical mass, sufficient to offset the dead weight of the old imperialists.? There is no reason to believe that this will not continue for the next two business cycles at least.

The Technical basis for the new long wave

The technical basis for the new long wave was in the introduction of computerised global production and the internet.

In the opening years of the 1990s computers began to become established. The internet was invented or systematised. But as would be expected the new opportunities were not initially clear, the scope for development still to be understood. Ideas lag behind reality. Growth rates were only marginally higher than in the down phase. Think about the dour times of the 1940s and 1950s in Britain, OK it’s a recovery but there’s still rationing. There is growing enthusiasm for the new technology, but the crisis of profitability in the imperialist heartlands, before the new world has developed to the point where it can absorb the vast quantities of surplus capital built up in the downturn leads to
speculative crisis. The renowned 'tech bubble?', which inevitably bursts but which has laid the technological basis for a further development of the world economy and consolidation of the long upward wave.

In the second phase computers, the internet and broadband become ubiquitous the price of a 1mb internet connection falls from $50K a month to $50, China starts to test its power venturing into foreign acquisitions for the first time. The speculative bubble in the imperialist heartlands passes from shares to property. The downward part of the business cycle begins in 2004 but leads only to a shallow and temporary slow down in the upward momentum. The US starts regional adventures in Iraq to demonstrate its power, but in fact only proves its weakness.

The third phase will see even faster growth, a consolidation of the previous tendencies and the introduction of new technologies to support them, China and India become real imperialist powers. The regionalisation of the world starts to impinge on the ability for global production to operate effectively, the technical basis for the long upward wave is exhausted a new downward wave begins. This is roughly ten years off. (This of course assumes that no political crisis brings the upward wave to a halt sooner? something which is always possible, but less likely in an upward phase of the world economy.)

I?ve attached a few graphs to illustrate my arguments. There is however a wealth of material on the www.imf.org [1] website just search for World Economic outlook reports or publications or statistical appendices.

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