ARE ECONOMIC CRISES INHERENT TO CAPITALIST EVOLUTION?

Alexandru Pătruți[x]

Abstract

The Marxist thesis that capitalism is an inherently unstable system, which naturally generates crisis, is once more gaining momentum due to the slowdown in economic growth around the world. But instead of arguing theoretically about the mechanisms of economic fluctuations, we aim to show that the developed world (especially Western Europe and the US) are not even close to pure capitalist systems. By studying the evolution of government spending as percentage of GDP, one can show that in numerous countries which claim to be capitalist systems, the government allocates more resources than the market. Moreover, there seems to be no statistical data to suggest that there ever was a movement towards more market economy in the last decades in the US and Europe. If any systematic tendency occurred in these counties before the crisis of 2008-2009, it was toward more state intervention.

Keywords: capitalism, socialism, government spending, economic cycles.

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INTRODUCTION

The fact that crises are inherent to capitalistic evolution is a central claim of Marxist political and economic doctrine. A large number of people continue to be, whether knowingly or not,

[x] Assistant professor at the Bucharest University of Economic Studies, Department of International Business and Economics, Faculty of International Business and Economics, Address: 6, Piata Romana, 1st district, 010374, Romania, Phone: +4.021.319.19.00, *E-mail: alexandru.patruti@rei.ase.ro*

Marxist in their ideological orientation, and there is a general tendency in periods of economic downturns for such Marxist thesis to surface. The question of whether or not crises are inherent in the evolution of capitalism can be answered in more ways than one. The most rigorous way is to employ an *a priory* methodology and to show that general economic crisis are caused by factors which are rather exogenous to the market system. However, this has been done in numerous academic works and it would be rather superfluous to repeat the theoretical exposition here[2]. What we aim at in the current article is to infer, in *a posteriori fashion*, the premises of this claim. By using common statistical indicators, like for example *government spending as percentage of GPD*, one can show that we are far from living in a capitalist *laissez faire* system. Moreover, there seems to be no data to suggest that there ever was such a systematic worldwide movement towards a more liberal system in the developed nations after the 1980s.

THE MAIN THESIS

As mentioned in the introduction, we aim to enquire whether economic crisis are inherent to the development of capitalism. This way of picturing capitalism, namely as an unstable system which is prone to bring about its own destruction, is once again getting momentum in academic circles. Let us take for example professor's Kotz (Roots of the Current Economic Crisis:Capitalism, Forms of Capitalism, Policies, and Contingent Events 2015) statement from his presentation delivered at the conference "Marxist Perspectives on the Causes of the Crisis of 2008":

[2]It would suffice here to point out to the works of Mises (1949) and Hayek (2008). For a personal exposition regarding economic crisis, see Pătruți (Teoria structurii de producție 2016).

> *Marxists, starting with Marx himself, have portrayed the orthodox view of crisis as "apologetic" -- one more way to let capitalism off the hook for the severe problems it brings. When economic crisis leads to mass unemployment, business failures, homelessness, even hunger, neoclassical economists point the finger at the state or bad luck. Marxists rightly reject this view, pointing out those crises emerges from the basic workings of capitalism.*

The Marxist proposition can logically be taken as an implication: if a country uses a capitalist system of production, it will incur economic crises ($p \rightarrow q$)[3]. It is clear that economic crisis are real phenomena of our daily lives, so q is necessarily true. But what about the premises of this proposition (p)? Is the society we are living in a free market? Numerous voices claim that the magnitude of the last financial crises can be attributed to the increase in capitalist activity and the consequent decrease in government control. Thus, we should naturally assume that historical research should point out in this direction.

But, on the contrary, historical data appears to be indicating in the opposite way. If this is the case, one cannot attribute economic booms and bust to the flourishing of capitalist production. After analyzing statistical data concerning the degree of government intervention (both present and historical records), we will shortly underline the actual causes of the economic crises, and show that these are exogenous to the market system.

[3]Of course, this is not the whole marxist explanation. According to Marx (1867), capitalism is unstable and it is prone to generate more and more profund/systemic crises which will eventually lead to the breakdown of capitalism and the instauration of socialism through revolution.

ARE WE LIVING IN A CAPITALIST SYSTEM?

Defining capitalism is rather a straight-forward task. It is the *economic system in which factors of production are owned by private individuals*, as opposed to socialism, in which *the means of production are owned by the state* (Merriam Dictionary 2016). Given the fact that all the countries in the world have mixed economic systems, it is rather safe to say that the more resources are allocated by the market the more liberal/capitalist a particular country is.

Although it is generally complicated to accurately assess the proportion between state and market in a particular country, there are a few relevant statistical indicators one can take into account. One of them is government spending as proportion of GDP, which shows us how much of the annual produce in a country is allocated by the authorities. Of course, as any statistical tool it has its own pitfalls[4]. But given the fact that we are using the indicator just as a proxy, let us take a look at the major countries of the world to see whether they are closer to capitalism or to socialism. Figure 1 shows the percentage of government spending in 28 of some of the most relevant countries in the year 2014.

[4]One of the problems connected to the use of this index is that GDP is not a fixed variable. So, for example, if there is an stronger increase in GDP than in government spending, our indicator would show a decrease in the percentage of government spending, although in real terms state activity actually increases in that country. We shall see further that this is the case of the US, where the increase in government activity was concealed in this way by economic growth.

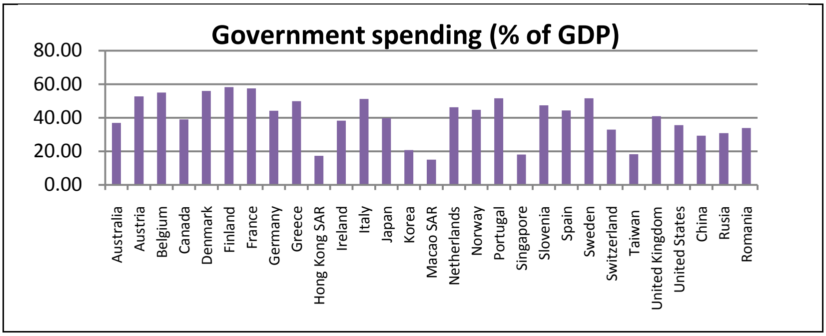

Fig. 1, *Government spending (% of GDP)*, Source: IMF (2016)

For anyone with a liberal ideology, the picture looks rather gloom in the sense that the vast majority of countries are heavily interventionist to say the least. Most of the advanced economies in Europe, including here Austria, Belgium, the Nordic states (Denmark, Finland and Sweden), France, Portugal, Italy and Greece have all surpassed the 50 percent of GDP limit. This means that more than half of the resources are allocated by the state, making it safe to uphold that these countries, if anything, are more socialist than capitalist. Ironically, according to this indicator China and Russia, seem to be considerably more liberal than the above mentioned European states.

If we look at the US, Canada, Australia and Japan, they appear to be situated in the middle of the spectrum, roughly between 35 and 40 percent. The only “liberal oriented countries” seem to be small Asian states, namely Macao, Singapore, South Korea and Taiwan which incurred (with the exception of Korea) government spending *below 20 percent of GDP*.

It is true that this table is practically a snapshot taken in 2014 through the world economy. It can still be argued that the years prior to the crisis of 2009 represented a period in which the influence of the state decreased in those particular countries.

However, there is no data which could be used to suggest such a tendency. Figure 2 shows the dynamic of government spending in GDP between 1980 and 2014.

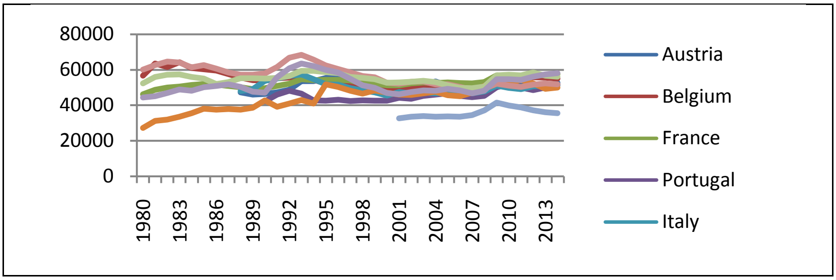

Fig. 2, *Dynamic of Government spending (% of GDP) 1980-1990*, Source: IMF(2016)

It is hard to find any systematic tendency between 1980 and 1990 for *two* main reasons. First of all, the evolutions look rater random and secondly, there is a lack of available data for most of the analyzed countries. Still, if we look at the evolutions after 1994 we can observe that all the trend lines converge in Europe. After the year 2000, the United States also started to follow a similar tendency. Figure 3 shows the same data, but depicted only between 2005 and 2014.

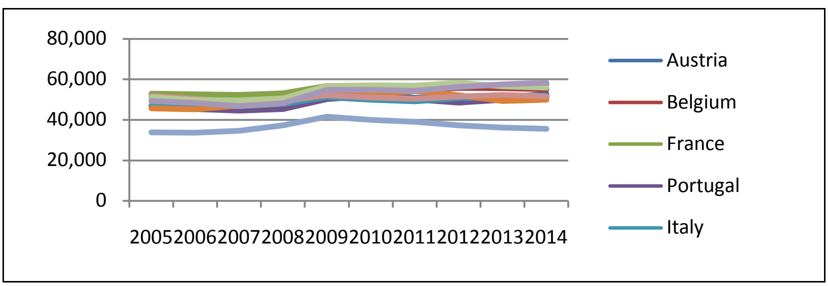

Fig. 3, *Dynamic of Government spending (% of GDP) 2005-2014*, Source: IMF (2016)

Looking at the data only for this reduced period helps us to better observe the similarities between the evolutions of government spending in different states. If there is any systematic tendency at all, one could argue that between 2005 and 2009, i.e. prior to the crises, there was an *increase* in government interference. After 2009, different countries had different responses towards the economic downturn. To take just a few examples, in the US after 2009 government spending *decreased* as percentage of GDP, almost to the 2005 level, while Finland continued to *increase* its spending, rapidly moving towards the 60 percent limit. In France, after 2009 the evolution of the indicator seems to have plateaued at around 58 percent of GDP, implying a relatively *constant* level of intervention.

THE US CASE

But our discussion should not stop here. One can easily find more historical data to suggest that the premises of the Marxist proposition, namely that we are living in a capitalist society, are not present in the real world. It literally is a thesis which flies in the face of empirical facts. Even conceding that there are no pure economic system (100 percent socialist or 100 percent capitalist) it would intuitive follow that the more capitalist oriented a country is, the more severe its economic crisis and vice versa.

Traditionally, the most liberal country in the word was, and to a certain degree continues to be the United States. It is true that the crisis of 2008-2009 was one of magnitude, which soon propagated to the global economy. We would naturally feel inclined to ask whether the crisis was not the result of rampant capitalism and of the fact that the economy was left to the free market.

We already pointed out that prior to the crisis there was an increase in government spending as a percentage of GDP, but let us try a different approach. As we previously argued, this indicator can mask an increase in government intervention, if government activity rises less than GDP. The alternative which is left open to us is to use real (per capita expenditure), i.e. exactly how much money does the state spend for each person, and to see how has this indicator varied in the post WWII period[5].

Figure 4 presents real federal spending per capita in the United States, between 1947 and 2004. Even after deducting the effects of inflation we can observe that that the federal government is spending more and more for each citizen. Moreover, the evolution is similar for state level and local level government spending. If total government spending[6] was around 2.350$ in 1948 in the US, it managed to reach 12.150$ in 2004(Garrett and Rhine 2006, 17). So in absolute terms, there was no period in which the influence of the state actually decreased in the US after the Second World War. Everyone who blames the market, privatization and deregulation for the messy economic situation created by the crisis seems to be overlooking this general tendency for more and more government intervention.

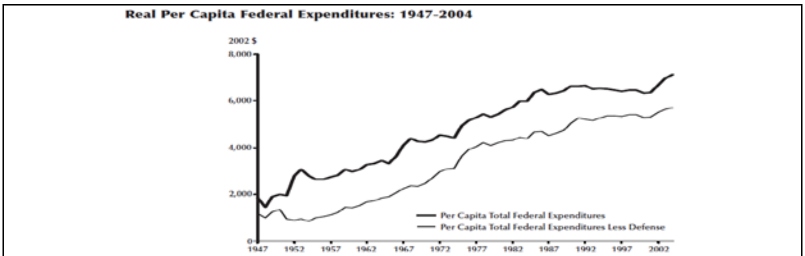

Fig. 4, *Dynamic of federal spending in the US (real per capita) 1947-2004*, Source: (Garrett and Rhine 2006, 15)

[5]We have chosen to refer to the period after WWII because in periods of conflict government spending rises significantly. After the conflict has seized, government spending starts to diminish, although never quite to the same level prior to the conflict. For detailed analysis of government spending in the US, see Garrett & Rhine(2006).
[6]Total government spending is composed of federal, state and local government spending.

WHAT IS THE ACTUAL CAUSE OF ECONOMIC CRISES?

The answer to this question, shortly put, is monetary intervention. Monetary calculation is, if we are allowed to use a metaphor, the *interface* between consumers and the structure of production (or real economy, as many researchers like to call it). Government interference in the monetary sphere leads to a systematic divergence between consumer preferences and the structure of production. "False data" is introduced on the market and the two domains mentioned before, namely consumer preferences and production, seize to be interconnected.

By manipulating the interest rate, which is the most relevant price on the intertemporal market, government has the possibility to create artificial booms through the banking system. By keeping the interest rate below its real level, investment can be stimulated (Mises 1949, Hayek 2008). But this type of investment activity is not sustainable. People are not willing to forgo present satisfaction and sooner or later, the boom will reveal itself to be a bubble.

The purpose of this article is not, as we have previously argued, to give a formal explanation of business fluctuations[7]. We are merely pointing out to the fact that the causes of boom-bust cycles are not inherent in a capitalistic society. This is not meant to be an "apologetic" explanation, as Marxist theorists (and Marx himself) seem to suggest (Kotz 2015). The purpose is to show that these vagaries in economic growth are not inherent to capitalism, but caused by an external factor. On top of this, the actual situation seems to be intuitively absurd. Although the society we are living in is more and more interventionist, i.e. less and less capitalistic, the more severe the economic downturns seem to become, effects which are attributed, surprisingly, to the capitalist system.

[7]For a personal exposition of business cycle theory see Pătruți(2016).

CONCLUSIONS

Periods of economic downturn always spark interest in Marxist doctrines. The thesis that economic crises are inherent to capitalist evolution is precisely such an example. We have shown in the present paper that there seems to be no statistical data to suggest a systematic increase in the resources allocated by the market in the last decades.

If anything, the period before the crisis was marked by an opposite tendency, respectively towards government intervention. If we look at the data in absolute terms, the evolution is even more striking. The US, which is considered the international symbol of capitalism and liberty, has experienced a continual increase in government spending since the Second World War.

If we take a look at the proportion of resources allocated by the state as compared to the resources allocated by the market in 2014, we can observe that a considerable number of developed nations in Europe have surpassed the 50 percent threshold regarding government spending. With the US, Canada, and Australia hovering around 40 percent, the only countries close to a “capitalist” system appear to be relatively small Asian states like, Korea, Taiwan, Singapore, Hong Kong and Macao.

Based on the data, there seems to be no empirical support to suggest that we are moving towards capitalism, but rather the opposite – there seems to be a general movement towards more state intervention. It is hard to uphold that the global economic crises, such as the one in 2008-2009, are the consequence of a system which appears to be in the process of fading (slowly) away in Europe and the US.

The only rational explanation left is the theory which claims that business fluctuations are determined by exogenous factors, namely monetary intervention in the market process. The premises of the Marxist interpretation appear to be disconfirmed by actual facts.

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