Canada’s “Long Downturn”?  
A Critical Assessment of Robert Brenner’s Recent Writings on the World Economy

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To be Presented at: CPSA 2010 Conference  
Concordia University, Montreal  
*Draft: Please do not cite without permission*

Abstract: For many Marxists, the current economic crisis is seen as a by-product of the capitalist world economy’s underlying stagnation tendencies. This paper will empirically and theoretically dissect one of these views, that of Robert Brenner, using the example of Canada to make this task more manageable. In Brenner’s account of neo-liberal globalization, the world economy has been stuck in a prolonged period of crisis—a “long downturn”—since 1973. Adopting Nitzan and Bichler’s ‘power’ approach to political economy, the conclusion is that the main problem with Brenner’s “long downturn” thesis is theoretical rather than empirical: while empirical trends in Canada do not necessarily disprove his argument, he is able to write off a 1990s upturn only by dismissing profits in the financial sector as speculative and profits in the larger service sector as unsustainable, claiming that gains in these sectors have masked weaknesses in the “real” (i.e. manufacturing) economy.
One of the most fundamental criticisms of the Marxist theory of value is that it is not empirically verifiable or even applicable. This point was made by Thorstein Veblen (1990 [1906]: 419-21) at the beginning of the twentieth century, and has been further developed in Capital as Power, a recent work by Jonathan Nitzan and Shimshon Bichler (2009). Aiming to clarify some of the key debates in Marxist value theory, this paper will use Nitzan and Bichler’s ‘power’ approach to interrogate the recent writings on the world economy by one of the more empirically-oriented Marxists, namely Robert Brenner.

To be sure, Brenner’s Marxism is somewhat peculiar, as I will later explain, and therefore it is not entirely fair to treat his theory as representative of Marxism. But his emphasis on ‘productive’ labour is drawn straight from Marxist value theory, and, in light of widespread recessions in the past few years, his argument seems quite relevant today. His main assertion is that the world economy has been stuck in a prolonged period of crisis—a “long downturn”— since 1973. Relative to the immediate postwar period, the last three decades or so have been characterized by high unemployment rates, stagnant or falling real wages, decreasing productivity gains and generally slow economic growth across the advanced capitalist countries. These figures would have been even more dismal, he continues, but they have been pulled up by the “wealth effect” of a growing stock market bubble, especially in the late-1990s. If the stock bubble ever bursts, then, the world economy is headed for a severe recession as the underlying problems of the long downturn surface.

Given that Brenner is a Marxist, it is not surprising that he presents a very gloomy vision of the future of the capitalist world economy. But is it an accurate vision? He certainly backs up his argument with considerable historical detail as well as an impressive collection of empirical data. In particular, Brenner uses data from the United States, Japan and Germany to build his argument. However, he clearly expects that patterns in these three leading national economies will be closely mirrored in the economies of Canada and other G-7 countries—the long downturn is, as he puts it, a “system-wide” phenomenon (2006: 23, original emphasis). With this in mind, this paper will empirically and theoretically dissect Brenner’s argument, using the specific case of Canada to make this task more manageable. More specifically, the paper aims to answer two basic questions: 1) If Brenner’s categories and narrative are followed, do empirical trends in Canada corroborate Brenner’s thesis of a “long downturn” in the world economy; and 2) what are the theoretical limits to his argument?

My conclusion is the main problem with Brenner’s “long downturn” thesis must be theoretical rather than empirical: while empirical trends in Canada do not necessarily disprove his argument, he is able to write off a 1990s upturn only by dismissing profits in the financial sector as speculative and profits in the larger service sector as unsustainable, claiming that gains in these sectors have masked weaknesses in the “real” (i.e. manufacturing) economy. This argument will be made in four main parts. After outlining Brenner’s basic theoretical framework, the first part will look at the key empirical indicators he cites as evidence of the “long downturn,” comparing the Canadian economy’s performance after 1973 with its performance during the 1950-73 “long post-war boom” (2003: 7). The second and third parts will examine some more specific trends that Brenner uses to explain away the 1990s economic recovery, including his claims about a stock-market bubble and the ascendancy of finance. This will lead, finally, to a few comments on Brenner’s theoretical framework, particularly in regards to his distinction between “real” manufacturing profits and “speculative” financial sector profits, as well as his failure to take seriously the monopoly power of large corporations.
1. From the Postwar Boom to Neoliberal Slow Growth

To build an empirical analysis from a Marxist perspective, one must inevitably confront a difficultly imposed by the Marxist theory of value: the transformation problem. In his critique of capitalism, Marx (1976: 301, 168, 196) makes a firm distinction between “value” and “price” (or similarly, “surplus-value” and “profit”), claiming that the former comprise the essence of the latter. Labour must be the source of all value, according to Marx, because it is the only commodity that adds “more value than it has itself.” This means that commodities must ultimately exchange according to the labour-time required to produce them. However, these labour values are invisible—what a person repeatedly encounters in a capitalist society are prices, which seem to fluctuate arbitrarily and necessarily diverge from underlying labour values. Yet if value is essence of price, there must be a way to transform one into the other.

There has been substantial debate as to whether this value-price transformation is actually possible, leading Marxists like Alfredo Saad-Filho (1997: 124-8) to suggest that the qualitative aspects of Marx’s theory are much more important than the quantitative ones surrounding the calculation of prices. Still, empirically-oriented Marxists like Brenner should, in theory, perform the reverse operation, converting prices and profits to their underlying value components. Brenner makes little effort to do this, as Nitzan and Bichler (2006:12) point out: “his data measure rates of profits and other earthly indicators, not labour values.” This is no doubt problematic, but the first three sections of this paper will nonetheless follow Brenner’s measures, aiming to see if Canada’s neoliberal period can be described as a downturn using his own terms. To be sure, the long downturn thesis is based on trends in what Brenner (2006: 336) calls the “real economy.” However, he uses data from the manufacturing sector—not labour values per se—to make claims about “real” or “underlying” tendencies.

Brenner’s version of Marxism is also peculiar in a second sense. While the most basic proposition of Marx’s critique of capitalism is the inevitability of class struggle between the working class and the capitalist class, Brenner’s (2006: 7-8) argument is first and foremost about class struggle within the capitalist class itself. Indeed, he argues that the root cause of the long downturn is intensified inter-capitalist competition, especially in the early 1970s. Capitalism is an anarchic and competitive system according to Brenner, and thus individual firms must constantly strive to increase plant productivity in order to gain extra profit. In other words, firms apply new technologies to the production process as a means to attain what Marx called “relative surplus-value.” The problem is that the continuous efforts of all firms to improve their own productivity—to add to their fixed capital stock—may very well result in “over-capacity and over-production” for the economy as a whole, thereby triggering reduced prices and reduced profit rates (2006: 27-8). According to Brenner, this is precisely the problem that has crippled the world economy since 1973.

Why 1973? The reason for this exact date is unclear, but Brenner associates the general shift from boom to long downturn with the expansion of international trade in the postwar period. By the end of the 1960s, US manufacturers were struggling to sell to their domestic market due to competition from lower-cost Japanese and German imports. Aiming to improve their competitive position, US firms responded with new fixed capital investment, but the move backfired. In Brenner’s words, this move just “intensified…competitive warfare, exacerbating over-capacity and over-production, with highly destructive consequences” (2006: 38-9).

Clearly, then, Brenner’s long downturn narrative is based on international dynamics like over-competition that cannot be investigated for a country in isolation. What can certainly be measured for individual countries, however, are the “destructive consequences” of over-competition. In The Economics of Global Turbulence, Brenner repeatedly points to a number of standard national economic indicators as evidence of the long downturn, demonstrating that the
post-1973 figures are inferior to those of the 1950-1973 period (see 2006: 5, 240, 282-3). He goes so far as to suggest that the last three decades or so are a period of secular decline for all advanced capitalist economies—after reaching “historic peaks” in the 1960s, he claims that “the 1970s were worse than the 1960s, the 1980s worse than the 1970s, and the 1990s have been worse than the 1980s” (2006: 239).

To assess Brenner’s secular decline argument, it makes sense to begin by looking at the most commonly-cited indicator of economic performance, gross domestic product (GDP) growth. Neglecting income distribution and the impact of economic activities on societal well-being, GDP growth is not necessarily the best measure of economic performance. But it is nonetheless considered essential to the health of a capitalist economy, even by Marxists. In the words of David Harvey (and Brenner would certainly agree), “capitalism is growth-oriented” because growth is the only way to guarantee profits and ongoing capital accumulation. “Crisis,” Harvey continues, “is then defined as lack of growth” (1989: 180).

By this definition, Canada has avoided crisis for the majority of the last twenty years, as Figure 1 clearly shows. Indeed, excepting 2009, the last time that the Canadian economy experienced negative annual growth was back in 1991. After that point, the real GDP growth rate hovered around 3 per cent, rising to break 5 per cent in both 1999 and 2000. Even when the 1991 and 2009 recessions are excluded, however, the average growth rate for the fifteen-year period from 1993-2007 was only 3.3 per cent, substantially below the 5.1 per cent average for the 1950-1973 period. If one follows Brenner is looking at decade averages, there is a clear downward trend, with the growth rate falling decade by decade from a high of 5.1 per cent in the 1960s to 2.4 per cent in the 1990s, and finally to a low of 2.1 per cent in the 2000s. Although these averages suggest that the late-1990s/early-2000s upturn has been erased by the economy’s poor performance in recent years, the upturn must still be explained. This is especially true because
the upturn is even more pronounced in Figure 2, which looks at the unemployment rate and the capacity utilization rate for the manufacturing sector.

**Figure 2: Capacity Utilization and Unemployment Rates**

| Year | Capacity Utilization (% | Unemployment Rate (%)
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>1945</td>
<td>100</td>
<td>4</td>
</tr>
<tr>
<td>1950</td>
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<td>5</td>
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<td>1970</td>
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<td>15</td>
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<td>2005</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td>2010</td>
<td>30</td>
<td>17</td>
</tr>
</tbody>
</table>

NOTE: Annual capacity utilization data is calculated by averaging quarterly data. Capacity utilization data for 1962–1987 follows the Standard Industrial Classification system, while data for 1987–2009 follows the North American Industrial Classification System. This difference, however, should have no significant effect on the general pattern.

SOURCE: CANSIM Multidimensional for capacity use; OECD through Global Insight and Statistics Canada (1983: D491) for unemployment

Capacity utilization is a conventional measure of the gap between actual output and potential output, and unemployment can be seen in a similar light. If there is a business slump—if products cannot be profitably sold—two of the main short-term responses of capitalists are to idle plant and equipment and lay off workers. Therefore, it is not surprising that the two series in Figure 2 are inverses of each other. The capacity use rate declines from a high of 87.0 per cent in 1965 to a low of 68.3 in 1982, ascending back up to 86.0 in 2000. At the same time, the unemployment rate climbs steadily from 3.4 per cent in 1966 to 12.0 per cent in 1983, but then falls, reaching 6.8 in 2000 and 6.0 in 2007 before a significant jump in 2009.

Since the unemployment rate averaged 4.2 in the 1950s and 5.0 in the 1960s, recent unemployment numbers are still rather poor. However, like the late-1990s upturn in GDP growth, the overall downward trajectory of the unemployment rate from 1983 to 2008 raises some doubts about the long downturn argument. The same can be said for the fact that capacity use in manufacturing returned to pre-1973 levels as of the mid-1990s. Indeed, for clearer evidence that the Canadian economy is mired in a long downturn, we must turn to real wages, which give some indication of the kinds of jobs that were created, as well as labour productivity.
Figure 3 clearly shows that Canadian workers have now been stuck in a downturn for over two decades. After steady gains through the 1960s and 1970s, real wages have stagnated and even declined since 1980. Labour productivity (output per hour worked) growth has also slowed in recent years, with 1990s averaging 1.6 per cent annual growth, as compared to a 3.6 per cent average for 1962-1971. As explained earlier, Brenner thinks that the main dynamic of capitalist competition involves firms adding new technology to production in order to cut costs, so he considers reduced labour productivity a sure sign of “declining economic dynamism” (2006: 240) and impending crisis.

Labour productivity and real hourly wages are charted together in Figure 3 for a specific reason, to assess what is often called the “profit squeeze” theory of economic crisis. This theory, which Brenner tries hard to refute, holds that the root of crisis lies in the relative strength of capital and labour. Profits are “squeezed” when the power of labour increases, and particularly when real wages grow faster than labour productivity because this means that the workers’ share of national income is increasing while capital’s share is decreasing (see Wright, 1977: 216). According to Brenner (2006: 25), however, the problem with the profit-squeeze theory is that it cannot explain a prolonged crisis: “it is almost impossible to believe that the assertion of workers’ power has been both so effective and unyielding as to have caused the downturn to continue throughout the advanced capitalist world for close to a quarter-century.”

While the fact of a quarter-century crisis has not yet been established, Figure 3 shows that Brenner is right in the sense that the power of Canadian workers has not been effective or unyielding in recent decades. But it is worth noting that real wages rose faster than productivity in the early to mid-1970s, which still suggests that Brenner may have been too hasty in writing off the profit squeeze theory. At the very least, further investigation is warranted if profits
increase after 1980, when Canadian labour is in a weaker state.\textsuperscript{2} With this in mind, I now turn to the key question for Brenner, the trajectory of the profit rate.

Indeed, Brenner (2006: 5-7, 151) cites the profit rate, defined “standardly” as net profits divided by the net capital stock, as the “central determinant of the system’s health.” In his view, the trajectory of the profit rate ultimately determines the trajectory of the macroeconomic indicators examined above. In particular, he asserts that decreasing productivity growth and increasing unemployment are a result of decreasing capital investment, which, in turn, is the direct result of a falling profit rate. But, although the profit rate is the key category for Brenner, it is also a very problematic category. The main obstacle is the second term in the equation, the “net capital stock” (the cumulative mass of plant and equipment minus depreciation). For instance, as Nitzan and Bichler (2006: 23; 2004: 269-71) explain, the profits of a corporation like Microsoft are based purely on state-granted intellectual property rights (IPRs), not on its production process. This is one reason why they claim that it is wrong to think of capital in terms of material inputs to production, which is precisely what measures of the net capital stock do.\textsuperscript{3} And this is in addition to the basic measurement problem of reducing a diverse array of capital goods—from single wrenches to complex assembly lines—to a single unit and then trying to estimate how their values change over time.

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure4.png}
\caption{Profit Rate* for Private Industry, 1926-2009 (%)}
\end{figure}

\textsuperscript{*}Net profits before taxes divided by the net capital stock for the business sector (i.e. the non-residential, non-governmental net capital stock).
\textsuperscript{NOTE:} There is no data differentiating the corporate net capital stock from that of unincorporated business, so the denominator is the same for both profit rate series. Private industry profits consist of corporate profits before tax and the net income of non-farm unincorporated business. The latter category includes self-employment and rent income, which means profits are slightly inflated. Still, the private industry profit rate presented here approximates the one that Marxists Armstrong, Glyn and Harrison (1991:353) calculate for the 1952-1987 period.
\textsuperscript{SOURCE:} CANSIM Multidimensional for profits; CANSIM Multidimensional and Statistics Canada (1978) for net capital stock

Even if the problem of measuring capital is overlooked and Canada’s economy-wide profit rate is calculated, it turns out that Brenner has some explaining to do. For while Brenner is right that capital experienced declining profitability through the 1970s and 1980s, the 1990s was by no means a decade of crisis for Canadian business. As Figure 4 makes clear, 1991 marked a real turning point for profitability. The private industry profit rate reached historical highs back in the
late-1940s, but then fell steadily through the postwar period. Not surprisingly, this downward trajectory culminated in the recession years of 1982 and 1991, when the private industry profit rate hit low points rivalled only by the Great Depression.

On this basis, Brenner can certainly suggest a downturn in the 1980s, especially when statistics regarding GDP growth, unemployment, and productivity growth are also taken into account. While rejecting the orthodox Marxist notion of the “tendency of the rate of profit to fall” (see 2006: 14-5 fn. 1), he could easily suggest that the profit rate falls in the postwar period as trade expands and therefore competition increases. But he is still left with the problem that the private industry profit rate rose rapidly after 1991, and, as of 2005, was higher that it had been at any point in the preceding half-century. In fact, if only corporate profits are considered, 2005 marks a historic high point for the profit rate. Given the significance Brenner attributes to the profit rate, this fact should be fatal to his narrative; however, Brenner certainly does not think so. The resulting question is clear: how can he argue that we are in a long downturn when profits have been tremendous within the last decade? The next two sections will aim to answer this question, using the case of Canada to assess his dismissal of the 1990s upturn before pointing out some theoretical questions raised by his efforts to privilege “real” economic activities in the fourth section.

2. Bubble-drive Growth?

So far it has been demonstrated that not only the profit rate, but all macroeconomic indicators except real wages improved in the 1990s, which suggests that any prolonged crisis of Canadian capitalism is long over. Yet these empirical trends have not stopped Canadian left-wing economist Jim Stanford (1999: 6, 21) from arguing that “the 1990s were…the worst decade for the Canadian economy since the Great Depression.” Similarly, Brenner retains a firm commitment to the long downturn thesis, despite noting that the US economy also recovered somewhat in the 1990s (2006: 256; 2003: 265-6). To preserve his thesis, Brenner puts forward two main arguments. First of all, he points to a process of “rationalization” or “shakeout” in the US manufacturing sector, which was sparked by the general shift of advanced capitalist countries to monetarism in the early 1980s. With tight credit leading to recessions, high-cost businesses failed, alleviating problems of excess capacity to some degree. But Brenner claims that governments did not let the recessions become severe enough to eliminate the system-wide problem of over-capacity—only the US manufacturing sector really benefited from the shakeout process, and this benefit was only temporary, due to the devaluation of the US dollar in the late-1980s rather than any sustained increase in “manufacturing dynamism” (2006: 258-9, 271-2).

While Brenner conveniently uses the “shakeout” argument to explain the temporary resurgence of the US manufacturing sector, his second argument is much more prominent and also more problematic. The idea is to show that the recent boom was largely a false one, propelled by the growth of speculative sectors like finance rather than developments in the “real economy” (see e.g. 2003: 83-5). Even in the US, Brenner claims, the recovery of manufacturing profitability stalled shortly after 1995, which meant that the “real” economy was tending towards crisis. And since the manufacturing recovery was built on the elimination of high-cost means of production, including high-wage workers, declining aggregate demand was bound to exacerbate this crisis tendency (2006: 291, 280-1). However, Alan Greenspan and the US Federal Reserve rode to the rescue, compensating for weaknesses in the underlying US economy through what Brenner dubs “stock market, or asset-price, Keynesianism” (2006: 293).

Under Brenner’s asset-price Keynesianism, the accumulation of private debt—not public debt, as in traditional Keynesianism—is used to ensure continuous economic growth. In the US, the Federal Reserve shifted dramatically from its earlier flirtation with monetarism to a policy of
low interest rates and easy credit in the mid-1990s. The result, according to Brenner, was increased household and corporate borrowing, which was used to increase consumption as well as to bid up stock values and housing prices. These inflated asset prices, in turn, provided grounds for further borrowing and spending, creating a cycle of increasing paper wealth and “bubble-driven demand” (2006: 293-6; 2003: 275).

To show the increasing gap between the underlying US’s real economy and its paper economy, Brenner (2006: 292) charts the growth of stock values, represented by the New York Stock Exchange Composite Index, against the growth of after-tax corporate profits. Since 1995, he claims, stock prices have grown much faster than profits, producing a massive and unsustainable stock market bubble. As Figure 5 shows, the same claim can be made to a limited extent for the Canadian economy. Using 1995 as a base year, it appears that there was a “bubble” during the early-1990s recession, when the price of Canada’s premier stock index, the S&P/TSX Composite, remained stable in comparison to the dramatic fall in corporate profits. More importantly, a “bubble” also emerged between 1995 and 2000, during the dot-com boom. In this five-year period, stock prices more than doubled, outpacing the growth of corporate profits, although the gap is significantly smaller than the one Brenner shows for the US (stock prices doubled between 1995 and 2000 while corporate profits remained almost flat).

However, profits eventually caught up to stock prices, minimizing any discussion of a stock bubble in Canada: between 1995 and 2005, both stock prices and corporate profits tripled, making it clear that the turn of the century was a boom period for Canadian capital regardless of whether one looks at the speculative world of finance or the “real” world of profits. Of course, Brenner defines the “real economy” even more narrowly than this, an issue that will be returned to shortly. But first it is worth assessing his “bubble-driven demand” argument in a little more detail by examining consumption patterns in Canada.

For Brenner, US GDP growth after 1995 is consumption-driven, with the “wealth effect” of inflated stock and asset prices supplying the growth engine that a flagging manufacturing sector could no longer provide. In this regard, he first shows that the stock-market bubble translated
into a rapid increase in household borrowing, and then claims that real GDP growth occurred only because of the resulting increase in personal consumption (2006: 316-7). If this argument is to be applied to Canada, the dates must be changed at the very least. For household borrowing only takes off after 2001 in Canada, rising quickly from 3.1 per cent of GDP in 2001 to 6.8 per cent of GDP in 2007 (see Appendix B). However, there is a more serious problem with applying Brenner’s “bubble-driven demand” argument to Canada: as a share of GDP, personal consumption declined or remained constant from 1993 to 2008, which means that it could not be the primary cause of GDP growth in Canada for either the 1990s or 2000s.

Table 1: Expenditure Shares of GDP (% change)

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</thead>
<tbody>
<tr>
<td>Personal Consumption Expenditures</td>
<td>0.5</td>
<td>-0.4</td>
<td>0.0</td>
<td>4.4</td>
<td>-3.3</td>
<td>0.3</td>
<td>3.0</td>
</tr>
<tr>
<td>Government Inventory and Investment</td>
<td>0.3</td>
<td>-0.8</td>
<td>0.3</td>
<td>2.2</td>
<td>-6.1</td>
<td>2.1*</td>
<td>2.7</td>
</tr>
<tr>
<td>Residential Investment</td>
<td>0.1</td>
<td>-0.1</td>
<td>0.3</td>
<td>0.7</td>
<td>-1.2</td>
<td>2.2*</td>
<td>-0.2</td>
</tr>
<tr>
<td>Non-Residential (Business) Inventory and Investment</td>
<td>-0.4</td>
<td>0.5</td>
<td>0.0</td>
<td>-3.3</td>
<td>4.2</td>
<td>-0.3</td>
<td>-2.4</td>
</tr>
<tr>
<td>Net Exports (Exports - Imports)</td>
<td>-0.5</td>
<td>0.8</td>
<td>-0.5</td>
<td>-3.9</td>
<td>6.1</td>
<td>-4.2</td>
<td>-3.3</td>
</tr>
</tbody>
</table>

* The disparity between these two figures would be much greater if 2008 was excluded. The 2001-2007 total increase is 1.3 per cent for Government Inventory and Investment and 2.5 per cent for Residential Investment.

NOTE: If the share of GDP is decreasing (negative), it is growing less rapidly than GDP.

SOURCE: CANSIM Multidimensional

As Table 1 shows, the share of GDP accounted for by personal consumption expenditures dropped by an average -0.4 per cent for 1993-2000, and then experienced no average change for 2001-2008. Of course, a declining share of GDP means that personal consumption is growing less rapidly than GDP, not faster, as the idea of consumption-driven growth requires. Where then do we look for the motor of post-1993 GDP growth, not to mention the upsurge in profitability? Given that the Canada-US Free Trade Agreement went into effect in 1989 and the North American Free Trade Agreement in 1994, trade seems like a good starting point.

It is worth noting that the “net exports” category in Table 1 hides the explosion of trade that began in 1992, the same year GDP growth rebounded from a 1991 recession and profits started to rise. Exports, for example, grew from 25.1 per cent of GDP in 2001 to 45.6 per cent of GDP in 2000. However, trade growth alone cannot account for a growing GDP. Since imports are produced elsewhere, they must be deducted from Canada’s GDP. Thus what matters is not trade, but net exports, or exports minus imports. But, as Table 1 shows, the net export data is also impressive for the 1993-2000 period: net exports’ share of GDP increased by a total of 6.1 per cent in these 8 years. Thus, while not the only source of GDP growth between 1993 and 2000, trade is certainly a key one.

After 2000, net exports drop off and residential investment emerges as the most rapidly growing expenditure, expanding its share of GDP by 2.2 per cent between 2001 and 2008. This fact accords with Brenner’s notion of “asset-price Keynesianism” (see 2006: 319-22); however, it is still problematic that the “wealth effect” of the real estate boom did not lead to any
significant growth in personal consumption. The idea of “consumption-driven growth” is therefore of questionable merit for Canada.

3. The Ascent of Finance in Canada

To be sure, the fact that Canada’s 1990s boom is based to a large extent on export growth—and not consumption—by no means invalidates Brenner’s overall theory. Building on his basic theoretical claim about the anarchic nature of the capitalist world economy, he argues that national economies develop unevenly. In other words, the performance of individual economies will fluctuate as their relative technological and cost (e.g. exchange rate) advantages change, thereby affecting the country’s ability to capture shares of the world market in general and the US market in particular (2006: xx, 37-9). Consequently, even without clear evidence of “asset-price Keynesianism” in Canada, the 1990s export-led expansion could be attributed to a stock-market bubble and growing private debt in the US.

For Brenner, however, temporary export booms do not detract from the long downturn thesis. Similarly, Stanford (1999: 113, 23) notes that Canada’s export boom was led by the auto industry, but nonetheless concludes that “Canada’s real economy has not done well at all in the 1990s.” Both of these arguments are based in part on the idea that export-led growth is ultimately unsustainable in a highly competitive world market. However, there is also a more fundamental economic trend that both Brenner and Stanford find extremely disturbing: the rapid growth of ‘unproductive’ sectors of the economy, especially the financial sector. And just looking at shares of value-added, they are indeed correct—profits have risen in the midst of a longer-term tendency for ‘unproductive’ sectors to expand while ‘productive’ ones decline, as is apparent in Figure 6.

![Figure 6: Value-added and Labour Performed in ‘Productive’ vs ‘Unproductive’ Industries](image-url)

*Unproductive’ industries include wholesale, retail, FIRE (Finance, Insurance and Real Estate), business services and public administration. This leaves the following ‘productive’ industries, whose share of total employment must be declining: agriculture, mining, construction, transportation, utilities, manufacturing, education, food and accommodation, and health and social work (see Shaikh & Tonak 1994: 108-9, 284, 295).

SOURCE: OECD.Stat for employment; CANSIM Multidimensional for value-added
As mentioned earlier, Brenner is a peculiar Marxist in that he makes no effort to convert conventional economic data into labour values. Still, he follows Marxists like Anwar Shaikh and Ertuğrul Tonak (1994: 4) in rejecting a neoclassical system of national accounts that “treats all market activities as productive.” As Shaikh and Tonak explain, only labour directly engaged in production can create value; labour in industries like finance or trade only redistributes or appropriates previously-created value and is therefore unproductive. Accordingly, unproductive activities must be subtracted from neoclassical national accounts data in order to get an accurate picture of the value (and surplus-value) created in a country (1994: 20, 24-8).

Following Shaikh and Tonak’s distinction between “productive” and “unproductive” labour, the top series in Figure 6 charts unproductive employment, measured in full-time equivalents (FTEs), as a percentage of total employment. Since technological advance reduces the number of workers required in production, it is not surprising that the labour performed in unproductive industries (see the note to Figure 6 for the complete list) has risen over time, ascending from 30.1 per cent of total labour performed in 1970 to 41.6 per cent in 2006. But this also means that more and more surplus-value is being diverted to unproductive industries, thereby decreasing potential profits in the real economy (Shaikh and Tonak, 1994: 124).

Although Brenner does not develop a systematic productive/unproductive distinction, he attempts to capture the thrust of Shaikh and Tonak’s argument without actually calculating labour values. Rather than productive versus unproductive industries, Brenner puts manufacturing against non-manufacturing in some places, and manufacturing against finance in others. No doubt, empirical trends in the Canadian economy are disturbing in these terms too. For example, as the bottom two series in Figure 6 show, the manufacturing sector’s share of value-added has declined steadily since 1961, while the share accounted for by FIRE (finance, insurance and real estate) and business services has grown. As a result, the wide gulf that existed between the two sectors in 1961 disappeared by 2004, with both accounting for about 20 per cent of total value-added.

Figure 7: ‘Real’ Profit* Growth by Industry

*Gross operating surplus is used as a proxy for profits, which means that the data is before capital consumption adjustment and also includes self-employment income.
NOTE: ‘Real’ series are calculated by dividing nominal data by the GDP deflator.
The contrast between manufacturing and finance is also striking in terms of real gross profits. This is apparent in Figure 7, which charts the profit growth of the three largest sectors of the Canadian economy—FIRE, manufacturing and mining—alongside the average for private industry. Since the 1973 base year, manufacturing profit growth has generally lagged behind the private industry average. Again, the main exception is the mid-to-late 1990s. In the wake of the 1991 recession, real manufacturing profits fell to virtually their 1973 level; however, they almost tripled over the next eight years, reaching a peak in 2000 before slipping below the private industry average growth path once again. Mining, which includes oil and gas, has similarly experienced boom and bust periods, with the most recent upsurge coming between 1998 and 2004.4

By contrast, real profit growth in FIRE has consistently outpaced the private industry average since 1981, the year when Canada’s central bank raised interest rates and began its “anti-inflation crusade” (Stanford, 1999: 190). Consequently, while profits in mining and manufacturing combined were higher than profits in FIRE and business services for all but three years between 1961 and 1981, the exact opposite is the case after 1981, despite periodic manufacturing and mining booms. This reversal is quite disturbing for both Brenner and Stanford. As Stanford (1999: 241, emphasis added) puts it, “the key problem, from the perspective of real investment and job creation, is that more...income is going to the owners of financial capital…and less to those who actually set it into economic motion.”

Indeed, as with Stanford, Brenner’s long downturn argument ultimately hinges on the growing domination of finance. Empirically, he is correct in that Canada’s mid-1990s manufacturing boom did not last, though arguably Figure 7 suggests that other ‘productive’ industries like mining may have picked up the slack. And, in a resource-rich country like Canada, it would make sense to include mining with manufacturing as a key part of the “real economy.” But it is still true that the 1990s profit upsurge took place against the background of, if not a stock-market bubble, then at least relative rise of ‘unproductive’ industries, a trend that also reached its peak in the early 1990s. In fact, the manufacturing sector has been on the decline relative to FIRE even in terms of fixed capital investment, as Figure 8 clearly shows.

Figure 8: Fixed Capital Investment by Industry (% of Business Investment)

NOTE: All series are only for non-residential fixed capital investment.
SOURCE: CANSIM Multidimensional
The manufacturing share of investment swiftly declined after 1989, in spite of the spike in manufacturing profits shown in Figure 7. Meanwhile, FIRE’s share ascended almost continuously from 1955 to 2006, accounting for more fixed capital investment than the manufacturing sector as of 1998. From Brenner’s perspective, the resulting problem is that fixed capital investment in FIRE does nothing to increase labour productivity or ensure ongoing economic dynamism. Along a similar line, Stanford (1999: 29-30) points out that, as of 1980, investment tends to be increasingly in financial assets rather than “real” or productive assets like capital equipment, and is increasingly undertaken by financial institutions (see Appendix D). Such trends lead Brenner to ask if non-manufacturing can continue to “drive the economy” through the 2000s and he answers with an emphatic ‘no’—the bubble is destined to burst for the service sector, including FIRE, without the support of a booming manufacturing sector (Brenner, 2003: 274-6).

4. Unproductive or Differently Productive?

If empirical evidence does not disprove Brenner, this last claim at least points toward a key theoretical question about his argument: is it reasonable to dismiss the financial sector, among others, as speculative? In response to Marxist writers like Brenner, Nitzan and Bichler (2004: 262-3, original emphasis) point to the problems of differentiating between productive (i.e. real) capital and unproductive (i.e. speculative or commercial) capital. For one, the activities of the modern corporation are so diverse that “even within the corporation we cannot know how much profit comes from ‘industry’ as opposed to ‘commerce’ or ‘finance’.” But they suggest a second, more fundamental reason to question the real/speculative distinction.

As suggested earlier using the extreme example of Microsoft, corporate profitability has as much to do with state policies—especially state-mandated rights of exclusion like IPRs and process patents—as the productivity of fixed capital. Nitzan and Bichler (2006: 39, original emphasis) aptly summarize this point by claiming that “the state is partly an aspect of capital.” To the extent that even manufacturing profits depend on the state, it is unclear why they are any more “real” than financial profits. After all, the state also plays a crucial role in creating financial profits, as Brenner (2006: 276-9, 297-8; 2003: 40-2) acknowledges whenever he discusses the enormous growth of the US financial sector in the 1990s. For example, Brenner claims that the Federal Reserve’s “decisive intervention” was responsible for the US financial sector’s “astonishing turnaround” in the early 1990s. But if financial deregulation and interest rate manipulation were essential for “financial takeoff,” then it appears that, like the state-protected profits of Microsoft, financial gains have not been all that speculative.

This discussion of the reality of finance leads to a second key problem with the theory underpinning Brenner’s long downturn thesis. Rejecting the idea of the “discipline of finance,” he argues that financial deregulation paved the way for “an orgy of speculation in the form of mergers and acquisitions” (2006: 278). In other words, corporations turned to finance simply to short-term gains, not for any strategic purpose. Given the importance of over-competition to Brenner’s argument, it is not surprising that he dismisses the monopolistic implications of corporate mergers. But the resulting problem is quite apparent in looking at the relative performance of the largest and most powerful corporations in Canada during the merger-crazed decade of the 1990s.
Consider Figure 9, which compares profit growth for all Canadian corporations to profit growth for forty of Canada’s largest corporations, or what Nitzan and Bichler (2006: 43) call “dominant capital.” Although corporate profits in general have been on an upward trajectory since 1992, the profits of dominant capital have risen over twice as rapidly. The only exception came around 2002, when losses by a number of communications companies such as Shaw, Rogers and Telus ruined an otherwise respectable performance by dominant capital. Still, dominant capital definitely recovered: as of 2007, the profits of dominant capital were more than eight times their 1988 level, while total corporate profits only tripled in the same period. Not surprisingly, then, the profits of dominant capital—of just 40 large firms—amounted to 45 per cent of Canadian corporate profits in 2007, 54 per cent when all sixty members of the S&P/TSX 60 are included.

The relative success of dominant capital suggests that the 1990s upsurge could easily be characterized as “differential accumulation boom” (Nitzan & Bichler, 2002: 41) rather than a temporary manufacturing recovery or a speculative expansion. The difference is that, unlike Brenner, who sees increasing labour productivity as key to capital accumulation, Nitzan and Bichler (2002: 34-6, 38, 57) argue that accumulation is entirely a power process. In this view, corporations engage in strategic activities like mergers in order to enhance their control over production, and thus increase their ability to set prices (often by restricting output) and ensure a growing share of profits.

Against Brenner, what is advantageous about this view is that it breaks the link between growth and profitability, suggesting that the largest and most powerful corporations can continue to prosper at the expense of weaker corporations even if there is a “long downturn.” From this perspective, it is not necessary to find ways to dismiss the 1990s and 2000s combination of rising profits and declining dynamism in Canada’s “real economy.” It is not even necessary to confront
the thorny issue of disentangling “productive” from “unproductive” labour, or “real” from “speculative” gains. Indeed, while the trajectory of dominant capital in Canada still needs to be traced back much further, Figure 9 provides a glimpse of what happens when we turn away from Brenner’s preoccupation with competition, productivity and real GDP growth. The fact that Canada’s largest firms are booming implies that over-competition is not the problem, while the key economic dynamic appears to be as much one of giant corporations versus the rest as manufacturing against finance.

5. Conclusion

Marxism has always had a certain infatuation with economic crises, and Marxist accounts of neoliberal globalization are no exception. Paul Sweezy (1991: 52-3), for example, sees neoliberalism as a continuation of monopoly capitalism’s “strong and persistent tendency to stagnation,” differentiated only by the explosion of the financial sector as a means to absorb surplus capital. Meanwhile, in David Harvey’s (2003: 64, 149, 159) New Imperialism, the neoliberal privatization offensive, or what he calls “accumulation by dispossession,” is made necessary by chronic overaccumulation crises beginning in the 1970s. Brenner’s theorization of neoliberalism as a “long downturn” is more impressive than either Sweezy or Harvey’s arguments, if only for the sheer amount of historical detail and empirical data (in fact, Harvey relies on Brenner’s data). However, it still begs the basic question of why a period of more than three decades is characterized as a crisis or a long downturn rather than the normal state for a capitalist world economy.

Of course, using the case of Canada, this paper has corroborated a number of Brenner’s empirical claims regarding the “secular decline” of advanced capitalist economies. But, the last two years notwithstanding, it is difficult to characterize the 1990s and 2000s as a downturn when profits—no matter whether measured by profit rate or profit share—swelled so rapidly after 1992. Still, more recent developments will provide the definitive test for Brenner’s account of neoliberal globalization. In Canada, hardly a week of 2008 went by without an announcement of a plant closing or major layoffs in Ontario, the country’s manufacturing heartland. Meanwhile, the financial sector has experienced its share of turbulence, with 2008 in particular seeing billions of dollars worth of writedowns by Canada’s major banks, as well as dramatic plunges in the S&P/TSX Composite Index that combined to produce a 35 per cent stock price loss for the year.

If a bubble existed, it has certainly burst by now, and the brutal effects of Brenner’s long downturn should be apparent. But will profits continue to surge, despite the manufacturing slowdown? For Brenner this is impossible, yet preliminary evidence suggests otherwise. There are signs, for example, that Canada’s major banks have recovered from subprime mortgage troubles, posting strong profit numbers as early as the third quarter of 2008 (see e.g. Greenwood, 2008: FP1). And the S&P/TSX Composite is now slowly returning to 2007 levels. Perhaps, then, instead of focusing on growth as the condition for capitalist development, as Brenner suggests, we should follow Nitzan (2001: 262), who argues that “the key issue is not the level of profit, but its distribution.” Indeed, this paper has begun to show that the key question may not be one of long downturn versus long boom, but rather of long downturn for whom?
For a brief explanation of why Marx argues that values and prices necessarily diverge, see: Fine and Saad-Filho, 2004: 126-30.

On the issue of the “profit squeeze,” see also Appendix A. As an alternative to Brenner’s narrative, it shows that the labour share of national income increased steadily until 1977, the same year when downturn in the growth rate for real hourly wages began. The labour share then hovered around this peak level for the next 15 years, but fell significantly after 1992, the year when the rapid upsurge in profit rates began.

From Nitzan and Bichler’s perspective, attempting to include IPRs in the net capital stock would just reveal further problems with the category of the profit rate. Simply put, the problem is this: the only way to measure the value of IPRs as capital stock is according to the profits they bring in; but, if the value of the net capital stock depends on profits, there is no point to calculating the profit rate.

Unfortunately the OECD data used in Figure 7 only extends to 2004. For more recent data on profit growth by industry, we must turn to a Statistics Canada series that only reaches back to 1999. The patterns produced by this data mirror those in Figure 7, albeit in a muted form. See Appendix C.
Appendix A: Wage/Profit Squeeze

*Labour income includes wages, salaries and supplementary labour income.

NOTE: Since both series represent competing shares of national income, it is not surprising that they are inverses. From the perspective of the wage/profit squeeze argument, what is crucial is that the wage share peaked (and profit share plummeted) through the 1970s, the period when the downturn took hold. The profit share recovered in the 1990s, but only through an attack on labour income.

SOURCE: CANSIM Multidimensional

Appendix B: Household, Business and Government Debt Growth

(% of GDP, 3-year moving averages)

NOTE: Negative values indicate a surplus (debt is being paid off). It should be noted that most of the post-2000 increase in household borrowing is in the form of residential mortgages, not consumer credit. This makes sense given that residential investment increased in the same period, as Table 1 shows.

SOURCE: CANSIM Multidimensional for debt; IMF through Global Insight for GDP
Appendix C: ‘Real’ Profit Growth by Industry, 1999-2008

NOTE: ‘Real’ Profit is Net Profit divided by the GDP Deflator
SOURCE: CANSIM Multidimensional for Net Profit, IMF through Global Insight for the GDP Deflator

Appendix D: Financial versus ‘Real’ Assets (%)

NOTE: Total assets include both financial and non-financial assets
SOURCE: CANSIM multidimensional
Works Cited


