Apart from the patently nonreality-based dissent of its Republican members, the Financial Crisis Inquiry Commission could hardly have expected the report it issued in January to arouse much excitement. After a year and a half of research and the testimony of academics and other economic experts, it came up with no more than the already conventional wisdom that the economic downturn that burst into public view in 2007 might have been avoided, having been caused by a combination of lax governmental regulation and excessive risk-taking by lenders and borrowers, particularly in the housing market. The same conventional wisdom assures us that swift government action prevented the Great Recession from turning into a full-blown depression, and that the downturn has given way to recovery, albeit a "fragile" one. No matter how often it is repeated, however, this wisdom remains unconvincing.

Why is the recovery so fragile? Why is unemployment stubbornly high? Why are the banks, newly stocked with cash by that swift government action, so uninterested in advancing it for business expansion? Why is the series of sovereign debt crises in Europe echoed in the United States by collapsing state budgets? Why do politicians call relentlessly for austerity even while the economy remains unable to satisfy the need of millions for housing, health care, education, and even food? The bankruptcy of the putative science of economics already demonstrated by the failure of experts to predict the catastrophe is underlined by their apparent inability either to explain what is happening at present or to reach consensus on measures to be taken in response.
A remarkable feature of the commentary on today’s economic troubles is that, despite constant reference to the Great Depression of the 1930s, as well as to the many downturns since World War II, there has been little mention of the fact that business depressions have been a recurrent feature of the capitalist economy since the Industrial Revolution. But even the briefest attention to history makes recent events appear far from unusual. From the early 1800s to the late 1930s, in fact, capitalism spent between a third and a half of its history in depressions (depending on how they are dated by different authorities), which increased steadily in seriousness up to the Big One in 1929. It was only the relative shallowness of the recessions since World War II that gave rise to the idea that capitalism would no longer undergo the ups and downs characteristic of its first 150 years as the dominant social form. The choice in economic theory seemed to be between the neoliberal idea of capitalism as a self-equilibrating system and the Keynesian conception of the economy as controllable by government manipulation. The inadequacy of both views demonstrated by current economic events calls for another look at the long-term dynamic of the capitalist system.

Earlier students of what by the later 19th century had come to be called the business cycle came to understand it as characteristic of a market economy, in which most goods are produced for sale. In such an economy, the reason goods and services are produced by businesses is to make money; businesses expand and contract, and they move from producing one kind of good or service to another, in response to the level of profits earned by their investments. By the early 20th century, statistical studies (carried out, more important, by the American economist Wesley C. Mitchell and the National Bureau of Economic Research) demonstrated that the alternation of prosperity and depression followed the fluctuations of business profitability.

The most elaborately worked-out explanation of those fluctuations, Karl Marx’s theory of the profit rate, came from so far outside the mainstream of economic theory as to be largely ignored by students of capitalism, including most on the left. But economic history suggests the accuracy of his idea that, while prosperity creates conditions for an eventual crisis, the ensuing depression makes possible an economic revival, as the lowering of investment costs—thanks to bankruptcies, price collapses, the vaporization of paper claims to investment income, and the decline of labor costs due both to increased unemployment and the improved productivity of new machinery—brings higher rates of return on investment, producing increased investment and so an expanding economy.

Despite their particular features, the Great Depression and the post-1945 revival of the capitalist economy followed, in broad outline, the pattern set in previous episodes of economic collapse and regeneration. The depression was a long one, and the level of physical and economic destruction of capital unusually high (especially during the war into which it opened). It is not surprising, therefore, that the revival led to a period of prosperity, lasting until the mid-1970s, that economists dubbed the Golden Age for its length and amplitude. The relative freedom from serious downturns during those years was due also to the continuation into the post-Depression period of what had come to be called Keynesian methods: Government spending as a proportion of gross domestic product in the OECD countries increased from 27 percent in 1950 to 37 percent in 1973. In the United States, as the political economist Joyce Kolko noted in 1988, "roughly half of all new employment after 1950 was created by state expenditures, and a comparable shift occurred in the other OECD nations."
Keynes’s idea had been that governments would borrow money in times of depression to get the economy moving again; when national income expanded in response, it could then be harmlessly taxed to pay back the debt. In reality, crisis management turned into a permanent state-private "mixed economy." When the Golden Age came to a definitive end in the mid-1970s, the huge increase in government spending that avoided a return to depression conditions then was another step on the way to today’s increasingly problematic deficits. The very reason for the increase in government spending—insufficient profits—made it impossible to pay off the resulting state debt.

Meanwhile, government debt was joined by soaring amounts of corporate and private debt, making possible the apparent prosperity of the last two decades. Promises to pay sometime in the future took the place of the money the slowing capitalist economy failed to generate. Since governments, businesses, and, to an ever-increasing degree, individuals used borrowed funds to purchase goods and services, public, corporate, and household debt appeared on bank and other business balance sheets as profits. But the repayment of debt requires money made by the profitable production and sale of goods and services. And, as the UCLA history professor Robert Brenner observes:

"Between 1973 and the present, economic performance in the U.S, western Europe, and Japan has, by every standard macroeconomic indicator, deteriorated, business cycle by business cycle, decade by decade (with the exception of the second half of the 1990s). Equally telling, over the same period, capital investment on a world scale, and in every region besides China, even including the East Asian [newly industrialized countries] since the middle 1990s, has grown steadily weaker."

The result was, roughly, the reappearance in 2007 of the depression avoided in the 1970s.

When the collapse of the great American mortgage bubble in 2007 set off a global crisis, national governments found themselves caught between the need to keep the system functioning by pouring money into financial firms "too big to fail," supporting local governments, and "stimulating" the private economy; and the imperative to limit the growth of state debt before it reached the point of large-scale default. The United States had a government debt of $16-billion in 1930; today it is $14-trillion and climbing. The federal debt had already reached 37.9 percent of GDP by 1970; it was at 63.9 percent in 2004, when the International Monetary Fund warned that the combination of America’s budget deficit and its ballooning trade imbalance threatened "the financial stability of the global economy." The worldwide calls of businessmen and politicians for cuts in public spending, however exaggerated by neoliberal ideology, represent recognition of a post-30s novelty: the fact that the Keynesian card has largely been played.

As a result, although today’s capitalism is in many ways a much-transformed version of its 19th-century self, this transformation has not brought an abatement of the systemic problems diagnosed by its critics in that century. It presents them, instead, in new forms. In fact, the crisis looming before us is likely to be, if anything, more terrible than the Great Depressions of 1873-93 and 1929-39. The continuing industrialization of agriculture and urbanization of population—by 2010, it is estimated, more than half the earth’s inhabitants lived in cities—has made more and more people dependent upon the market to supply them with food and other necessities of life. The existence on or over the edge of survival experienced today by the urban masses of Cairo, Dhaka, São Paulo, and Mexico City will be echoed in
the capitalistically advanced nations, as unemployment and government-dictated austerity afflict more and more people, not just in the developed world’s Rust Belts but in New York, Los Angeles, London, Madrid, and Prague.

Left to its own devices, capitalism promises economic difficulties for decades to come, with increased assaults on the earnings and working conditions of those who are still lucky enough to be wage earners around the world, waves of bankruptcies and business consolidations for capitalist firms, and increasingly serious conflicts among economic entities and even nations over just who is going to pay for all this. Which automobile companies, in which countries, will survive, while others take over their assets and markets? Which financial institutions will be crushed by uncollectible debts, and which will survive to take over larger chunks of the world market for money? What struggles will develop for control of raw materials, such as oil or water for irrigation and drinking, or agricultural land?

Gloomy though such considerations are, they leave out two paradoxically related factors that promise further dire effects for the future of capitalism: the coming decline of oil—the basis of the whole industrial system at present—as a source of energy, and the global warming caused by the consumption of fossil fuels. Even if continuing stagnation should slow greenhouse gas-caused climate change, the damage already done is extremely serious. Elizabeth Kolbert, a journalist not given to exaggeration, called her soberly informative account Field Notes From a Catastrophe. The melting of glaciers threatens not only Swiss views but the drinking supplies of whole populations in such areas as Pakistan and the Andean watersheds; droughts have ravaged Australian and Chinese agriculture for years now, while floods periodically devastate the low-lying South Asian homes of tens of millions of people. The rolling parade of disasters is, unfortunately, only getting started. It will accompany a stagnant economy and only be exacerbated by the increased greenhouse-gas emissions that a return to true prosperity would bring.

What both of these continuing social stresses promise is that the decline of the economy, however cyclically inflected, will simply be the lead-in to a crisis of the social system that, because it is based on the laws of physics and chemistry, will transcend strictly economic issues. If the peaking of oil supplies and the catastrophes of climate change do not provoke a major transformation of social life, then it’s hard to imagine what could. This idea may seem unreal today to those of us who still live, for the most part, in what remains of the material prosperity wrought by postwar capitalism, much as the misery and terror of the inhabitants of war-torn Congo are hard to grasp for the inhabitants of New York or Buenos Aires. But this demonstrates only imagination’s weakness, not the unreality of the challenges in store for us, as local disasters like the flood of oil that poured out from BP’s drilling rig into the Gulf of Mexico in 2010 will perhaps make it easier to understand.

The biggest unknown in contemplating the future of capitalism is the tolerance of the world’s population for the havoc that this social system’s difficulties will inflict on their lives. That people are able to react constructively in the face of the breakdown of normal patterns of social life, improvising solutions to immediate problems of physical and emotional survival, is amply demonstrated by their behavior in the face of disasters like earthquakes, floods, and wartime devastation, as well as in earlier periods of economic distress. That 21st-century people have not lost the capacity to confront social authorities in defense of their interests has been demonstrated by protesting young people in Athens,
striking government workers in Johannesburg, and most recently and spectacularly by the Egyptians who, at least for the moment, destroyed a long-lived police state.

People are, in any case, going to have adequate opportunity to explore such possibilities in the near future, if they wish to better their conditions of life in the concrete ways an unraveling economy will require. While at present they are still awaiting the promised return of prosperity, at some point the newly homeless millions, like many of their predecessors in the 1930s, may well look at newly foreclosed, empty houses, unsaleable consumer goods, and stockpiled government foodstuffs and see the materials they need to sustain life. The simple taking and using of housing, food, and other goods, however, by breaking the rules of an economic system based on the exchange of goods for money, in itself implies a radically new mode of social existence.

The social relation between employers and wage earners, one that joins mutual dependence to inherent conflict, has become basic to all the world’s nations. It will decisively shape the ways the future is experienced and responded to. No doubt, as in the past, workers will demand that industry or governments provide them with jobs, but if the former could profitably employ more people, they would already be doing so, while the latter are even now coming up against the limits of sovereign debt. As unemployment continues to expand, perhaps it will occur to workers with and without jobs that factories, offices, farms, schools, and other workplaces will still exist, even if they cannot be run profitably, and can be set into motion to produce goods and services that people need. Even if there are not enough jobs—paid employment, working for business or the state—there is plenty of work to be done if people organize production and distribution for themselves, outside the constraints of the business economy. This would mean, of course, constructing a new form of society.

Capitalism has been around for so many generations now, proving its vitality by displacing or absorbing all other social systems around the globe, that it seems a part of nature, irreplaceable. But its historical limits are visible in its inability to meet the ecological challenges it has produced; to generate enough growth to profitably employ the billions of people accumulating in slums in Africa, South America, and Asia, along with growing numbers in Europe, Japan, and the United States; and to escape the dilemma of dependence on a degree of state participation in economic life that drains money from the private enterprise system. Just as the Great Recession has demonstrated the limits of the means set in place during the last 40 years to contain capitalism’s tendency to periodic disaster, it suggests the need finally to take seriously the idea, as the saying goes, that another world is possible.

Paul Mattick is chair of the department of philosophy at Adelphi University and former editor of the International Journal of Political Economy. This essay is adapted from his book Business as Usual: The Economic Crisis and the Failure of Capitalism, published this month by the University of Chicago Press.