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Will Secular Stagnation be the Result of Great Recession

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Abstract. While Keynesian and neo-liberal discussions on the reasons of and solutions to the last financial crisis have persisted to the present day, new argument from Lawrence Summers and Paul Krugman in late 2013 shifted the debate to the issue of secular stagnation. Opposed to the neo-liberal haplessness regarding a parsimonious analysis of the events of recent years in global economy, Keynesians argued that falling private investment across the advanced economies was the most alarming development that can pave the way for secular stagnation. In this paper, after looking at the main tenets of the above mentioned discussion we will contest the explanations of both strands of political economy, at the same time we will suggest that critical Marxist arguments, especially on falling rate of profit, have been increasingly relevant to this discussion.
Keywords. Recession, Stagnation, Political economy, Keynesians, Marxists.
JEL. B00, B24.

1. Introduction

Since the start of the Great Recession in 2008, the problem of how to rescue major economies from the clutches of recession and low growth patterns has been an ongoing concern, and proposals to remedy the situation have mainly revolved around two influential strands of political economy, namely neo-liberalism and Keynesianism. In line with classical economists, neo-liberals do not see any inherent crisis tendency within market economies and have blamed excessive government intervention in economies, i.e. excessive ease in monetary policy. They have largely recommended austerity policies and tax reductions for business as solutions to the crisis. On the other hand, Keynesians have argued that an unfettered financial sector, problems with self-correcting markets, irrational human expectations and deregulation were the main culprits in the economic downturn. As for solutions, Keynesians indicated government regulation of the financial sector and large scale economic stimulus programs to reinvigorate general demand, which would in turn spur a new growth cycle. However, since the fall of 2013, and starting with Lawrence Summers and Paul Krugman, Keynesian scholars have begun to stress the persistence of the low growth pattern even in the wake of massive quantitative easing policies by major central banks, with Summers shifting the debate into entirely new territory. Inspired by Alvin Hansen, who wrote in the late 1930s, he has suggested the probability of the US economy entering into a secular stagnation as the low growth trajectory is supported by declining birth rates and stalling investment numbers. In this paper, following a review of all these discussions we will try to argue that the main determinant of recessionary

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tendencies is the low rate of profitability and that no meaningful recovery can begin until the problem of rate of return on capital is addressed.

2. Plan of the Research

The introduction to this essay is followed by an exploration of neo-liberal explanations and remedies for the 2008 financial crisis, which mostly blamed the government's unnecessary meddling in the economy and deviations from orthodox liberal path as the main sources of the calamity that we are in right now. In contrast, Keynesians indicted austerity and the unfettered power of the markets over society as the biggest factors that brought about and extended the crisis. After examining the main parameters of this mainstream debate, our attention will turn to Lawrence Summers' resurrection of the idea of secular stagnation, its meaning and whether it is an immediate danger to growth in advanced world economies. In the last part, we will turn to the Marxist critique of what may lie at the root of stagnation, in which authors like Michael Roberts explain the stagnation issue from a different angle.

3. 2008 Global Crisis Liberal-Keynesian Dispute

As mentioned earlier, prominent neo-liberal and Keynesian economists have spent quite long working hours on explaining reasons and providing alternative solutions for the deepening financial crisis which erupted with the collapse of the US sub-prime mortgage market. Over the last nine years, as it has been for a long time, radical alternatives' ideas and solution proposals on the current crisis have been ignored and Hayek's followers kept repeating their very well-known, but at the same time quite invalid arguments. For the purpose of understanding ongoing debate, it is useful to start by presenting those rival approaches' ideas on evolving crisis.

Following Hayek's ideas, neo-classical economists of our time put forward exogenous shocks and various man made mistakes as the real reasons of the crisis and insist in turning a blind eye toward the role of any kind of structural problems within capitalist social system (Wright, Levine, & Sober, 1992). From their perspective, through perfect competition, market economy provides the equilibrium of supply and demand and no problem arises from internal dynamics of the market economy. Invisible hand of the market provides that equilibrium where every supply creates its own demand. If those arguments are valid why did 2008 financial crisis emerge? Many neo-liberal economists emphasize excessive government intervention in the housing market as the real reason of the crisis. For them, policies like CRA and affordable housing policies are the real reasons of the housing bubble in the US. In line with the neo-liberal perspective, Wallison & Calomiris (2009) argue, those government subsidies caused lower mortgage lending standards which ended with increasing delinquency rates. That vicious circle, in the final analysis, provided suitable environment for the path to a recession.

Many other explanations have been circulating around in relation to the crisis. To mention few of them, for Lang & Jagtiani (2010) the real problem was banks' and financial institutions' reliance on untested risk models. As a result of unsuccessful risk management strategies, housing downturn could not be predicted properly. From a different angle, Alan Greenspan sees market actors' excessive risk taking attitude as the real source of the crisis (Wiesenthal, 2009). Mainstream economists sees repeating bust and boom cycles are the usual phenomena of the system and for them those incidents form a kind of business cycle. Some pundits even argue that those business cycles create positive results by removing unproductive capital and idle capacity out of the market (Smith, 2013). In fact, this in line with what Schumpeter argued in the early 20th century about the creative destruction feature of modern day capitalism which eventually balances the inefficiencies in the markets (Smith, 2013). Banks' failed risk management strategies indicate that Hayek's assumptions on providing the best possible information to consumers have not been realized. If there is no inherent fault in operation of markets, how did irrational exuberance rise to the surface? Obviously, bankers' highly sophisticated methods were useless in explaining evolution of the crisis.

Following the crisis, at a time when major economies appeared to be going into recessionary cycle, neo-liberal economists suggested that no sort of stimulus packets should be put into effect by governments. According to University of Chicago economist Fama (2009), in the final analysis government stimulus packets cause deterioration of total savings by creating pressure on government debt and deficit which deprive the private sector from the funds needed for investment. As a result, government stimulus packets bring none of the expected positive outcomes vis-à-vis the crisis. With regard to rising unemployment rate appeared during the crisis, neo-liberal economists Mulligan & Philipson (2000) argued that governmental interventions like social welfare policies and unemployment insurances caused unemployed people not to seek new jobs. Therefore, from their perspective, the resources are misallocated and the total output of the economy is decreased, and the crisis has been deepened as a result of governmental interventions. Conservative economists have also been critical on various other governmental interventions. For instance Obama's healthcare initiative has been criticized due to its effects on the private sector. While those kind of governmental easing policies have been criticized by neo-liberal economists, the same economists did not question the government's activities for bailing out investment banks.

Reinhart & Rogoff (2010), IMF associated economists, in parallel to the approaches stated above, warned that high public debt ratio to GDP would end up with lower growth figures. From their perspective, governments need to reduce budget deficits through employing austerity policies in order to go to the path of sustainable growth and establish investor confidence. In fact all those suggested measures are the result of a fundamental choice. Since measures of increasing public revenues through rising taxes are not favored by business owners and investors, emphasis is put on diminishing expenses via cutting social spending. However, in spite of all the measures which have been put into effect, over the last eight years the negative aura of the economy has not disappeared. In terms of unemployment rates, despite various governmental bail out and stimulus efforts, so far the pre-crisis figures have not been reached. With regard to austerity policies, American, British and many other governments tried to balance rising expenditures caused by bank and corporate bail outs through going on cuts on social expenses which in most of the cases took away any possible effectiveness of those stimulus efforts. In general, it will be proper to say that, in many cases neo-liberal arguments have failed in explaining crises of capitalist economy and providing sound solutions for existing fundamental problems. So, now we can analyze Keynesian reaction to the crisis.

4. The crisis from Keynesian Perception

In general terms, Keynesian economists criticize certain assumptions of the laissez faire approach but do not aim at making radical changes at the nature of market economy. For Keynesians, in the anarchic features of the market, the self-correcting equilibrium between supply and demand is disputable and psychological expectations of human beings play a vital role at fluctuations in the market. Existing uncertainties of a certain time and place, in most cases cause elevations at unemployment and idle capacity rates since it becomes very difficult for investors to make accurate predictions about the amount of investment needed for an economy within those circumstances (UNDP Report, 2015). Lack of investment causes rise at unemployment rates which in return brings conditions of recession related to lack of demand. Within those circumstances, according to Keynesians, the goals of full employment and sustainable growth can only be achieved through the state's intervention via monetary and fiscal policies (Keynes, 2008). In addition, Keynesians have no confidence in the credit and financial markets and they suggest financial markets and investment banks to be regulated closely. In regard with macroeconomics, Keynesians do not see any internal problem related to the capitalist mode of production and they accept the main arguments related to the role of supply and demand. For them, through appropriate management of demand along with cautious financial regulations, faults of market economy can be re-corrected and crises can be overcome.

Obviously Keynesian economists' analyses differ sharply from those of neo-liberal economists on various subjects like the causes of the Great Recession and measures which need to be taken to correct problems within the current economy. According to well-known economist Krugman (2009), the real causes of the 2008 crisis were the assumptions on the actions of rational investors within the market and the firm belief of great majority about efficient market hypothesis. Relying on that thesis, many experts ignored the main tenants of the economic activity and opened up the path for housing bubble. In addition, according to Krugman, unregulated financial actors like investment banks and hedge funds supported inflating bubble by issuing derivatives and other products. Enlarging East Asian markets provided the sources needed for that bubble economy by sending their excess saving into the US market. US Federal Reserve's low interest policy of 1 percent which was in effect since 2001 recession was the coupling effect along with the East Asian savings. Skyrocketing of the house prices made it apparent the weaknesses of underlying assets and resulted in value reduction of 13 trillion dollars which brought to surface a huge indebtedness and the collapse on demand side. All those incidents caused 6 million job losses, sharp increase at unemployment rate and recession in the economy.

From Krugman's (2013) perspective, the simplest way for the government to fix the problem was stimulating demand and investment through lowering the interest rates. But he reiterates that, at that time the US economy was facing zero bound interest, reducing interest rates would have no real effect on the economy. Instead of lowering interest rates, at that point there was a need for a wide range stimulus efforts and social spending efforts from the government. Obviously such measures were in contradiction with solutions presented by the neo-liberal economists. Krugman emphasized that, in the wake of a huge housing crash, since the US economy had too much redundant capacity to expand, pro-austerity economists' inflationary expectations and crowding out of private investment by the government debt were not realized. According to conservatives' and neo-liberals' perspective, the reason for stimulus efforts not to work well was the fact that the US economy was in low growth trend and unemployment could not be reduced meaningfully. However, Krugman argued that, stimulus efforts were not wrong but their size was problematic and compared to strict austerity measures implemented within the Eurozone, fiscal expansion which was put into effect by the Obama Administration was a success. For Krugman and like-minded economists, insufficient fiscal expansion could not stabilize the economy in full and reimplementation of austerity agenda would mutilate fragile recovery.

Most of Krugman's arguments about applying stimulus and fiscal expansion instead of implementing austerity measures were shared by the other prominent Keynesian economists like Stiglitz. On capital and its relationship with inequalities, Stiglitz (2011) emphasized that accomplished economic growth within the US over the last few years was not shared equally among different segments of the society, but when it comes to make sacrifices, lower income groups were asked to make concessions. Unregulated private sector and neoliberal orthodoxy's trickle down theories suggest that every segment of a society would benefit from extension of wealth. On the contrary, statics on distribution of income and concentration of income among top social groups nullify those predictions. In order to overcome such problems, Stiglitz argues that, through fiscal efforts, the government should decrease inequalities and provide convenient conditions for the growth of US economy by diverting sources for investments at various areas such as new energy, infrastructure, public health and education. However, talk is cheap and Stiglitz concedes that making such changes about the economic mentality are prevented by neo-liberals and banking sector which have huge impact over the US politics.

As a conclusion, compared to neo-liberals' total neglect of human factor, it is possible to claim that Keynesian explanations about reasons of the crisis and alternative solutions for fixing the economy are much more society friendly and reasonable. But that does not put out of sight the fact that Keynesians have certain fallacies. Keynesians suffer, in Marx's term, commodity fetishism because they believe that in a capitalist economy lack of demand can be corrected by monetary and fiscal stimulus measures. For most of Keynesians the real problem was the lack of demand and accompanying lack of investment which indeed creating a vicious circle. Obviously, Keynesians have no doubt with structural features of capitalist mode of production where status quo can be reestablished through the state's interference. It is obvious that, despite the government's bail outs and quantitative easing policies, so far the economy have failed in regaining its momentum. Therefore Summers, Krugman and Wolf (Wolf, 2015) seem increasingly hopeless due to the obvious fact that current conditions of the economy is completely different from those of the 1930s New Deal era.

5. Secular Stagnation and Remedies

Hence the pessimism mainly came from the ideas of Lawrence Summers when he began to talk about the possibility of the US economy entering into a secular stagnation. Later, Krugman, Wolf and other Keynesians agreed with this thesis. The concept of secular stagnation came from Keynesian economist Alvin Hansen's predictions regarding the future of the American economy at the end of 1930s. In the middle of the Depression, Hansen claimed that what most determines the nature of business cycles are external factors, such as territorial and population changes, technological innovations and alterations in accessibility to natural resources. These external factors motivate capital spending with future profit expectations, which also induce more spending and increase aggregate demand. The upswing cycle that begins with this external momentum reaches its limit when it is faced with other external constraints like diminishing returns, supply-side limitations or decreasing raw materials. Thus, with his dubious views on self-propelled markets, Hansen argued that in the wake of 1937, numbers that displayed lackluster economic growth which didn't reach previous peak in 1930 after years of credit-induced consumption and federal expenditures, would mean a pessimistic future for the entire economy. Hansen's pessimism was further fed by a declining population growth rate and diminishing investment outlets, as new technologies to surpass those of the 19^{th} century seemed few and far between at the end of the 1930s. With these variables at hand, he concluded that what awaited the US economy in the near future was a secular stagnation, a pattern of low growth years that would not compensate for the deficiency of demand due to the aforementioned external constraints (Brown, 1989).

Eventually, it turned out that the stimulus from the Second World War and its ensuing baby boom generation, and new innovations in electric and machinery systems during and after the war falsified Hansen's thesis of secular stagnation. Thus, for most economists, the thesis remained a footnote in the history books, until Lawrence Summers began to remind us of it in his IMF conference speech in late 2013. Summers began his argument by pointing out that even four years after stabilization of financial markets, the economy had not returned to a sound growth pattern, while persistently high unemployment numbers continued to aggravate social misery (Economist, 2015). Moreover, with all those massive quantitative easing policies, neither inflation nor interest rates have surged substantially. Summers added that because of the excessive savings created by these QE policies and low interest rates from previous bubbles, it would be very difficult to divert private investment into productive areas.

Furthermore, under conditions of zero-bound interest rates and falling wage levels, demand for consumer goods would not pick up any time soon. Low inflation numbers and prolonged slump-like conditions in most of the industrialized world too do not herald any acceleration of demand in near future.

Supports for Summers' thesis that secular stagnation is a strong possibility for the industrialized world may be seen in a) low population growth and declining levels of productivity, b) the reduction of the share of labor from total wealth and greater concentration of assets among top earners - negative news for future consumption demand, c) the enormous reserves that governments and rich investors accumulated which have fed the excessive saving rate, coupled with the increasing risk aversion due to the memories of recent financial crisis, and d) the decline in one of the primary variables of investment demand, costs of durable goods, due to technological innovation are more than likely further stall the productive investments. Summers claimed that due to the risks of financial instability and increasing income inequality, promoting stock and bond market bubbles would not be a fair remedy for the problem. His main contention was that substantial government-led infrastructure, industrial and consumer spending would be a preferable alternative under the present circumstances in the world economy (Summers, 2014).

Krugman (2013) supports Summers, and has added that saving is a negative action in the face of zero-bound interest rates, and that the current political climate, fixated as it is on debt reduction and deficit, would deepen the recession. Furthermore, by looking at the ratio of household debt to GDP in the US, Krugman asserted that with the enormous increase of household debt in last three decades, the booming inflation which should have resulted simply did not happen. This sign, according to him, would mean that the US economy had been very close to a liquidity trap unless those successive financial bubbles had not occurred. Then, in another supporting argument for Summers, Krugman pointed out that 1960-85 population growth numbers in the US were on average 2.1% annually, while the 2015-25 U.S census estimate for growth of work force is around 0.2%, displaying an additional stagnation tendency. Krugman agreed with Summers on massive public investment and stimulating demand, concluding that under the current political climate of austerity and Republican obstructionism in Congress, it would be very difficult to undertake these public investments.

Other Keynesians, namely Roth (2016) and Pettis (2014), claimed that in order to save the world economy from stagnation there should be globally-coordinated government action to raise the share of labor in GDP, since the rising inequality of the last three decades literally drowned investment opportunities by contracting general demand (Lambert, 2014).

Buttressing the Keynesians further, IMF's World Economic Outlook provided a bleak assessment of the world economy in 2013. While investment is falling as a proportion of GDP, the IMF did not see any prospect of growth rates passing pre-2007 levels. Between 2008-2013 investment to GDP ratios of the industrialized world were 2.5%. The IMF also warned that the short-term rebound of emerging market economies in 2009-10 actually turned into a decelerated growth pattern and was far removed from pre-crisis levels. One immediate sign of this fragility was the turbulence in the summer 2013 in markets, when there was a slight sign of interest rate increase by the US Federal Reserve. IMF chief Lagarde argued that while corporate profits had increased 36% since 2006, this had not resulted in influential economic expansion, and also stated that the latest signs of declining inflation rates in Europe would also necessitate quantitative easing measures in the continent to prevent deflationary tendencies. In short, an institution close to the neo-liberal mantra was also talking about signs of stagnation (International Monetary Fund, 2013).

Hence, having reviewed all these accounts on the causes and possible consequences of crisis, the question that lingers in our mind is whether recovering demand is the solution to upcoming stagnation. For answers, we need to look at the Marxist interpretation of the crisis as well.

6. Marxist Interpretations

A theory that excludes the analysis of historical change and assumes the capital as a thing in itself could not reconcile with the reality. As those Keynesian pundits tried to understand what causes this lack of aggregate demand, economists like Jones (2013), Roberts (2014) argued that what explains the lack of demand is the insufficient income of the large sectors of population which was a product of capital's relentless drive to increase its profitability. Those authors suggested that the real reason behind the great recession was the falling rate of profits since late 1970s and the associated actions that capital took in order to increase that profitability rate. Jones argued that especially the financialization of economy and growing share of rent over the actual surplus value production, though increased the overall corporate profits, displayed a secular tendency of stagnant surplus value production which accompanied with a decreasing share of wages from the total production. That very attempt to surpass those structural problems inherent to the system pawed the way for current malaise of lack of demand and investment. Jones and Roberts showed that the actual rate of surplus value production which climaxed around mid-1960s, turned downwards but began to recover until 1997, then slightly increased up to 2006. The rate of net surplus value production started to decrease after that date and reached to the bottom around the same time with great recession (see Figure 1). So they warned political economists to separate additional profits that came from financial and rentier activities in order to understand what is going on in underlying economy.

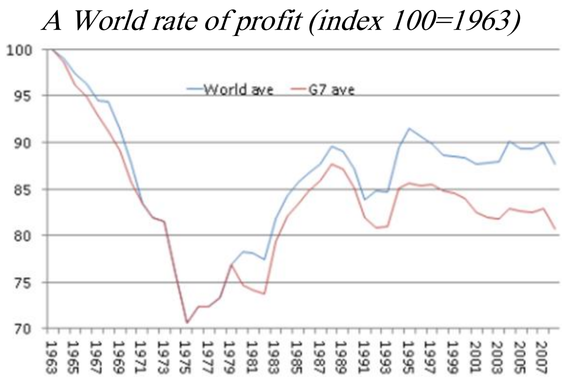

Figure 1. *A world rate of profit*
Source: Michael Roberts' Blog, [Retrieved from].

Since 2009 after all those stimulus and quantitative easing corporate investment remains sluggish and not returned to pre-recession levels. At this point it would be wrong to say the rising share of the fictitious capital within overall corporate profitability and the broadening chasm between it and the real production did not cause the great recession but in the final analysis financialization and ballooning of fictitious capital on claims has to have a prior reason, and that is the structural problem of capitalist economy which tried to recover the decreasing rate of surplus value with ever more production of fictitious capital.

On the issue of inequality and whether it can be the chief cause of the recession, as Roberts (2014) put it, the real problem with the crisis is not about how you share the total value added at the end of production process, but how the ownership of means of production influenced the former throughout the history. Since most of rich have tremendous political clout over the decision-making system just calling for reducing inequality, like Keynesians do, does not affect the social relationships that engendered the inequality. Any reduction in inequality requires a class analysis and strengthening of working classes through political struggle. Furthermore, just because this great recession corresponded with a huge inequality does not explain by itself the emergence of capitalist crisis since the erratic tendencies of capitalism can also be seen in less unequal societies such as Germany and Japan.

7. Discussions on Tendency of Rate of Profit to Fall

Harvey (2016) criticizes Roberts on mono-causal explanation of crisis as he argued that tendency of profit rate to fall was even accepted by Marx as tendency rather than a law that can explain the basic mechanics of the capitalist system, especially this mono-causal exposition play down countervailing tendencies to the rate of profit. He further noted that profits can fall for any number of reasons, like fall in demand, rise in wages, resource scarcities, monopoly power and secondary circuit of capital, i.e. speculative overproduction and investment in fixed capital.

For the first criticism, Harvey (2016) outlined the data from financial press which point out that mass labor participation in contemporary capitalism that increases the amount of profits or total surplus value and used it as sign that profits were not declining. Secondly Harvey brought fore the argument that capital as an organic whole has been subjected to different pressures, sometimes contradictory, from the circulatory flows of value outside the production. Harvey quotes from the introduction to the Grundrisse to support his alternative metaphor:

> "The conclusion we reach is not that production, distribution, exchange and consumption are identical, but that they all form the members of a totality, distinctions within a unity…. A definite production thus determines a definite consumption, distribution and exchange as well as definite relations between these different moments. Admittedly, however, in its one-sided form, production is itself determined by the other moments. For example if the market, i.e. the sphere of exchange, expands, the production grows in quantity and the divisions between its different branches become deeper. A change in distribution changes production, e.g. concentration of capital, different distribution of the population between town and country, etc. Finally, the needs of consumption determine production. Mutual interaction takes place between the different moments. This is the case with every organic whole." (Harvey, 2016).

By quoting this he tried to show that in capitalist system there are multiple mutually interacting moments which may blur the effectiveness of the tendency of rate of profit to fall and Harvey added that if this tendency has effectiveness after all it would be more than likely an explanation of apocalyptic end or breakdown. More parallel description can be the Sun's running out of fuel at the end of its life in our solar system, but until that time we have to explain various sorts of crisis and problems through specific details of immediate environment.

In response to Harvey, Roberts (2015) pointed out the fact that rate of profit is measured by dividing total surplus value (mass profits) into invested capital in that economy for a certain period. So Harvey's stress on increasing mass profits does not clarify the issue as it overlooks the percentage increase in the total invested capital. Since Marx emphasis was on the effects of rising composition of organic capital, if it rises more in proportion to the total profits, then the rate of profit would fall subsequently.

On Harvey's arguments regarding the effectiveness of this tendency of the rate of profit to fall, Kliman (2011) replied with the law of gravity metaphor. According to Kliman, this tendency is an inherent in the nature of capitalist production and so far capital cannot surpass this constraint evidenced by major and minor crisis in its history. So like the law of gravity this structural barrier's existence does not exclude other countervailing tendencies. Moreover, those counter factors cited by Harvey in his paper are widely related to secondary contradictions that cluster around this primary issue. To name an example he noted that air pressure can affect the speed of a descending object from sky but it cannot totally negate the law of gravity or eventual fall. So in its competitive quest for more surplus value capital always need outside intervention in order not to stick in the tendency of rate of profit to fall.

On the Harvey's quote from Grundrisse, Roberts (2015) argued that actually Marx real point was "a definite production" that determines other phases of capital, so a contradiction inherent to the production phase inevitably influences the other circuits but their problematic tendencies would be fixed through changes in production methods. On this matter Carchedi (Roberts, 2015) wrote that if crisis are recurrent and they all have different causes, those expositions on secondary circuits of capital can explain some reasons for different crisis but not their recurrence. If capitalist crisis are recurrent throughout history then they must have a common cause that manifests itself repeatedly in those crisis times.

8. Notes on Rate of Profit

Another contention of Harvey and other critiques was how to calculate profit rates of separate countries in global capitalist system. Roberts and Maito (Roberts, 2012) proposed to use historical data from major 14 countries whose overall GDP mostly composes the 60% of the world trade. These countries are also representing major core and peripheral economies in the world system. In those countries by looking at time series of rate of return on fixed capital investments (since finding a total rate of return on circulating capital is almost impossible and fixed capital investment mostly signals the investment by industrial and productive sectors in various countries) authors found a secular declining trend on the average rate of profit. This secular trend was reversed somewhat in certain periods in 20th century, such as the period just after the Great Depression, post Second World War era up to 1965 and episode of neo-liberalism after 1982. These reversals usually coincided with a major destruction of fixed and accumulated capital in core and periphery and the success of the last one through incorporating China into the system began to lose its steam after the Great Recession of 2008 (Roberts, 2012).

9. Conclusion

Throughout this paper we have tried to analyze how mainstream strands of political economy tried to explain the causes of the Great Recession and their formulation of possible remedies. Since they have not established a sound analysis of what made the recession possible, the neo-liberal camp did not offer anything very effective other than the largely questionable policy of tax cuts and more austerity. The story of possible solutions to the crisis ended with the Keynesian turn towards the theory of a secular stagnation and a very pessimistic outlook for the future of growth in the advanced world. Approaching the problem from the demand end, Keynesians insisted on some form of demand-stimulating government intervention, even as Michael Roberts and Marxist political economists critiques of this view indicated the real obstacle before the recovery of Western economies to be a declining rate of profits feeding a decelerating pace of investment. Hence, it seems like we will have future short- and long-term downturns and possibly larger crises until capital get rid of its excess capacity. On that point, it is useful to recall that when, back in the 1930s, Hansen warned about the dangers of secular stagnation; the later recovery of major economies was brought about by the destruction of the Second World War (see Figure 2). So, does this make us wonder if a broad-scale war looms in the near future as a response by major powers to a stagnating world economy?

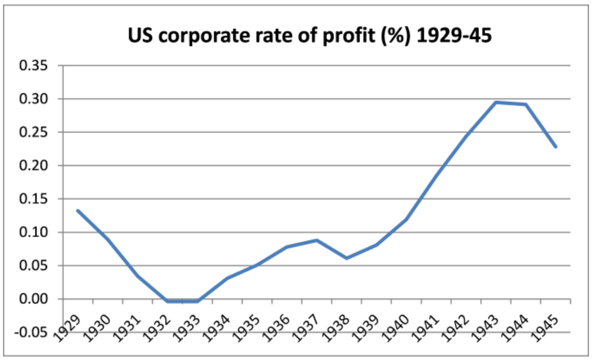

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Figure 2. *US corporate rate of profit (%) 1929-45*
Source: Micheal Roberts Blog, [Retrieved from].

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