The Marxist Theory of Crisis

J. Winternitz

This article was first published in 1949 in Vol.4 No.4 of *The Modern Quarterly*, the theoretical journal of the Communist Party of Great Britain (it was the precursor to *Marxism Today*). We are grateful to Mike Banda for providing us with a copy.

ACADEMIC economic theory has become "crisis conscious". This is a new phenomenon, resulting from the shattering experience of the world economic crisis of 1929-32. From the times of Adam Smith and Ricardo up to recent times the prevalent opinion among bourgeois economists was that the "free enterprise" system was self-regulating, automatically adapting supply and demand, and crises were just exceptional disturbances like floods and earthquakes, the explanation of which was not the business of economists who had proved to their satisfaction that such a thing as general overproduction could not exist. This attitude was aptly summed up by Professor Hicks when he wrote in his review of Keynes' *General Theory of Employment*: "Ordinary (static) economic theory explains to us the working of the economic system in 'normal' conditions. Booms and slumps, however, are deviations from this norm, and are thus to be explained by some disturbing cause."[1]

It is a symptom of the general crisis of capitalism that this naive faith in the internal harmony of the capitalist system is shattered in the minds both of practical businessmen and of the theoreticians of capitalist economy. The fear that the boom in USA must end sooner or later is as general now as was the belief in everlasting prosperity in 1929. In the last two decades more theories of the trade cycle were produced than in the preceding century, although the periodical alternation of booms and slumps is as old as industrial capitalism.

But none of the numerous bourgeois theories explains why from the very conditions of capitalist production periodical crises arise from necessity. These economists still believe that crises could be avoided, the swings of the economic pendulum damped, the irregularities of the cycle ironed out, by some adaptation of the monetary or credit system, by state intervention, by increased "elasticity" of wages or by a more equal distribution of incomes with the help of taxation; shortly, by reforms which would improve the workings of the capitalist system without touching its basis – private property in the means of production. The various proposals for guaranteeing full employment are based on this conviction that nothing is fundamentally wrong with the economic system.

While for the apologists of capitalism, economic crisis is a dismal paradox which has not so much to be explained as to be explained away, for Marx and Engels, the revolutionary critics of this system, economic crisis was the most obvious, the outstanding empirical proof of their fundamental ideas, proof of the irreconcilable, ever sharpening internal contradictions of capitalism, its growing inability to put to productive use the tremendous productive forces which have grown up under this system. In the writings of the founders of scientific socialism, we find numerous references both to the theoretical explanation of capitalist crisis and to the revolutionary implications of these recurring upheavals.

Unfortunately, Marx was not able to complete his great work on capitalist economy as he had outlined it in his *Contribution to the Critique of Political Economy* in 1859. Therefore we do not find an elaborate and systematic presentation of the theory of crisis in the writings of Marx. But it can be claimed that all the elements of such a theory are to be found in *Capital* and in the *Theorien über den Mehrwert*, posthumously published by K. Kautsky.[2]

But as the different aspects of this complicated problem are treated by Marx in various contexts, his ideas have been interpreted in different ways by Marxists and it is not easy to connect the links in one consistent chain of thought.

There are two basic ideas in Marx's analysis:

1. Capitalist crisis is an expression of the underlying basic contradiction of capitalist society; the social character of production and the private

character of appropriation and consequently the tendency of boundless, rapid expansion of production on the one hand, the limitations of consumption on the other hand.

2. The internal contradictions involved in the tendency of the rate of profit to fall, find expression in crises.

These two ideas are closely interconnected, they are not two alternative theories between which we have to choose, they are two aspects of one clear-cut economic theory.[3]

A theory of crisis, to be satisfactory, has to explain the trade cycle, the regular periodical alternation of booms and slumps, both the fact that for some time a relative equilibrium, a certain proportion between the various branches of production, between supply and demand, is established and the fact that this equilibrium cannot be maintained and breaks down suddenly and violently. Therefore neither underconsumption nor the anarchy of production in itself can be regarded as an explanation of crisis.

Marx and Engels repudiated a crude, oversimplified theory of underconsumption.[4]

Marx points out that "crises are precisely always preceded by a period in which wages rise generally" and that this "relative prosperity" of the working class occurs always only "as a harbinger of a coming crisis." Engels stresses the point that underconsumption of the masses, i.e. the limitation of their consumption to the bare minimum, existed thousands of years before capitalism emerged, but only with capitalism does the new phenomenon of overproduction emerge. Underconsumption is a chronic fact in capitalist society while crises recur periodically.

If we take into account that even in modern monopoly capitalism with its high concentration of production and capital there are many thousands of independent productive units, every one producing for the unpredictable contingencies of a vast market, every one dependent on the decisions of millions of other private producers and consumers, and every one directed only by the desire to make the maximum profit, it is not so astonishing that this absurd system tends to break down. It is astonishing that it functions somehow, for some time. The whole process of production, normally a process of expanding production, can only continue if the mass of capitalist producers find on the market a sufficient demand to enable them to sell their product at what they regard as a reasonable profit and a sufficient supply of the means of production (machinery, raw materials and labour) and at such prices as will enable them to reproduce their capital, to continue their production on an enlarged scale.

Marx (in Volume II of *Capital*) derived a formula which gives the quantitative relations which must obtain between the two main departments of social production, the production of means of production and the production of means of consumption, to make expanded reproduction of capital accumulation possible.

As long as commodities are produced and exchanged in these proportions production can continue on an ever-enlarged scale.

This equation symbolises in fact numerous quantitative relations of this type.

How arc these proportions established and maintained in an unplanned market economy? By the so-called price-mechanism, the "law of supply and demand". When there arc deviations from the socially necessary proportions, the over-produced commodities will fall in price, the under-produced commodities will rise, an under-average rate of profit will be realised in the over-expanded branches, an over-average rate in the under-sized branches, capital will flow from the first to the second till equilibrium is restored.

In this way, for some time (to a certain degree), with continuous deviations and vacillations, a relative equilibrium of supply and demand can be maintained. *Partial* crises of overproduction, overproduction of some commodities parallel to underproduction of other commodities, are thus a regular feature of capitalist economy.

But those economists are mistaken who think they can explain the periodical crises from disproportions of this sort.[5]

The anarchy of production only explains the *possibility* of crises, it does not explain their necessity. If we abstract from the basically dynamic character of capitalist production the rapid growth of the productivity of labour, it is easy to construct a model of an expanding capitalist system which would maintain the equilibrium once established, by increasing working class and capitalist consumption at the same rate as the increase in capital and output.

Capitalism is distinguished from all previous systems of production by the continuous, rapid growth in the productivity of labour which is reflected in the steady growth of the organic composition of capital, in the growing mass of "dead labour" put into motion by living labour.[6]

Capitalism revealed the tremendous productive forces which – as the *Communist Manifesto* says – "slumbered in the lap of social labour". For it is not the ingenuity of the capitalist class which develops the productivity of labour on an unprecedented scale. It is the higher stage of integration of social labour, the development of the division of labour and the assembly and organisation of thousands of workers in one process of production, and the application of science to the technique of production, which achieves these miracles of productivity.

It is the accumulation of capital itself which implies the constant growth of productivity. It makes the application of technical improvements possible on a larger scale, and the concentration

of production in itself without technical revolutions enhances productivity as a growing share of the total is produced in more efficient large-scale enterprises.

This social character of production, which causes the volume of production to rise much more quickly than the numbers of workers employed in production, conflicts with private appropriation, the fact that the whole product is appropriated by the private owners of the means of production for whom the realisation of a maximum rate of profit is the only motive for production. To achieve this the capitalist has both to keep down wages and to limit his own consumption so that the maximum is left for accumulation. Both these tendencies imply the restriction of the consuming power of society. So the contradiction results which finds its expression in *general overproduction*, the main feature of crisis.

The so-called orthodox economists never even came near to an explanation of crisis as they refused to recognise the possibility of general overproduction. They accepted the dogma, first pronounced by J.B. Say and then adopted by Ricardo, that total demand always equals total supply, that production creates incomes equal to the values produced.

The price, according to this theory, consists of the sum of wages, profits and rent. So total income must be equal to the total value produced.

This specious argument forgets, first, that the value of a commodity becomes income only after it has been sold, and while wages as a rule have to be paid beforehand, profit income arises only when the product has been sold at profitable prices, secondly that income is not identical with demand, for a capitalist who has exchanged his commodities against money is not forced to exchange his money for commodities. "Say's Law" begs the question by assuming that commodities produced are commodities sold and it fails to take into account the fundamental difference between the function of money as a medium of circulation, serving merely the interchange of different use-values, and money as the embodiment of value in a capitalist economy where the realisation of surplus value, the accumulation of capital, and therefore the appropriation of more and more money is the only purpose of those who dominate production.

Marx explains how the dual character of a commodity as use-value and value appearing in exchange, involves the *possibility* of crisis. The fact that commodities are useful, needed to satisfy human wants, does not guarantee that they are saleable at prices corresponding to their values and realising the surplus value which alone makes production worth while from the point of view of a capitalist producer.

When the value aspect of commodities finds a separate embodiment in money, the "general commodity" which in itself has no use-value, the same contradiction reappears and reveals the possibility of crisis. An exchange of commodities, mediated by money, is not barter. It consists of two separate acts. "If the interval in time between the two complementary phases of the complete metamorphosis of a commodity become too great, if the split between the sale and the purchase become too pronounced, the intimate connection between them, their oneness, asserts itself by producing a crisis."[7]

A theory of the trade cycle has to explain both why production can expand over a period of time in spite of the underlying permanent contradiction between the increasing productive power and the limited consumption capacity, and why this contradiction must in the end find expression in a violent crisis. The answer to these interrelated problems lies in the conditions of reproduction of fixed capital on the one hand, and in the contradictions involved in the tendency of the rate of profit to fall on the other hand.

The classical economists, A. Smith and D. Ricardo, regarded a long-term trend of the rate of profit to fall as a fact proved by experience, by the continuous fall of the rate of interest from 10 per cent in the middle of the sixteenth to 3-5 per cent at the end of the eighteenth centuries.[8]

Marx's theory connects the tendency of the profit rate to fall with the increasing productivity of labour by means of the increase in the organic composition of capital. If – using the usual symbols – we denote the organic composition of the capital c/v by r, the (annual) rate of surplus-value by s' and the rate of profit by p, we have:

$$p = \frac{s}{c + v} = \frac{s'}{r + 1}$$

If s', the rate of exploitation, remains constant, the rate of profit must fall as the organic composition of capital (r) increases with the progress of technique, which implies that more machinery and raw material is used and used up per worker. But p will fall, too, if s' is growing at a slower pace than r+1. Generally speaking, the rise of s' which is a normal feature in capitalism, is a force counteracting the *falling* tendency of p and may even reverse it – for a time.[9] The other main counteracting tendency is the depreciation of constant capital. The same process of increasing productivity which appears in a higher *technical* composition of capital (a bigger *volume* of machinery and raw material per worker) reduces the value of those commodities of which c consists so that to this extent the increase of the organic composition is checked.

Discussing the internal contradictions of the law of the tendency of the rate of profit to fall, Marx says: "These different influences make themselves felt, now more side by side in space, now more successively in time. Periodically the conflict of

antagonistic agencies seeks vent in crises."[10]

The long-term tendency of the rate of profit to fall is important as one of the causes of the continuous sharpening of the internal contradictions of capitalist society. For an understanding of the trade cycle, however, we have to analyse the movement of the rate of profit during the cycle. For this purpose we have to drop the assumption (made by Marx when concerned with the long-term analysis) that prices equal values. The regular deviation of market prices from values is an essential element of the cyclical movement.

The general price level and the rate of profit go up in the phases of revival and boom, they drop suddenly and violently in the crisis, and depression persists till prices and the rate of profit begin to rise again.

The cyclical movement of the rate of profit is in a sense the motive force behind the cycle. For capitalists expand production when profit prospects are bright and stop expansion or even contract when profit prospects deteriorate.

Some economists of the subjectivist school solemnly "explain" the trade cycle by "a rhythmical recurrence of errors of optimism and pessimism". But even if there are "errors" of judgement, e.g. over-estimation of the prospects of profits at the end of the boom, they are not essential. Essential is the fact that for a considerable time there are good and even growing profits, justifying "optimism", while, sooner or later, irrespective of the feelings of the capitalists, the tendency is reversed and a more or less sudden fall in the rate of profit sets in.[11]

On the face of it this seems to contradict the Marxist analysis. For the upward phase of the cycle is just the time when, with increasing investments, accumulation of capital and concentration of production, technical improvements, etc., the organic composition of capital is growing, the tendency of the rate of profit to fall is developing. But here one must bear in mind that the fall in the rate of profit becomes effective only when market prices go down, corresponding to a general reduction of values.

If by technical progress costs of production are reduced while prices of finished goods remain stable or are even rising, then evidently the rate of profit will rise and not fall. And this is just what normally happens in the upward phase of the cycle.

So just when the value of commodities is falling, prices tend to rise. This is not a logical contradiction in the labour theory of value, but a real contradiction in capitalist economy.

Prices are kept above values as long as demand exceeds supply. At the end of a depression stocks are at an ebb, the productive apparatus is run down, necessary replacements have not been made, there is a low rate of interest, reflecting an abundant supply of capital looking out for profitable investment. The possibilities of satisfying this pent-up demand are, however, limited by a productive capacity reduced in crisis and depression. A substantial increase in the supply of consumption goods will not begin before a re-equipment and expansion of industrial plant has been effected.

This is the basis of the revival in production goods industries. Growing employment in the investment goods industries increases workers' incomes, and so the demand for consumption goods expands again. This is the way in which one cogwheel drives the other in the upward phase of the cycle.

Reproduction of fixed capital is concentrated in the upward phases of the cycle. In crisis and depression hardly any net investments take place and even replacements are reduced to a minimum. Marx stresses the connection between this discontinuity in the reproduction of fixed capital and the trade cycle:

"It is true that the periods in which capital is invested are different in time and place. But a crisis is always the starting point of a large amount of new investments. Therefore it also constitutes, from the point of view of society, more or less of a new material basis for the next cycle of turnover."[12]

It is easy to understand why the process of expansion, once it has got under way, is cumulative. It cannot be proved that there is a constant relation between the amount of net investments and the growing demand for consumption goods – as the theory of the multiplier implies[13] – but there is no doubt that an increase in the production of each of the two main departments stimulates production in the other department. The problem is why this process cannot go on without limit, why the boom must end.

The question is then: Why cannot the rate of profit be maintained? The rate of profit depends on the general level of prices compared with the cost of production. Both tend to go up in the upward phase of the cycle. As long as prices arc not forced down by overproduction, the rate of profit tends to grow because the increase in the organic composition of capital is overcompensated by the increase in the rate of surplus value.

Technical improvements are introduced by capitalists only because they increase their rate of profit. They reduce the cost of production per unit, which means extra profits – as long as prices are not reduced to a level corresponding to the reduced value. Marx stresses this point very clearly:

"No capitalist voluntarily introduces a new method of production, no matter how much more productive it may be, and how much it may increase the rate of surplus value, so long as it reduces the rate of profit. But every new method of production of this sort cheapens the commodities. Hence the capitalist sells them originally above their prices of production, or, perhaps, above their value. He pockets the difference which exists

between the prices of production and the market-prices of the other commodities produced at higher prices of production. He can do this, because the average labour time required socially for the production of these commodities is higher than the labour time required under the new method of production. His method of production is above the social average. But competition generalises it and subjects it to the general law. Then sets in the fall of the rate of profit – perhaps first in this sphere of production and then levels with the other spheres – which is, therefore, wholly independent of the will of the capitalists."[14]

It might be assumed that extra profits made in this way are made at the expense of other sections of the capitalist class and do not increase the rate of profit for the capitalist class as a whole. Marx is explicit on this point:

"It might be asked, whether the causes checking the fall of the rate of profit, but always hastening it in the last analysis, include the temporary rise in surplus value above the average level, which recur now in this, now in that line of production for the benefit of those individual capitalists who make use of inventions, etc., before they arc generally introduced. The question must be answered in the affirmative."[15]

This is so because wage rates never increase in step with the growing productivity of labour. Wage costs per unit are reduced or – this is only another expression of the same fact – the rate of exploitation grows. In fact, workers frequently have to put up a stiff fight even to maintain their real wages while living costs are going up. But even if they succeed in increasing their real wages which the better organised skilled workers as a rule achieve when the demand for labour is high in times of prosperity, wages still lag behind productivity. Those interpreters of Marxist theory who try to explain the fall in the rate of profit by a fall in the rate of exploitation, caused by wage increases in a time when the industrial reserve army is absorbed in production and demand for labour exceeds supply, are as far away from the facts of modern capitalism as from the spirit of Marxism.[16]

It is true that when the general price level rises, the prices of the elements of constant capital go up too, and this tends to increase the organic composition of capital and to reduce the rate of profit. But firstly as far as fixed capital is concerned the rate of profit is as a rule calculated in relation to the capital actually invested when the turn-over began, not in relation to what plant and equipment would be at current prices, and secondly when raw material prices rise the increased costs are automatically calculated in the prices of finished goods – as long as goods find a market at prices of production.

The crisis sets in when at the inflated prices which have been established during the boom a considerable part of the commodities produced are not saleable any more, when general overproduction becomes apparent. As it takes years from the beginning of the large new investments undertaken in the revival phase of the cycle, to the full operation of the new plant, when the market is flooded with consumption goods, there is no gradual adaptation of supply and demand, of actual market prices and prices of production, but this adaptation can only be effected by way of periodical catastrophes as Marx explains:

"As the process of circulation of capital is not a matter of days, but lasts for a longer period till capital returns to its starting point, as this period coincides with the period when market prices are adapted to production prices, as during this period great revolutions and changes happen on the market, as great changes take place in the productivity of labour, therefore also in the real value of commodities, it is very clear that from the starting point – the presupposed capital – to its return after one of these periods, big catastrophes are bound to happen and elements of crises must accumulate and develop."[17]

The process of adaptation of prices to values or to production prices follows the pattern of other dialectical processes. There may be some gradual, continuous adaptation, but this does not solve the contradictions, the tension is growing till it finds a violent solution in the sudden slump of the crises.

Overproduction is always overproduction *at certain prices*. The market could absorb all the commodities produced in the boom period – at lower prices. But at lower prices the original capital would not be replaced with the usual average profit.

So capitalists at the peak of a boom are faced with a dilemma. When they observe that the demand is flagging, they may first reduce prices and try, at the same time, to reduce their costs of production. The largest, technically best developed enterprises may maintain their rate of profit in this way for a time while even increasing production and conquering a bigger share of the market. Smaller and weaker enterprises, forced to follow suit, will not be able to compensate losses in prices by reduction of production costs. Their rate of profit is falling, they are threatened with losses.

But when they reduce production, they cannot make full use of the capacity of their plant, they are not able to reproduce their capital with the expected profit either.

So with overproduction and the fall of prices the fall of the rate of profit sets in.

If there were continuous adaptation of prices to value, as they are being reduced by growing productivity, and if the nominal income of the workers and the other productive classes would remain stable, purchasing power would grow in step with production and no general overproduction would arise. But then there would be a continuous fall of the rate of profit, and the cap-

italists would lose their incentive to accumulation.

The demand of the working class for consumption goods cannot offer a sufficient market because it lags behind the growing productivity of labour.[18]

Nor does the purchasing power of the lower middle class increase, if it increases at all, at the same rate as large-scale industrial production.

They are losing ground in the competition with big capital, and can hardly maintain their share of the national income. This holds true particularly for the peasants. As all real crises are world market crises, and in the world as a whole the vast majority of the population are sma11 holders, the importance of this fact – the poverty of the masses of the agrarian population – is evident. They share the catastrophe of the slump while they hardly share the benefits of the boom. Seasonal variations of agricultural income, at its lowest before the harvest, may explain the fact that most of the crises begin in either autumn or spring.[19]

The essential question, however, is whether capitalist income, the growing sum of profits, interests, and rents, can compensate the relative decrease of mass demand. This would be so if profits were used mainly for the individual consumption of capitalists, if personal luxury were the purpose of capitalist economy. But capitalist reality is not like that.

Capitalists "save" part of their profits for investment, not because their "propensity to consume" is lacking, but because their power as capitalists, their chance of continuing their profitable business, their ability to stand up against competitors, depends on the amount of capital they command. Therefore accumulation of capital, not maximisation of luxury consumption, is the driving force of capitalist production.

In this way both workers' and capitalists' demand for consumption goods tends to lag behind growing production. Therefore Marx in developing the contradiction between production and consumption stresses not only the reduction of the consumption of the great mass of the population "to a variable minimum within more or less narrow limits", but also the restriction of consuming power "by the tendency to accumulate, the greed for an expansion of capital and a production of surplus value on an enlarged scale".[20]

Keynes in his *General Theory* propounds the idea that deficiency of demand is the basic cause of mass unemployment, but he fails to take into account the dependence of demand for investment goods on demand for consumption goods. This is his criticism of underconsumption theories:

"Practically I only differ from these schools of thought in thinking that they may lay a little too much emphasis on increased consumption at a time when there is still much social advantage to be obtained from increased investment. Theoretically, however, they are open to the criticism of neglecting the fact that there are two ways to expand output" (loc. cit., p.825).

"Theoretically", there are no limits either to increasing the means of consumption (as human needs grow with the means to satisfy them) or to increasing investments, i.e. improving and expanding the means of production. In a capitalist society, however, investments are limited just by the limitation in the amount of consumption goods which can be profitably sold. Keynes' criticism amounts to this:

If there is overproduction of textiles, let us make more spindles; if not enough cars, locomotives and other useful things made of steel can be sold, let us produce more steel and build new furnaces! It is the essence of commodities that they must have also use value to have an exchange value and the use value of investment goods is to help to produce consumption goods, a simple truth which is forgotten also by practical capitalists as long as prosperity prevails.

When the crisis begins, the fall in production is more marked in investment goods than in consumption goods. If demand for consumption goods only remains stable after having steadily grown for some time, consumption goods production could be maintained at that level for some time. But demand for production goods would be instantly cut down to the necessities of simple reproduction.[21]

This explains why overproduction may appear first in a striking way in production goods. Nevertheless, it is evident that the real starting point of the crisis must always be in deficient demand for consumption goods.[22]

If we remember that throughout the upward phase of the cycle productivity of labour is growing, the sudden and violent fall of prices, characteristic of crisis, is understood as a violent adaptation of the level of market prices to the level of value.[23]

Prices may swing deeply down below values. "Such a collapse of prices", Marx says, "merely balances their inflation in preceding periods."[24]

This is what Marx has in mind when he says the law of value regulating exchange relations of products according to the labour time socially necessary for their production "asserts itself like an overriding law of nature. The law of gravity thus asserts itself when a house falls about our ears".[25]

For a clear understanding of the connection between overproduction and the fall of the rate of profit we have to distinguish between the cyclical up and down movement and the long term tendency. Marx explains the latter by a permanent feature of capitalist accumulation – the increase in the organic composition of capital:

"If Smith explains the fall of the rate of profit by superabundance of capital, accumulation of capital, then this is regarded as a permanent effect, and this is wrong. However, transitory superabundance of capital, overproduction, crisis, this

is another matter. There are no permanent crises."[26]

This is not in contradiction to what Marx says in another context: "Overproduction produces & permanent fall of profit, but it [i.e. overproduction – J.W.] is permanently periodical. It is followed by underproduction, etc. Overproduction follows from the fact that the average mass of the people can never consume more than the average mass of means of consumption, that their consumption does not grow correspondingly with the productivity of labour."[27]

In capitalism there is a permanent tendency both to overproduction and to the fall of the rate of profit. But neither of these tendencies is permanently in evidence; they assert themselves periodically in crises. The tendency to a fall in the rate of profit develops during prosperity, but asserts itself in the crisis. The counteracting tendencies come into play again in crisis and depression when prices of raw materials and wages reach their lowest level, existing fixed capital is depreciated and new conditions for profitable investments are thus created.

The depreciation of the elements of constant capital has a contradictory effect: it intensifies the crisis, but it also helps to solve the contradiction which finds expression in crisis.

When a general fall of prices sets in this also cheapens the elements of constant capital. But this is no help to the capitalists, who have to assess their rate of profit by comparing sales proceeds with the capital they have invested before and not with the capital they would need now for renewing their equipment and stocks of raw material. Therefore the reproduction of capital at a new level of technical development and at prices which correspond to this new level is connected with those numerous bankruptcies which arc characteristic of crises.

The crises of the twentieth century have been aggravated by the fact that the power of monopoly capitalism is particularly strong in some of the basic raw materials, like iron and steel. When in a general slump of prices the prices of these essential elements of constant capital follow late and slowly in the downward movement, crises become more violent and depressions are prolonged. The adaptation of price levels to the needs of reproduction of capital is delayed by monopoly prices.

"The world market crises", Marx sums up, "have to be understood as the real condensation and violent solution of all contradictions of bourgeois economy."[28]

For the explanation of crisis it is obviously not essential that the rate of profit should actually fall from cycle to cycle; Marx was not dogmatic about this thesis. He says:

"The law therefore shows itself only as a tendency, whose effects become clearly marked only under certain conditions and in the course of long periods."[29]

The slackening of accumulation in highly developed industrial countries, the growing pressure to export capital to backward countries, where the rate of profit is higher, seem sufficient empirical evidence that the tendency asserts itself in the long run. For the theory of crisis, however, the conflict of counteracting causes is essential. The capitalists, fighting against the tendency by pressure on wages, by reducing costs of production with the help of technical improvements, by the struggle for new markets, are intensifying those contradictions which land the whole system in crises.

The Marxist theory makes it clear beyond doubt that there will be crises as long as capitalism exists and that crises tend to become deeper and more violent as the basic contradictions of capitalist production grew.

The progress of technique, the growth of the productivity of labour, which is the necessary precondition of an improvement of the living standard of the people, of progress to a higher level of civilisation, becomes, under the contradictory conditions of the capitalist system, a curse, a cause of permanent economic insecurity, of mass unemployment and recurring crises.

The cure of the evil is not to stop or to retard the development of productive forces, but so to change the basis of economic life that the satisfaction of the needs of the people, instead of capitalist profit, becomes the driving and regulating principle.

Notes

1. *Economic Journal*, June 1936, p.239.
2. These four volumes of contributions to a critical history of economic thought are of inestimable value to every serious student of economics. Vol.II, Part 2, contains a long chapter on "Accumulation of Capital and Crisis". I learn that a shortened English edition is being prepared by Lawrence and Wishart.
3. The American Marxist, Paul M. Sweezy, in his interesting *The Theory of Capitalist Development* (Dennis Dobson), goes so far as to distinguish between two kinds of crises: those associated with the falling rate of profit and those arising from underconsumption, pp.l45ff.
4. *Capital*, Vol.II, pp.475f., Engels, *Anti-Dühring*, Third Part, Socialism, III, p.814.
5. The ex-Marxist, K. Kautsky, asserted solemnly that nil crises could have been avoided if only capitalists had studied and applied the reproduction schemes of Marx (in his Preface to the German popular edition of Volume II of *Capital*. The reformist illusion that the development of monopolies would lead to an "organised capitalism" without crises (Bernstein, Hilferding) was based on the same mistake.
6. i.e. Machinery (embodying labour) put into motion by man-power. The proportion of constant

capital to total capital is growing larger.
6. Cf. Engels, "Socialism, Utopian and Scientific"; Marx, *Selected Works*, Vol.I, pp.175ff; Capital, Vol.III. pp.286-7.
7. *Capital*, Vol.I, pp.87ff. Marx devotes a long, detailed argument to a devastating criticism of Say's dogma in *Theorien über den Mehrwert*, in the Second Part of Vol. II, pp.274ff. J.A. Hobson's critique of Say's Law (*Evolution of Modern Capitalism*, pp.288ff) was obviously written without knowledge of Marx's penetrating analysis. J.M. Keynes knew somehow that Marx did not accept the demand-equals-supply dogma, but his abysmal ignorance of Marx's economic theory finds expression in his slighting reference to "the underworlds of Karl Marx, Silvio Gesell or Major Douglas" (*The General Theory of Employment*, p.32).
8. *The Wealth of Nations*, Book I, Chap.IX.
9. J. Robinson is puzzled by Marx's "drastic inconsistency" which she finds in his demonstration of the tendential fall of p under the assumption of a constant s' while the argument of Vol.I of Capital implies a tendency of s' to grow with the growing productivity of labour. (*An Essay on Marxian Economics*, pp.42ff.) The conflict of these counteracting tendencies is expressly dealt with in *Capital*, Vol.III, Chaps.14-15. But as dialectics is a terra incognita for Mrs Robinson, she fails to understand that there is no "inconsistency", but a contradiction in reality reflected in Marx's theory. Also N. Moszkowska in *Das Marx'sche System* (Berlin, 1929) grossly misinterprets Marx when she tries to prove that either p falls with constant s' or s' rises with constant p (p.118).
10. *Capital*, Vol.III, Chap.15, p.292.
11. In his "Notes on the Trade Cycle" (*General Theory*, Chap.22), Keynes also stresses the psychological element very strongly. "When disillusion falls upon an over-optimistic and over-bought market, it should fall with sudden and even catastrophic force" (p.316). What he calls "the marginal efficiency of capital", though defined with his usual ambiguity and confusion, is roughly the expected rate of profit. About revival he says: "It is not so easy to revive the marginal efficiency of capita], determined, as it is, by the uncontrollable and disobedient psychology of the business world" (p.817). But he hints at least at the objective facts which determine the changing moods of the "business world": "The disillusion comes because doubts suddenly arise concerning the reliability of the prospective yield, perhaps [!] because the current yield shows signs of falling off."
12. *Capital*, Vol.II, p.211.
13. The contradictions in which the Keynesians get involved with their attempts to use the theory of the multiplier as an element of a theory of the cycle were well exposed by G. Haberier in his book, *Prosperity and Depression*, 3rd edition, Chap.13.
14. *Capital*, Vol.III, Chap.15, pp.310f. I have adapted Untermann's translation more closely to the original.
15. *Capital*, Vol.III, Chap.14, p.274.
16. Sweezy and Moszkowska (in their books quoted above) fall into this trap misled by an argument of Marx (in *Capital*, Vol.III, Chap.15, p.205), where he discusses the possibility of a crisis arising when an increased capital would not find any exploitable labour. But he stresses more than once the great difference between pointing out diverse possibilities of crises and finding the law of the regular reproduction of crises. See also *Capital*, Vol.III, p.281: "Nothing is more absurd, than to explain a fall in the rate of profit by a rise in the rate of wages", although there may be exceptional cases where this may apply. Marx proved in *Capital*, Vol.I, Chap.25, that as a rule the working population increases more rapidly than the means of employment on account of the growth in the organic composition of capital. He discusses the problems arising from a shortage of labour with reference to England in the fifteenth and during the first half of the eighteenth centuries.
17. *Theorien über den Mehrwert*, II, 2, p.207.
18. This is a common experience which will be confirmed by every trade unionist. There are, however, questionable statistics which try to prove the contrary. E.g. Professor L. Robbins (*The Great Depression*, p.211) compiled an index of consumers' goods production which – from 1924 to 1929 – rose only by 7 per cent, while wage income rose by 12 per cent. But he takes into account only textiles, leather, and food, while the biggest increase was in durable consumers' goods. Motor-car production which played a leading part in this boom increased by 79 per cent, textiles by 33 per cent, tobacco by 43 per cent. The general index of production was up by 83 per cent.
19. Beveridge, *Full Employment*, p.803.
20. *Capital*, Vol.III, Chap.15, pp.286ff.
21. This is an application of the so-called "acceleration principle". For literature on this principle see Haberier, loc. cit., p.87.
22. Throughout the nineteenth century railways played a leading part in the industrial cycle; after 1900 the electrical industry, mainly in Germany and USA, played a similar part. In Britain textiles used to be ahead of other industries. (Beveridge in the *Economic Journal*, 1939, pp.52ff.) In the 1929 crisis in the USA over-production emerged first in motor cars and other durable consumers' goods.
23. This explains why there was a violent crisis with a big slump of prices in the USA in 1929 although there was no preceding "inflationary" rise of the price level. The increase of productivity by 25 per cent corresponds to a fall in values by 20 per cent. But prices fell only by 10 per cent. It is the relation of prices to values that counts.
24. *Capital*, Vol.III, Chap.XXX, p.577. There is a small element of truth in the idea, current among modern economists, that there is an alternation of

"inflation" and "deflation" in the trade cycle. This, however, is no explanation of the cycle, but just one of its aspects.

25. *Capital*, Vol.I, p.40 (Allen and Unwin edition). It is evident that Marx refers here to crisis. In a note he quotes Engels: "What are we to think of a law that asserts itself only by periodical revolutions?" This idea is also most forcefully expressed in "Wage-Labour and Capital", Marx, *Selected Works*, Vol.I, p.201.

26. *Theorien*, loc. cit., p.269, note.

27. *Theorien*, loc. cit., p.210.

28. *Theorien*, loc. cit., p.282.

29. *Capital*, Vol.III, Chap.14, p.280.

MARXists INTERNET ARCHIVE

The Marxists Internet Archive (also known as MIA or Marxists.org) is a volunteer based non-profit organization that maintains a multi-lingual Internet archive of Marxist writers and other socialist authors.

http://www.marxists.org

MR Webzine

"This webzine is rooted in the *Monthly Review* tradition – the tradition, as summarized by Paul Sweezy, of seeing the present as history. At the same time, it seeks to collaborate with multitudes of activists and intellectuals all over the world who obtain information and political analysis about current affairs from the web and, more importantly, ceaselessly provide their own, as direct producers of political culture today."

– Yoshie Furuhashi, editor

http://mrzine.monthlyreview.org

Arguments for a Workers' Republic

Arguments for a Workers' Republic is a website for people interested in the history of the far left, particularly Trotskyism, in Ireland. We are publishing a number of original documents, and, where appropriate, commentaries on original documents produced by a variety of individuals.

www.workersrepublic.org

LEFT ON THE SHELF

Established in 1992, 'Left on the Shelf' is now one of the UK's largest specialists in left-wing material, with over 30,000 books, pamphlets and journals in stock.

www.abebooks.com/home/leftontheshelf