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The Basic Theories of Karl Marx

Marx's Theory of Crises

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Marx did not write a systematic treatise on capitalist crises. His major comments on the subject are spread around his major economic writings, as well as his articles for the New York Daily Tribune. The longest treatment of the subject is in his Theorien über den Mehrwert, subpart on Ricardo.

Starting from these profound but unsystematic remarks, many interpretations of the â€˜marxist theory of crises' have been offered by economists who consider themselves marxists. â€˜Monocausal' ones generally centre around â€˜disproportionality' (Bukharin, Hilferding, Otto Bauer) - anarchy of production as the key cause of crises - or â€˜underconsumption' - lack of purchasing power of the â€˜final consumers' as the cause of crises (Rosa Luxemburg, Sweezy). â€˜Non-monocausal' ones try to elaborate Marx's own dictum according to which all basic contradictions of the capitalist mode of production come into play in the process leading to a capitalist crises (Grossman, Mandel).

The question of determining whether according to Marx, a crisis of overproduction is first of all a crisis of overproduction of commodities or a crisis of overproduction of capital is really meaningless in the framework of Marx's economic analysis. The mass of commodities is but one specific form of capital, commodity capital. Under capitalism, which is generalised commodity production, no overproduction is possible which is not simultaneously overproduction of commodities and overproduction of capital (overaccumulation).

Likewise, the question to know whether the crisis â€˜centres' on the sphere of production or the sphere of circulation is largely meaningless. The crisis is a disturbance (interruption) of the process of enlarged reproduction; and according to Marx, the process of reproduction is precisely a (contradictory) unity of production and circulation. For capitalists, both individually (as separate firms) and as the sum total of firms it is irrelevant whether more surplus-value has actually been produced in the process of production, if that surplus-value cannot be totally realised in the process of circulation. Contrary to many economists, academic and marxist alike, Marx explicitly rejected any Say-like illusion that production more or less automatically finds is own market.

It is correct that in the last analysis, capitalist crises of overproduction result from a downslide of the average rate of profit. But this does not represent a variant of the â€˜monocausal' explanation of crises. It means that, under capitalism, the fluctuations of the average rate of profit are in a sense the seismograph of what happens in the system as a whole. So that formula just refers back to the sum-total of partially independent variables, whose interplay causes the fluctuations of the average rate of profit.

Capitalist growth is always disproportionate growth, i.e. growth with increasing disequilibrium, both between different departments of output (Marx basically distinguishes department I, producing means of production, and department II, producing means of consumption; other authors add a department III producing non-reproductive goods - luxury goods and arms - to that list), between different branches and between production and final consumption. In fact, â€˜equilibrium' under capitalism is but a conceptual hypothesis practically never attained in real life, except as a border case. The above mentioned tendency of â€˜overshooting' is only an illustration of that more general phenomenon. So â€˜average' capital accumulation leads to an over-accumulation which leads to the crisis and to a prolonged phenomenon of â€˜underinvestment' during the depression. Output is then consistently inferior to current demand, which spurs on capital accumulation, all the more so as each successive phase of economic revival starts with new machinery of a higher technological level (leading to a higher average productivity of labour), and to a bigger and bigger mountain of produced commodities. Indeed, the very duration of the business cycle (in average 7.5 years for the last 160 years) seemed for Marx determined by the â€˜moral' life-time of fixed capital, i.e. the duration of the reproduction cycle (in value terms, not in possible physical survival) of machinery.

The ups and downs of the rate of profit during the business cycle do not reflect only the gyrations of the output/disposable income relation; or of the â€˜organic composition of capital'. They also express the varying correlation of forces between the major contending classes of bourgeois society, in the first place the short-term fluctuations of the rate of surplus-value reflecting major victories or defeats of the working class in trying to uplift or defend its standard of living and its working conditions. Technological progress and labour organisation â€˜rationalisations' are capital's weapons for neutralizing the effects of these fluctuations on the average rate of profit and on the rate of capital accumulation.

In general, Marx rejected any idea that the working class (or the unions) â€˜cause' the crisis by â€˜excessive wage demands'. He would recognise that under conditions of overheating and â€˜full employment', real wages generally increase, but the rate of surplus-value can simultaneously increase too. It can, however, not increase in the same proportion as the organic composition of capital. Hence the decline of the average rate of profit. Hence the crisis.

But if real wages do not increase in times of boom, and as they unavoidably decrease in times of depression, the average level of wages during the cycle in its totality would be such as to cause even larger overproduction of wage goods, which would induce an even stronger collapse of investment at the height of the cycle, and in no way help to avoid the crisis.

Marx energetically rejected any idea that capitalist production, while it appears as â€˜production for production's sake', can really emancipate itself from dependence on â€˜final consumption' (as alleged e.g. by Tugan-Baranowski). While capitalist technology implies indeed a more and more â€˜roundabout-way-of-production', and a relative shift of resources from department II to department I (that is what the â€˜growing organic composition of capital' really means, after all), it can never develop the productive capacity of department I without developing in the medium and long-term the productive capacity of department II too, admittedly at a slower pace and in a lesser proportion. So any medium or long-term contraction of final consumption, or final consumers' purchasing power, increases instead of eliminates the causes of the crisis.

Marx visualised the business cycle as intimately intertwined with a credit cycle, which can acquire a relative autonomy in relation to what occurs in production properly speaking. An (over) expansion of credit can enable the capitalist system to sell temporarily more goods that the sum of real incomes created in current production plus past savings could buy. Likewise, credit (over) expansion can enable them to invest temporarily more capital than really accumulated surplus-value (plus depreciation allowances and recovered value of raw materials) would have enabled them to invest (the first part of the formula refers to net investments; the second to gross investment).

But all this is only true temporarily. In the longer run, debts must be paid; and they are not automatically paid through the results of expanded output and income made possible by credit expansion. Hence the risk of a Krach, of a credit or banking crisis, adding fuel to the mass of explosives which cause the crisis of overproduction.

Does Marx's theory of crisis imply a theory of an inevitable final collapse of capitalism through purely economic mechanisms? A controversy has raged around this issue, called the â€˜collapse' or â€˜breakdown' controversy. Marx's own remarks on the matter are supposed to be enigmatic. They are essentially contained in the famous chapter 32 of volume I of Capital entitled â€˜The historical tendency of capitalist accumulation', a section culminating in the battle cry: â€˜The expropriators are expropriated'. But the relevant paragraphs of that chapter describe in a clearly non-enigmatic way, an interplay of â€˜objective' and â€˜subjective' transformations to bring about a downfall of capitalism, and not a purely economic process. They list among the causes of the overthrow of capitalism not only economic crisis and growing centralisation of capital, but Also the growth of exploitation of the workers and their indignation and revolt n the face of that exploitation, as well as the growing level of skill, organisation and unity of the working class. Beyond these general remarks, Marx, however, does not go.

Next section