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MARXIST APPROACHES TO ECONOMIC CRISES

ABSTRACT: In the work of Marx, a general theory of economic crises cannot be found, at least in a developed form. This fact contributed to the formulation of different and generally contradicting Marxist crisis theories. Three such theories: the underconsumptionist approach, the theory of capital overaccumulation and the approach of the tendentially falling profit rate, (all of which were formulated by Marxist theorists shortly after the death of Marx and Engels) constitute different interpretations of the theoretical categories of Marx's Critique of the Political Economy. Many Marxists still consider them to be indispensable theoretical tools for the understanding of the mechanism of capitalist economic crises.

The underconsumptionist approach, which was dominant among Marxists in the 1890s was fiercely criticized by the Russian “legal Marxist” Tugan-Baranowsky (T-B) on the basis of Marx’s reproduction schemes in Vol. II of *Capital*. T-B's theoretical intervention created a new “orthodoxy” among Marxists during the first decades of the 20th century. However, he incorporated in his analysis the “absolute immiseration thesis”, and claimed that “proportionality” between production sectors would exclude any possibility of crisis, despite the supposedly continuous fall in mass consumption. This approach allows for a Keynesian interpretation of Marx’s theory of expanded reproduction of social capital, according to which a constantly increasing investment demand may always compensate for the lacking demand for consumer goods.

The notion of capital overaccumulation is considered in this paper as the key element of Marx’s crisis theory. The paper concludes that economic crises shall be identified neither with the law of the tendential fall in the profit rate, nor with some supposedly intrinsic underconsumption of the labouring classes. Instead, crises shall be comprehended as the outcome of the fusion of a variety of factors which suppress the rate of profit. An economic crisis can be described, therefore, as a conjunctural overaccumulation, i.e. a conjunctural production of commodities (means of production and means of consumption) in such quantities and prices, that they temporarily hinder the process of capitalist expanded reproduction. In the last instance, all categories of factors affecting the value composition of capital and the profit rate are overdetermined by class struggle, the main object of which is the (level of) exploitation of the labour force.

1. Early Underconsumptionist Interpretations of Marx's Theory

Even before Marx's death, underconsumptionist interpretations of his theses and excerpts on economic crises had become dominant, in both countries where Marxist ideas were influencing a considerable part of the intelligentsia and the labour movement: Russia and Germany-Austria. However, these approaches were soon disputed by an analysis deriving from Marx's theory of the expanded reproduction of the social capital, which was introduced in both Russia and Germany by Tugan-Baranowsky.

The predominant current of the Russian left in the 1865-1905 period, now known as the Narodniks (populists), formulated their arguments exclusively as an interpretation of Marx's analyses. Their theoretical edifice was based on an underconsumptionist approach, crowned by the conviction that the limitations of the domestic market (precisely because of the poverty of the popular masses in Russia but also because of the perceived tendency of capitalism to depress the living standards of the masses) constituted a formidable impediment, or even rendered impossible, the development of capitalism in Russia.

The first author in the Narodnik current to make "the problem of the home market" into the chief subject of a monograph was probably V. Vorontsov, who as early as 1882 published the book *The Destiny of Capitalism in Russia*. Vorontsov maintained that crises are caused by production of surplus value, which becomes the real purpose of the economy under capitalist relations. The "problem of the home market" and crises (i.e., the excess of production over consumption) are manifestations of the fact that *the capitalist class* is not in a position to consume the entire surplus value produced:

"The Achilles heel of capitalist industrial organisation thus lies in the incapacity of the entrepreneurs to consume the whole of their income. . . . The immediate cause of the above phenomena (over-production, unemployment, etc.) is not that the working classes receive too small a share of the national income, but that the capitalist class cannot possibly consume all the products which every year fall to their share". (Cited in Luxemburg, 1971, 281-2).

Vorontsov had therefore worked out a Marxist version of the underconsumption

approach, which converged with the one first introduced by T. R. Malthus: Crises emanate from “over-saving,” or, in Marxist terms, from the inability of the capitalists to consume surplus value (see Milios, et al., 2002: 160ff).

The views of the other Marxist theoreticians of the Narodnik current – first and foremost Nikolai Danielson, who in 1891 presented his theses in comprehensive form in his *Outlines of our Social Economy after the Reform* – converged with the basic conclusions of Vorontsov’s analysis: inability of the economy to absorb the product generated owing to capitalism’s inherent tendency to increase production beyond society’s ability to consume. Within this framework, Danielson is nevertheless to be distinguished from Vorontsov as regards the factors that cause underconsumption: contraction in the purchasing power of the popular masses (and not the inability of capitalists to consume the surplus value). Danielson’s analysis therefore falls into the school of underconsumption theory initiated, during the classical era of Political Economy, by Sismonde de Sismondi.

According to Danielson, capitalist development reduces the number of workers (formerly self-employed craftsmen, small manufacturers, farmers or even laborers) through rapid increase in productivity. This leads to an ever smaller number of workers handling an ever larger mass of means of production, and accordingly also the number of mass consumers, since it marginalizes all those who are being pushed into the industrial reserve army, depriving society of their purchasing power. Crises therefore emerge as a result of *contraction* of the internal market and of *popular consumption*.

Danielson’s analysis of the contraction of popular consumption linked his theory of crises (“underconsumption”) with the “theory of pauperisation,” i.e., of deterioration in workers’ economic position under capitalism. In this context he adopted a version of the “absolute immiseration” thesis (deterioration of the standard of living of the working class).

The theoretical scene in the German-speaking lands, after the deaths of Marx and Engels, was very similar. The German Marxists had in fact reformulated the purely descriptive (not heuristic) view that in periodic economic crises production expands beyond paying consumption into an assertion that under capitalism production always increases faster than society’s ability to consume. Expansion of the market for

commodities by means of “third persons” from non-capitalist modes of production now remained the sole (albeit temporary) solution to the immanent realization problem (see Milios, 1994; Milios, et al., 2002). They also isolated certain passages from Marx's analytical argumentation, which seemingly support the underconsumptionist approach, like the following that seems to become popular again:

“The ultimate reason for all real crises always remains the poverty and restricted consumption of the masses as opposed to the drive of capitalist production to develop the productive forces as though only the absolute consuming power of society constituted their limit” (Marx, 1991: 614-15).

However, arguments based on the isolation of citations from the complex framework of Marx's analysis are of minor theoretical value and effectiveness, as they may always be disputed a different citation pointing at an opposing interpretation:

“It is sheer tautology to say that crises are caused by the scarcity of effective consumption, or of effective consumers. The capitalist system does not know any other modes of consumption than effective ones, except that of *sub forma pauperis* or of the swindler. That commodities are unsaleable means only that no effective purchasers have been found for them, i.e., consumers (since commodities are bought in the final analysis for productive or individual consumption). But if one were to attempt to give this tautology the semblance of a profounder justification by saying that the working-class receives too small a portion of its own product and the evil would be remedied as soon as it receives a larger share of it and its wages increase in consequence, one could only remark that crises are always prepared by precisely a period in which wages rise generally and the working-class actually gets a larger share of that part of the annual product which is intended for consumption. From the point of view of these advocates of sound and “simple” (!) common sense, such a period should rather remove the crisis. It appears, then, that capitalist production comprises conditions independent of good or bad will, conditions which permit the working-class to enjoy that relative prosperity only momentarily, and at that always only as the harbinger of a coming crisis [*Ad notam* for possible followers of the Rodbertian theory of crises.—F.E.] (Marx 1992: 486-87).

According to the main postulate of all underconsumption theories, an abstract (“pure”) capitalist society cannot exist and reproduce itself on an expanding scale. On the contrary, it will suffer a permanent underconsumption-overproduction crisis. The only way out of crisis for capitalism is the creation of an “external” market (in relation to the pure capitalist economy) of “third persons” (i.e., the capitalists and their workers), which can consume the excess product capitalism always produces. The notion of the market as “external” to capitalist production is typical for all versions of the underconsumptionist approach.

The following quotation by Kautsky, from an article of his on economic crises (published in the socialist journal *Die Neue Zeit*, No 3 [29], in 1902) is characteristic of the opinions shared by them:

“Although capitalists increase their wealth and the number of exploited workers grows, they cannot themselves form a sufficient market for capitalist produced commodities, as accumulation of capital and productivity grow even faster. They must find a market in those strata and nations which are still non-capitalist. They find this market, and expand it, but still not fast enough, since this additional market hardly has the flexibility and ability to expand of the capitalist process of production. Once capitalist production has developed large-scale industry, as was already the case in England in the nineteenth century, it has the possibility of expanding by such leaps and bounds that it soon overtakes any expansion of the market. Thus, any prosperity which results from a substantial expansion in the market is doomed from the beginning to a short life, and will necessarily end in a crisis (quoted by Luxemburg, in Luxemburg/Bukharin 1972: 79).

The above quotations summarise the basic postulates of the underconsumptionist Marxist approach to economic crisis: The underconsumption of the working class builds not only the cause, but also the decisive characteristic of the complex structure of economic crisis. Economic crisis reveals the inherent (constantly acting) retardation of real wages (of the consumption ability of the working class) in respect to the productivity of labour (and hence the volume of the capitalist produced commodities). Crisis is the result of a continuously decreasing labour-force value and labour share in the net product. According to the main postulate of the theory discussed here, an abstract

(“pure”) capitalist society cannot exist and reproduce itself on an expanding scale. On the contrary, it will suffer a permanent underconsumption-overproduction crisis. The only way out of crisis for capitalism is the creation of an “external” market (in respect to the pure capitalist economy, i.e. the capitalists and their workers).

2. Critical Assessments of Underconsumption Theory, Based on Marx's Reproduction Schemes in Vol. 2 of *Capital*

2.1. Tugan-Baranowsky

The Ukrainian economist Professor Mikhail von Tugan-Baranowsky (1865-1919) formulated first a radical critique of underconsumption theories (Milios, 1994; Milios, et al., 2002) and also laid the foundation of what is nowadays known as the Surplus Approach School (Ramos-Martínez, 2000). Tugan-Baranowsky [T-B] criticized underconsumption crisis theories on the basis of Marx’s reproduction schemes in Vol. II of *Capital*. However, he incorporated in his analysis the “absolute immiseration thesis” and claimed that “proportionality” between production sectors would exclude any possibility of crisis, despite the supposedly continuous fall in mass consumption. We are going to argue this approach allows for a Keynesian interpretation of Marx’s theory of expanded reproduction of social capital, according to which a constantly increasing investment demand may always compensate for the lacking demand for consumer goods.

T-B’s approach to crises theory was first published in Russian in 1894, with a more mature formulation following later in German (Tugan-Baranowsky, 1969; Luxemburg, 1971: 311). The primary significance of T-B’s intervention is that it transformed the theoretical scene both in Russia and in the German-speaking milieu (Milios, 1994; Milios, et al., 2002, 158-89).

T-B’s basic contribution was that he was the first to ascertain the critical importance of the conclusions accompanying the reproduction models of Vol. II, correspondingly shifting the ground of discussion. Indeed, as he himself put it:

“In the second volume of *Capital*, there is a brilliant analysis of the reproduction of the

social capital that, in our opinion, must constitute the basis of any scientific theory of the social metabolism in the capitalist economy. But this analysis was left unfinished by Marx, who did not employ it in order to clarify crises and other phenomena of economic life” (Tugan-Baranowsky, 2000: 83).

T-B attempted to reverse the terms of the “immiseration thesis”, (the social conditions of the working class necessarily worsen constantly in absolute terms under capitalism), retaining thus a considerable number of the prior assumptions of underconsumptionist thinking. *For him the realization of surplus value is entirely independent of the existing private consumption potential of a society.* Given that capitalist development is accompanied by constant increase in the organic composition of capital (C/V), where C stands for constant and V for variable capital, realization of surplus value is assured by appropriate expansion in production of means of production. Tugan-Baranowsky sees this process as an expression of the fundamental law of capitalist production that “the further technical progress advances, the more do consumer goods recede as compared with producer goods. Human consumption plays an ever decreasing part as against the productive consumption of the means of production” (quoted in Luxemburg, 1971, 316).

Alternatively, we may conceptualize Tugan-Baranowsky’s argument as follows: increase in the productivity of labor means that the increase in the bulk of commodities produced takes place more rapidly than the increase in real wages. But even now production does not surpass the consuming potential of the market because with capitalist development production undergoes restructuring, with the result that the means of production sector continually grows at the expense of the consumer goods sector.

There may thus be a link between unimpeded capitalist development and the thesis of absolute immiseration of the toiling masses formulated by the underconsumptionists. We arrive, in T-B’s words,

“at the most important conclusion that in capitalist economy the demand for commodities is in a sense independent of the total volume of social consumption. Absurd as it may seem to “common-sense,” it is yet possible that the volume of social consumption as a whole goes down while at the same time the aggregate social demand for commodities

grows". (Quoted in Luxemburg, 1971: 312).

In accordance with the procedure described in the reproductive models, as long as Sector I products (means of production) and Sector II products (consumer goods) remain in the appropriate proportions, no problems will arise in realization of surplus value. Sector I demand for consumer goods realizes Sector II demand for capital goods and, conversely, Sector II demand for means of production makes possible the realization of surplus value produced in Sector I. If we symbolize the values of constant capital, variable capital and surplus value in Sector i ($i=1,2$) as c_i , v_i , s_i respectively, then the general conditions of social production in the simple two-sector model used by Marx are conveyed by the following formulae (k_i is consumption by capitalists):

$$\text{Sector I:} \quad c_1 + v_1 + s_1 = c_1 + \Delta c_1 + c_2 + \Delta c_2 \quad (1)$$

$$\text{Sector II:} \quad c_2 + v_2 + s_2 = v_1 + k_1 + \Delta v_1 + v_2 + k_2 + \Delta v_2 \quad (2)$$

From this it is evident that the new value v_1+s_1 produced in Sector I will be equal to $\Delta c_1 + c_2 + \Delta c_2$, and that the difference between new value in Sector 1 and demand from Sector 2, $(v_1+s_1) - (c_2 + \Delta c_2)$, is Δc_1 . T-B seems to conclude that even when Sector II contracts ($\Delta c_2 < 0$), a development corresponding to absolute immiseration of the working masses, the system is not endangered by underconsumption, since there will always be a suitable price for (net) investment in means of production, Δc_1 , capable of absorbing the surplus product of Sector I. This would of course mean, as T-B himself earlier admitted, that total demand for commodities is independent of the ultimate total volume of social consumption, so that the latter sets no limit either to realization of surplus value or indeed to growth of the economic system.

The extremism of what is logically implied by this train of thought leads us to two possible forms of catastrophism:

a) Either the capitalist system is headed for total automation of production, probably signifying transcendence of capitalism;

b) or absolute immiseration of the masses (unrelenting contraction of Sector II) will trigger a revolutionary overturn of capitalism long before we reach full automation.

Tugan-Baranowsky apparently espouses the former “peaceful” variant.¹

For T-B capitalist crises are the result of temporary disproportions between production in the two sectors. “If social production is proportionately organized, there is no limit to the expansion of the market other than the productive forces available” (cited in Luxemburg, 1971, 313). Thus:

“The underconsumption of the popular masses can be an obstacle for the realization of the social product only insofar as it hinders a proportional distribution of the social production. Yet, the lack of proportionality is, also in this instance, the only cause of an insufficient demand. Therefore, one should not consider both, the lack of proportionality and underconsumption, as two particular causes of the crises since, strictly speaking, both are one and the same” (Tugan-Baranowski, 2000, 86.)

T-B in this way provides us with an interesting conception of cyclical fluctuations in capitalist growth.

What is perhaps uniquely significant about T-B’s relevant argument is that reproduction of constant capital in Sector I “takes place without exchanges with department II, i.e., every year a certain quantity of, say, coal is produced in society for the purpose of producing coal” (Lenin, 1977: 84).

T-B’s theoretical intervention set the parameters for Marxist literature on the problem of economic crises right up to World War II.²

After the appearance of the *Studies* ... the Marxists of Russia and Germany-Austria reacted in three different ways to the question of whether, and if so how, the Marxist theory of expanded reproduction was compatible with the predominant underconsumption approach to the question of crises:

a) Many theoreticians accepted a variant of the theory of crises introduced by T-B

1 As pointed out by Howard & King (1989, 170): “Tugan-Baranowsky pushed this conclusion to its logical extreme (or almost so) by imagining a (virtually) automated economy in which the production of ever more machines is used to produce even more machines. Similarly, the process of reaching this end-point will involve the realization of surplus value with declining consumption ... possibly with the immiseration of the mass of the population. Consumption demand, therefore, has no privileged role in the operation of capitalism”.

from out of the context of the reproduction schemes, rejecting the underconsumption approach, as e.g. in the case of Lenin, Bulgakov, Otto Bauer, Hilferding and others. These Marxists were obliged then to take a position on a second question: *How are the reproduction schemes to be made compatible with the immiseration thesis, i.e. with the predominant view that the position of the workers deteriorates under capitalism?*

b) Others ignored T-B's problematic, insisting on the traditional underconsumption theory (Kautsky, Moszkowska, Plekhanov).

c) A third group, around Rosa Luxemburg [R.L.] and later Fritz Sternberg, defended the underconsumption theory against the problematic of the Marxian reproduction schemes.

2.2. Lenin, Bulgakov, Hilferding

In the course of his description of the “general law of capitalist accumulation” in *Capital* I, Marx asserted that capitalist accumulation raises the constant more than the variable component of capital, imposing a continual increase in its organic composition whose effect is to bring about a relative excess in the population of unemployed: “With the growth of the total capital, its variable constituent, the labor incorporated in it, does admittedly increase, but in a constantly diminishing proportion” (Marx, 1990, 781-2). T-B thus overlooks the fact that increase in the organic composition of capital does not necessarily entail absolute but rather relative reduction of variable capital, i.e., increase at a rate lower than that of fixed capital.

As early as 1893, in his essay *On the So-Called Market Question*, Lenin² was already criticizing the thesis of expanded reproduction irrespective of individual consumption by workers and capitalists. He wrote that: “it is wrong to speak of accumulation being ‘independent’ of the production of articles of consumption, if only because the expansion of production calls for new variable capital and, consequently, articles of consumption” (Lenin, 1977, 84).³

² For an outline of Lenin's theses, see Howard & King, 1989, 171-3.

³ A similar criticism of Tugan-Baranowsky was later formulated by Kautsky (who noted that it did not correspond with Marxian reproduction schemes to imagine there could be accumulation of capital even in

Lenin, who had dedicated his writings of the 1893-1899 period to the possibility and potential dynamic of capitalist development in Russia, based his theoretical arguments on the problematic of Marx's reproduction schemes of the social capital, so as to criticise the view that capitalist development ran up against the obstacle of an inadequate internal market. Lenin, exactly like T-B, regarded the expanding capitalist production of production and consumption goods as the "independent variable" in capitalist development and paying demand as the "dependent variable".

"The degree of the development of the home market is the degree of development of capitalism in the country. To raise the question of the limits of the home market separately from that of the degree of the development of capitalism (as the Narodnik economists do) is wrong" (Lenin 1977 Vol. 3: 69).

Since the object of Lenin's analyses was the question of capitalist development and not the theory of crisis, he was able to bring his theses into accord with the immiseration thesis. The Russian "third persons" of non-capitalist means of production were regarded not as potential consumers of the surplus product but as a reserve army and as potential workers in the expanding process of capitalist production. The overall volume of working class consumption grows with the inclusion of additional workers. This process does not preclude absolute immiseration of the working population.

The immiseration question in (pure) capitalism has to the best of our knowledge been subjected to critical analysis only by the "legal Marxist" S. Bulgakov. In his book, published in 1897: *On the Markets of Capitalist Production. A Study in Theory* he puts forward the theory that immiseration is to be understood not in an absolute but in a

the event of a diminution in the volume of commodities consumed by the working class), and also by Rosa Luxemburg, in their endeavor to defend underconsumption theory: "The accumulation of Department II is completely determined and dominated by the accumulation of Department I. . . . Accumulation must proceed simultaneously in both departments, and it can do so only on condition that the provisions-department increases its constant capital by the precise amount by which the capitalists of the means-of-production-department increase both their variable capital and their fund for personal consumption" (Luxemburg, 1971, 127).

relative sense:

“In certain conditions, capitalism may exist solely by virtue of an internal market. It is not an inherent necessity peculiar to the capitalist mode of production that the outside market be able to absorb the surplus of capitalist production. (...) The majority of economists before Marx solved the problem by saying that some sort of ‘third person’ is needed, as a *deus ex machina*, to cut the Gordian knot, i.e. to consume the surplus value. This part is played by luxury-loving landowners (as with Malthus), or by indulgent capitalists, or yet by militarism and the like. There can be no demand for the surplus value without some such extraordinary mediators; a deadlock will be reached on the markets and the result will be over-production and crises. (...) But if this great public is essentially characterised as consuming the surplus value, *whence does it obtain the means to buy?* (...) Capitalist production knows no other than effective consumption, but only such persons who draw either surplus value or labour wages can be effective consumers, and their purchasing power strictly corresponds to the amount of those revenues. Yet (...) the fundamental evolutionary laws of capitalist production tend, *despite to the absolute increase, to diminish the relative size of variable capital* as well as of the capitalists’ consumption fund. (...) Since the normal conditions of capitalist production presuppose that the capitalists’ consumption fund is only a part of the surplus value, and the smaller part at that, the larger being set aside for the expansion of production, it is obvious that the difficulties imagined by this (the *populist*) school do not really exist” (in Luxemburg 1971: 299, 298, 304, 303, emphasis added).

Bulgakov also addressed another important question concerning reproduction schemes, namely the question of “where the money comes from” which is necessary for the expansion of capitalist production: given that Marxist analysis cannot postulate any direct exchange of goods, capitalists in both sectors must be in a position, for purposes of expansion of their production, to possess the money needed to buy the elements of both constant ($c + \Delta c$) and variable ($v + \Delta v$) capital for this expansion of their production before they have made any sales (i.e. before they have realised their own output). The presumption of money reserves in the hands of the capitalists cannot solve the problem, because such reserves in a closed capitalist economy, reproduced on an ever-wider scale, soon become exhausted. If one remains with the two-sectoral analysis of Marx (i.e. does

not bring in any third sector of “gold production”) one must include credit as an immanent moment of the capitalist system, since its function consists precisely in multiplying monetary resources and enabling purchases to be rendered independent of prior sales: “*Credit ... is the necessary complement of a developing economy of exchange which would otherwise soon find itself hampered by a lack of coined money*” (Bulgakov in Luxemburg 1971: 302).

The most prominent German-speaking Marxist to adopt the T-B problematic as basis for criticism of the underconsumption hypothesis and development of an alternative theory of crises was Rudolf Hilferding (R.H.). In Part Four, and in particular in Chapter 16, of his *Finance Capital* (Hilferding 1981: 239-266), published in 1910, Hilferding formulated his views, the most important point of which was the relativisation of the concept of disproportionality as the cause of crises. According to R.H. disproportionality could arise from any one of a number of possible causes: a rapid increase in consumption, or production of means of production (overinvestment) or, by contrast, a contraction in the abovementioned forms of social product and/or social demand. Disruption of proportionality for R.H. meant disruption in the price mechanism regulating expanded reproduction in the capitalist economy. It also meant that it would not be possible to manufacture products at prices and in quantities that would satisfy paying demand to the extent necessitated for expanded reproduction of the economy at a given profit rate. Disruption of the regulatory price mechanism thus coincided with a fall in the rate of profit.

Despite his purely phenomenological and often contradictory account of the factors inducing such disruption of economic proportionality, in his enumeration of them (as he sought to show how each individual factor, all things being equal, could lead to disruption of proportionality and to crisis) his analysis did introduce new points to the critique of underconsumption theory elaborated out of the context of Marxian reproduction schemes: crisis was to be studied in conjunction with the factors influencing price formation and evolution of the rate of profit. These points were later to be developed further by Bukharin.

2.3. Luxemburg's counterattack

Irrespective of the contradictions in T-B's analyses, the anti-consumptionist problematic which commenced after the publication of the *Studies...* refers, as already stated, to the possibility of expanded reproduction of a “pure: capitalist economy, without any “third” consumers, except workers and capitalists. Stated in another way, the exponents of underconsumptionism were challenged to answer to the question, of how their theory of crises is compatible to the Marxian schemes of expanded reproduction of capital in Vol. 2 of *Capital*. Rosa Luxemburg was the first Marxist to admit that acceptance of the theory of underconsumption unequivocally leads to the rejection of the Marxian schemes.

R.L.'s key argument is as follows: Since, on the one hand, Marxian reproduction schemes presuppose an expansion not only of the production of means of production but also of consumer goods (Luxemburg 1971: 127 ff.), while on the other hand such an expansion of personal consumption is impossible without involvement of “third persons” (the principal thesis of all underconsumption theories and/or theories of absolute immiseration) the conclusion is that “on the question of accumulation, mathematical problems can prove absolutely nothing, since their historical premise is untenable” (Luxemburg, in Luxemburg/ Bukharin 1972: 65). Expanded reproduction in a pure capitalist economy is according to Rosa Luxemburg impossible.

R.L.'s consistent defence of the underconsumption hypothesis leads to a theory of capitalist collapse: if the reserve of “third persons” with the development of capitalism becomes exhausted, the capitalist system will succumb to its immanent tendency towards underconsumption: reproduction comes to a halt. The socialist revolution in this context must be understood as totally determined by the tendency to collapse.

Many underconsumptionist approaches, especially those formulated after the death of Rosa Luxemburg (with the exception of the work of “Luxemburgists” like Sternberg, who's book *Der Imperialismus* was published in 1926 – Sternberg 1971), try to locate the necessary “third persons” alien to the capitalist mode of production, inside the structure of really existing capitalist social formations (countries). Following Kautsky's notion about “those strata which are still non-capitalist”, they claim that capitalist expanded reproduction is made possible in two ways: firstly by increasing the number of

people belonging to the “new middle strata” of wage earners in trade, advertising, marketing etc., who are considered to be unproductive workers (they “do not increase economy’s values”, Moszkowska 1935: 97), while “their consumption vitalises the market” (op. cit.), or secondly by the massive state consumption of capitalist produced commodities (military and welfare expenditures of the state, etc.). In this way, expanded reproduction of capital is conceived as being assured by a non-economic (political) “regulation”, aiming at the absorption of capitalist produced values (militarism and territorial expansion alongside the increasing military expenditures, an increasing state apparatus alongside an increasing “non-productive” sales and advertising apparatus of corporations, Moszkowska 1935: 91-104, see also Baran/Sweezy 1973). However, since the consumption capacity of “third persons” and of the state is not inexhaustible, the inherent disequilibrium between production and consumption in capitalism must finally lead to the system’s collapse.

2.4. Nikolai Bukharin

In his polemical pamphlet (Bukharin in Luxemburg/Bukharin 1972) published in 1925, Nikolai Bukharin sought to reject the “consistent” underconsumption theory formulated by Rosa Luxemburg: this meant defending the thesis that according to Marxist theory expanded reproduction of pure capitalism was possible and that crises were only temporary suspensions of this process, rejecting the hypothesis of collapse and/or the view that the economy is in a state of continual disequilibrium between production and paying demand, which without the presence of “third persons” would bring capitalist development and expanded reproduction to a halt.

Bukharin commenced from the problematic of Marx's reproduction schemes in Vol. 2 of *Capital*, as it was in crisis theory by T-B. He also made use of the arguments of Bulgakov, Lenin, Hilferding and others, reformulating them with the aim of showing that the distinguishing feature of crises is overproduction of capital (overaccumulation) and not the immanent underconsumption of the workers. Nevertheless, the drift of his arguments enables us to extract from them a critique of the immiseration thesis that underlay all underconsumption theories. Moreover, his critique of Luxemburg’s theories

of collapse led him to a corresponding *critique on the one hand of teleological views* in respect of the “purpose” of capitalism and on the other of the “*monistic*” *views in relation to the origins of crises*. *Class struggle* emerges from both directions of argumentation as the process in the last instance driving all economic development and also determining the outbreak of economic crises.

In order to contest the taboo-sanctioned position of the Socialist movement that no expansion of private consumption by the masses is possible under capitalism (absolute immiseration of the working class), Bukharin directed his polemical arguments against Tugan-Baranowsky’s view that “it is possible for overall volume of social consumption to contract and simultaneously for overall social demand for commodities to increase” (Tugan-Baranowsky 1969: 25). Bukharin wrote:

“(1) The increase in means of production calls forth a growth in the amount of means of consumption; (2) simultaneously, this increase creates a new demand for these means of consumption and as a result (3) a specific level of the production of means of production corresponds to a quite specific level of the production of means of consumption; in other words, the market of means of production is connected with the market of means of consumption. Thus, in the last analysis, we arrive at the opposite of that Mr. Tugan claims (Bukharin, in Luxemburg/Bukharin 1972: 210).

His key point is that mass consumption can grow to the extent that it is determined by the dynamic of expanded reproduction of social capital (level of the rate of profit, sectoral restructuring of the economy):

“However large they may be in themselves, the branches producing means of production appear as *preliminary stages of the production of means of consumption*. (...) Thus, in respect to its *value* the share of means of production manifests a relative increase. What does that mean? It means that –expressed in *products*– there is a huge increase in *means of consumption*. The higher the organic composition of capital and the productivity of social labour, the greater is the amount of consumption products which are placed upon the market” (Bukharin, in Luxemburg/Bukharin 1972: 208, 209).

Bukharin’s analysis showed that the thesis of absolute immiseration (long-term

fixing of workers' living standards to a minimum, or even steady erosion of these standards) can be defended only on the basis of underconsumption theory. T-B's (and Otto Bauer's) attempt to combine this thesis with a critique of underconsumption theory led to unresolved theoretical contradictions.

Analysis of the character of crises of overproduction presupposes understanding of the origins of economic crises. T-B had cited as a cause of crises a disproportionality between production spheres that ran contrary to the prescriptions of the Marxian reproduction scheme. In response to this, Bukharin adopted Hilferding's thesis that although crises appear as a result of the disproportionality between production spheres, "the factor of consumption forms a component part of this disproportionality. (...) A correct proportion between the workers' means of consumption and the other parts of the total social product is an essential requirement for the smooth running of social reproduction" (Bukharin, in Luxemburg/Bukharin 1972: 225, 231-32, 230).³⁵

Bukharin nevertheless expanded the content of the abovementioned assertion, in the sense that he perceived the various forms of disproportionality as manifestations of the more generally contradictory character of a capitalist society, i.e. as a result of the historically concrete class antagonisms of a specific conjuncture, setting the parameters for capitalist development and/or expanded reproduction in a given capitalist economy.

In this way, Bukharin's approach acknowledges the total contradictions of the capitalist system as "causes" of crisis. As Bukharin points out:

"Capitalist society is a 'unity of contradictions'. The process of movement of capitalist society is a process of the continual reproduction of the capitalist contradictions. The process of expanded reproduction is a process of the expanded reproduction of these contradictions. If this is so, it is clear that these contradictions will blow up the entire capitalist system as a whole" (Bukharin 1970: 98. Poorly translated in Luxemburg/Bukharin 1972: 264-5).

Contrary to underconsumption theory, Bukharin's approach does not end in a collapse thesis. It claims that the overthrow of capitalism will be the outcome of a conjuncture of sharpening of its overall contradictions: "The limit is given by the tension of capitalist contradictions to a certain degree" (Bukharin 1970: 98. Poorly translated in

Luxemburg/Bukharin 1972: 264-65).

It follows from this that the crisis will be regarded as a historical conjuncture embodying all the contradictions arising from the class struggle in a *concrete capitalist society* (or group of societies interlinked economically), not as the effect of a single cause *permanently operative in every capitalist society*, which, as with underconsumption theory, “negates” the existence of capitalism through an automatic economic mechanism. On a theoretical plane one may speak of this totality of class antagonisms only as the *absent cause* of the crises. One cannot without concrete analysis determine the possible forms of intensification of the contradictions, leading to generalised overproduction.

Bukharin’s theoretical model, according to which the capitalist system must be grasped as a unity of contradictions, has not only philosophical but also theoretical consequences vis-à-vis the theory of crises: According to Bukharin the crisis signifies not only market disequilibrium or a mistaken investment decision but a disturbance of the *overall process of capitalist production*, affecting the production and circulation of all commodities, including labour power.

“We have seen that the production of means of consumption for the workers is the *indirect* production of labour-power or, to be more exact, the precondition of this production. (...) It follows without further ado that the disproportionality between production and consumption also represents a disproportionality of production in a more direct and exact form, namely, in the form of a disproportionality *between the production of means of consumption and the production of labour-power*” (Bukharin, in Luxemburg/Bukharin 1972: 233-234).

2.5. *Underconsumption vs. Overaccumulation: A Concluding Remark*

Summarising the above analysis, we may say that the differentiation between underconsumption theory and overaccumulation theory (Bukharin) does not refer only to the decisive feature of the complex structure of economic crisis, but also to the way each theory conceives the process of capitalist expanded reproduction to be.

Underconsumption theory conceives crisis as being the expression of the immanent disequilibrium of capitalist expanded reproduction (“consumption is inevitably retarded

in relation to production”). Expanded reproduction is assured only temporarily through a “third party” of consumers, alien to capitalists and workers. It thus formulates a “law of crisis”, which is the inherent retardation of consumption compared to production.

In contrast, according to overaccumulation approach crises occur due to determinations external to the capital relation which, though, affect (overdetermine) the capital relation, since they act through it. Tugan-Baranowsky considers a single such determination, which constitutes the cause of crises: disproportionality between production sectors. In Bukharin’s approach, the causes of crises are “absent”, i.e. not predictable, as the author considers the causes to be the totality of contradictions characterising a capitalist society. Crisis is, therefore, an outcome of class struggle.

It is important to note here, that both variants of the overaccumulation approach clearly distance themselves from *any* variant of underconsumptionism: It is not an “overaccumulation” crisis due to the underconsumption of the popular masses or the inability of capitalists to either consume or invest surplus value. The crisis is a conjunctural *production* of commodities (means of production and means of consumption) in quantities and prices which render them non-absorbable, precipitating price reductions and destruction of capital, thus temporarily hindering the process of capitalist expanded reproduction.

3. The Incorporation of Tugan-Baranowsky's Approach in the Keynesian Underconsumptionist Perspective

At this point we shall return to one aspect of Tugan-Baranowsky’s original analysis which was used as a point of departure by certain exponents of the Keynesian approach, in their effort to discover a “Keynesian element” in Marx's oeuvre: What determines net investment and what dictates that it should occur to the extent required for unimpeded reproduction? And, by extension, what is it that, even if only temporarily, influences it in such a way as to generate disproportionality, and therefore crises? These questions open the way for creating a theoretical relation between Tugan-Baranowsky’s analysis and the Keynesian concept of effective demand.

Keynes’ intervention marked a break with the neoclassical variant of Say’s Law,

which presupposes the equilibrium of full employment. In general terms, the Keynesian line of thought may be represented as follows. In an economy without significant foreign trade and government economic activity, aggregate demand is comprised of individual consumption and investment. As a result, there are two possible ways of extending aggregate demand: through extension of individual consumption or through activation of private investment. As Keynes himself saw it, by attributing causal priority to effective demand the underconsumptionists moved in the right direction, but inadequately.

“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” (Keynes, 1973: 325).

In the Keynesian problematic, individual consumption is fundamentally contingent on income (see Asimakopulos, 1991: 58-70) and cannot be regarded as an independent variable. The weight falls exclusively on investment. To cite Kregel’s comment (1979: 54),

“it is customary to assume, as did Keynes, that the level of investment is determined exogenously. Keynes himself . . . used the catch phrase “animal spirits” to indicate that decisions to invest were based on a more complex set of factors than just profits or the availability of finance”.⁴

⁴ For more on this, see Robinson, 1962, 36-8, 48-51. The relevant comment by Keynes (1973, 161) reads as follows: “Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as a result of animal spirits ... of a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities. Enterprise only pretends to itself to be mainly actuated by the statements on its own prospectus, however candid and sincere. Only a little more than an expedition to the South Pole, is it based on an exact calculation of benefits to come. Thus if the animal spirits are dimmed and the spontaneous optimism falters, leaving us to depend on nothing but a mathematical expectation, enterprise will fade and die ... though fears of loss may have a basis no more reasonable than hopes of profit had before.”

This is what Kaldor (1980: 229) had earlier designated the “Keynesian hypothesis.”

Keynes’ overall argument seems to be structured more or less as follows:⁵ 1) “autonomous investment” via the multiplier determines effective demand, 2) effective demand in turn determines the level of output and 3) the level of output determines real wages, since the condition of maximizing profits, at the prevailing level of product, makes real wages equal to the marginal product of labor (in other words we have internal determination of real wages, in contrast to what Smith, Ricardo, and also Marx, had accepted).

In light of this approach, T-B’s basic mistake was “not to see” how unimpeded capitalist accumulation is not a necessity but an endangered potential of the system. Commenting on the work of T-B, Kalecki (1980: 146) shrewdly takes advantage of the gap in his analysis to smuggle in the concept of effective demand. Whenever the economic system is conceptualized in two sectors, with suitable proportions between them, the problem of effective demand remains concealed in the background. At every level of individual consumption by workers and capitalists, the national product *may* be sold *in toto* (and surplus value realized), on the condition, of course, that investment expenditure is sufficiently high. But this elevates the level of investment into a critical condition for maintenance of proportionality between the two sectors.

“Thus the fundamental idea of Tugan rests on an error that what may happen is actually happening, because he does not show at all why capitalists in the long-run are to invest to the extent which is necessary to contribute to full utilization of productive equipment” (Kalecki, *op. cit.*)

It is here that Robinson (1991: 43-51) detects the beginnings of effective demand in Marx’s text, misinterpreting the way in which Marx develops his argument.⁶ In

⁵ For example, see Bhaduri and Marglin, 1990, 375-6. In reality this is the “neo-Keynesian” reading.

⁶ We do not propose to concern ourselves with Marx’s analysis. The shift from simple reproduction to extended reproduction models represents a qualitative transformation, something that appears to be misinterpreted by Robinson (see Marx, 1992: 581ff).

expanded reproduction, part of the surplus value $s_1 + s_2$ produced in Sector I and Sector II respectively is saved, without being spent in purchasing Sector II consumer goods. But this means that the new value $v_I + s_I$ of Sector I exceeds demand. For the system to function smoothly, this shortfall in demand must be covered by corresponding net investment demand for means of production, Δc_2 , through s_2 . For Robinson (op. cit.: 48), “saving represents sales without purchases, and can proceed smoothly only if it is offset by equivalent investment ... purchase without sales.” This, of course, is by no means certain to happen. So “the cause of crises is to be sought in a lack of balance, which is an ever-present threat to the stability of the system” (op. cit.).

Thus, according to Kalecki and Robinson, Tugan-Baranowsky – probably unintentionally – opens up a research orientation on the basis of which we may conceive of long-term movement in the capitalist system from the viewpoint of a more general Keynesian problematic. The origin of crises and destabilization of accumulation must be traced to unequal distribution of purchasing power. T-B’s error and by extension his extremely negative attitude to the underconsumptionists may be attributed to his failure to understand how when demand for Sector II consumer goods is restricted (something he himself did not exclude within the context of acceptance of “absolute immiseration”), there will be corresponding negative consequences for demand for Sector I means of production also, given that investment expenditure Δc_2 will cease to exist. Δc_1 cannot exist without Δc_2 , simply because “the constant capital of the consumption-good industries will not expand fast (enough) to absorb the potential output of the capital-good industries” (Robinson, 1991: 49).⁷

The problem of effective demand (and so the necessity of a policy mix to deal with it) will make its appearance as soon as ... for whatever reason ... there is a fall in investment (e.g., in Sector II). This is the point at which a general contraction will occur in overall production, moving the economy away from full employment. According to Kalecki (1980: 148):

“Tugan considers the *possible* use of the national product created by full utilization of the

⁷ Here Robinson questions the soundness of Tugan-Baranowsky’s hypothesis that growth may occur in one sector absolutely independently of the other.

productive forces as the actual fact ... in any case if we disregard the business cycles. The following problem arises here: the approach is certainly faulty, from which however does not follow that Tugan's theory is wrong, but merely completely unfounded".

What appears to be "absent" in T-B's model of reproduction is the factor determining investment incentives (and thus ensuring full utilization of the productive forces). If the propensity for capitalists to invest surplus value in capital goods exists independently of their profitability, then the Sector I product will fill the gap between consumption and the maximum potential product, removing the probability of crises, however unfavorable the level of consumption (Robinson, 1991: 50). In this case the balance between the two groups of industries will be self-regulating. But what is it that determines the long-term level of investment?

In T-B we do not find the answer given in the Keynesian literature to this question, where in the long term the "principle of effective demand" translates as "autonomous investment." This autonomy appears to be linked to a wide range of social and psychological factors. The key idea is based on an inversion of the neoclassical schema, in which independent investment, through a variety of mechanisms, creates the corresponding savings. In accordance with one of Kaldor's findings (Kaldor, 1980: 227-8), there are two possible ways in which something like this may happen.⁸ Investment can generate the corresponding savings either through appropriate adjustment of distribution for a given level of the product (the neo-Keynesian outcome), or through a change in the overall level of the product, given a particular social distribution (this might be called the neo-Ricardian Keynesian outcome).⁹

8 The relevant discussion has to do with the time frame for implementation of the multiplier, something that remained open in Keynes' analysis. For a general account of the question, see Asimakopulos, 1991, 65-70; Harcourt, 1972, 205-214.

9 In this connection, see Garegnani, 1992, 47-8; Kurz, 1992: 84; Robinson, 1962, 11, 401; Eatwell, 1983; Dutt and Amadeo, 1990, 44-93. Representing the "neo-Keynesians," Kaldor (1980, 227-8), in agreement with Robinson on this point (Robinson, 1962, 11), considers that at work here are two different conceptions of the multiplier, which are mutually incompatible. Variant 2 finds its realm of application in the short term, in contrast to the first, which could constitute the background for elaboration of a long-term theory. The "neo-Ricardian Keynesians" maintain that Kaldor's assertions have an inverse validity.

4. Crises as Expressions of the Marxian Law of the Tendential Fall in the Profit Rate

At the border of the dispute between underconsumption and overaccumulation theories, a new approach to economic crisis was developed, according to which overproduction was the form of appearance of a fall in the profit rate, in accordance with the famous law formulated by Marx in Volume 3 of *Capital*. According to Marx, the fall in the profit rate is the outcome of the fact that the technical composition of capital increases at a higher rate than labour productivity. This means that the organic (value) composition of capital rises, thus causing a fall in the profit rate (since the rate of exploitation does not increase at a higher rate than the organic composition). Posed in another way, the law states that surplus value increases at a lower rate than capital stock.

The first theoretician who formulated this interpretation, in the late 1920s and early 1930s at the border of the historic dispute between underconsumption and overaccumulation theories, was Henryk Grossmann. According to him, the law of the falling profit rate was the decisive distinguishing characteristic of crises: Crises were the manifestation of the increase in the organic (value) capital composition in the course of capitalist development, at a faster rate than the increase in labour productivity.

When those factors of capitalist economy that counteract the profit rate's tendency to fall are exhausted, the end of capitalism will arrive, according to Grossmann's approach. He wrote:

“The law itself is in reality an obvious consequence of the labour theory of value, in the event that accumulation takes place on the basis of a continuously higher organic composition of capital. (...) Finally, accumulation will become impossible, because the surplus-value mass will not be sufficient to create the necessary increase ratio in the quickly raising constant capital. (...) With a further increase in the organic composition, there must be a time when any continuation of accumulation will be impossible. This is the Marxian law of collapse” (Grossmann 1971: 28-29).

The first critique posed to the theory discussed here, is that according to Marx, overproduction crisis constitutes a periodic phenomenon, which cannot therefore be

explained in terms of a long-term tendency such as the falling profit rate (Bukharin, in Luxemburg/Bukharin 1972: 204, 262-263).

A much more radical critique of Grossmann's approach was developed in the 1930s by Natalie Moszkowska (1935: 45-59). She claimed that technical innovation of capitalist production after World War I did not increase the value composition of capital faster than the exploitation rate of labour-force (surplus-value rate). On the contrary, it simultaneously a) increased the exploitation rate, and b) increased labour productivity faster than technical composition of capital, thus causing a fall in organic composition of capital. She claimed that under the influence of both factors an upward tendency of the profit rate is established, at least in the long term.

Moszkowska's approach was not based on an empirical analysis of the accumulation process of that period, which would have revealed the actual tendencies of the factors affecting the profit rate. However, it should be regarded as very important because it emphasised the fact that the profit rate is a function of both (a) the value composition of capital, and (b) the surplus-value rate. Therefore, it can rise not only in the case discussed by Moszkowska, but also either when the rate of surplus value increases more rapidly than the value composition of capital or when it decreases more slowly.

Grossmann's approach gave the Marxian law a "mechanistic-economist" and "determinist" interpretation, converting it into a "theory of collapse" of capitalism. However, the interpretation of crises on the basis of the "law of the falling tendency in the profit rate" was adopted later on by other Marxists, such as Maurice Dobb (1968) and Ernest Mandel (1995) in a non-determinist and non-mechanistic version. They claimed that the Marxian law manifests itself only temporarily (and that is when an economic crisis takes place), being later on overborne by counter-tendencies, which restore the profit rate levels. Dobb, writing in 1937, also established a relationship between profit rate fall, in the sense of the Marxian law, and squeezing of the surplus-value rate due to a temporary diminution or even exhaustion of the "industrial reserve army" in the conjuncture of expansion of capitalist production. The partial stoppage of production which follows an abrupt fall in the profit rate, was regarded as the starting point for an upward reversal in the trend of the profit rate, through closing down of less

profitable plants, increasing unemployment and decreasing wages, introduction of new labour-substituting production methods, etc. (see Dobb 1968: 79-126; Mandel 1995. For a critique, Milios et al 2002, Chapter 9).

Even if we take for granted that the Marxian law of falling profit rate occasionally prevails over its counteracting factors, it is not correct, in our opinion, to conceive crisis merely as a result of this Marxian law. The law considers only the effect on organic composition and profit rate of *technical innovations*, that is of changes (increases) in the technical composition of capital. However, the organic composition of capital, and hence the profit rate, depends also on other factors besides technical change.

5. Lack of Demand or Lack of Surplus Value?

We ascertained previously that the process of producing means of production through increased production of means of production, described by Tugan-Baranowsky, is very far from comprising a coherent interpretation of capitalist reality. It nevertheless incorporates a basic idea that is in no way offensive to a Keynesian interpretation, as we discussed above. Autonomous investment generates the profits and savings needed for its own financing, so that it is in a position on its own to sustain capitalist development.¹⁰

It should, however be noted that approaches like that of Nikolai Bukharin, which critically incorporate T-B's argument about the importance of Marx's reproduction schemes in Vol. 2 of *Capital*, shift the problem of capitalist development and crises a long way from the essentially "psychological" concept of effective demand, towards a Marxist theory of overaccumulation.¹¹

In contrast to the Keynesians (and also to the neoclassical economists), Marx proposes something different: "the true barrier to capitalist production is capital itself" (Marx, 1991, 358). In the process of capitalist accumulation, capital may be rendered "unable to exploit labor at the level of exploitation that is required by the 'healthy' and

10 Here the question of distribution is of secondary importance. Of course, Tugan-Baranowsky, rejecting as he does the labor theory of value, seems to have ended up with a preliminary formulation of the neo-Ricardian theory of surplus. For further details, see Ramos-Martínez, 2000; Tugan-Baranowsky, 1969.

11 For this approach to the problem of crises, see Marx, 1991, Ch. 15; Mattick, 1978, 87-97; Milios, 1994; Ioakimoglou and Milios, 1993.

‘normal’ development of the capitalist production process” (Marx, 1991, 364). Net investment of social capital then yields a sum of profit smaller than that which it had previously realized, so that continuing accumulation becomes “unproductive” for capital, meaning that the rate of profit contracts:

“Overproduction of capital never means anything other than overproduction of means of production – means of labour and means of subsistence – that can function as capital, i.e. can be applied to exploiting labour at a given level of exploitation; a given level, because a fall in the level of exploitation below a certain point produces disruption and stagnation in the capitalist production process, crisis and the destruction of capital” (Marx 1991: 364; MEGA II, 4.2: 330).

The crux of the problem lies in “the decrease of the exploitability of labor in comparison with the profit requirements of a progressive capital accumulation” (Mattick, 1969, 79).

We may conceptualize this process as follows (see Mattick, 1978, 87-88, 92-3): Every long-term developmental phase of capital has as its concomitant certain limits, and is succeeded by crisis if these limits are transgressed. They oblige the “collective capitalist” to reorganize the overall structures of production. As Mattick (1969, 73) pointed out, Marx’s theory

“does not depend on any particular periodicity of crises. It only maintains that crises are bound to arise as an expression of a temporary overproduction of capital and as the medium for the resumption of the accumulation process”.

Given that in Marxist theory the “market question” does not represent the reality of social conditions but is to a large extent determined by the process of capital “creation” (as it is the problem of “technical change”¹²), the ultimate “cause” for an interruption to

12 “The beginning of true wisdom about technical change . . . is that ultimately, all benchmarks not withstanding, there is no reason to believe that any parameter . . . will remain constant. A change in technique alters all of the relationships in the workplace, both explicit and implicit. Productivity norms for each operation must be redrawn, and will be the object of struggle. Lines of authority must be redirected;

capitalist accumulation is not “lack of demand” (nor “retardation of savings”) but “lack of surplus value.”¹³

Thus, behind the process of capitalist accumulation and the crises that periodically accompany it there is no “simple” systematically operant cause (disproportionality, lack of effective demand, etc.), but rather the evolving balance of class forces themselves, the totality of contradictions and internal causal relations governing capitalist production.

Furthermore, Marx clearly distinguishes between overaccumulation crises and crises in the financial sphere which do not emanate from or develop in an overaccumulation crisis. In the third chapter of *Capital* Marx observed:

“As long as the social character of labour appears as the money existence of the commodity and hence as a thing outside actual production, monetary crises, independent of real crises or as an intensification of them, are unavoidable. It is evident on the other hand that, as long as a bank’s credit is not undermined, it can alleviate the panic in such cases by increasing its credit money, whereas it increases this panic by contracting credit” (Marx 1991: 649).

Financial crises are thus sometimes the prelude to, and sometimes the result of, a crisis of overaccumulation of capital. Sometimes, again, the financial crisis manifests itself independently of the broader economic conjuncture, that is to say does not have any significant effect on the level of profitability and the level of employment of the “factors of production” in the other sectors of the economy above and beyond the financial sphere or some specific parts of it.¹⁴ This, for example, is what happened in the

some centers of power within the workplaces may be eroded by the introduction of a new technique, and others strengthened. . . .” (Laibman, 1997, 49).

¹³ To quote Mattick once more: “At any given time the actual borders of capital expansion are determined by general social conditions, which include the level of technology, the size of the already accumulated capital, the availability of wage-labor, the possible degree of exploitation, the extent of the market, political relations, recognized natural resources, and so forth. It is not the market alone but the whole social situation in all its ramifications which allows for, or sets limits to, the accumulation of capital” (Mattick, 1969: 74).

¹⁴ In Volume I of *Capital*, it is written: “The monetary crisis defined in the text as a particular phase of every general industrial and commercial crisis, must be clearly distinguished from the special sort of crisis,

case of the international financial crisis of 1987, when there was a collapse of share prices in the international stock exchanges, providing the international press with the opportunity to speak of a “return to 1929 and the Great Depression”. But it is also what happened in most of the more than 124 crises in the banking system that were recorded between 1970 and 2007.

Therefore, it becomes evident that the Marxist problematic transcends the apparent dilemma between the priority of investment (Keynesian) and saving (neoclassical-classical), offering a richer framework for interpretation of capitalist accumulation.

6. Conclusions: The Marxist Conception of Capital Overaccumulation Crises

The problematic introduced by Tugan-Baranowsky, which used the reproduction schemes formulated by Marx in Vol. 2 of *Capital* to frame a critique of underconsumption theory, contributed (despite the contradictions in some of the ways it was elaborated) to the formation of a specifically Marxist interpretation of economic crises as overaccumulation crises.

It is not by chance that Marx’s problematic as regards the expanded reproduction of a “pure” capitalist society and the reproduction schemes of Vol. 2 of *Capital* has been “forgotten” in most recent discussions on economic crisis. Behind this “omission” is easy to detect a rejuvenation of the underconsumptionist problematic, as inherited in Marxist theory by both Thomas Malthus and Sismonde de Sismondi.

In this fashion, capitalism appears to be entrapped (since the mid-1970s) in a perennial crisis, the end of which is not readily visible. The “cause” of this is considered to be an “excess of capital” due to either the *low consumption capacity of the popular masses* or the fact that capital is *unable to find outlets for investment*. This has two probable consequences. First, this “surplus” capital stagnates in the money markets, creating “bubbles”, or is used to underpin ineffective policies of forced accumulation that depend on lending and debt. Second, this capital circulates internationally in pursuit

also called a monetary crisis, which may appear independently of the rest and only affects industry and commerce by its backwash. The pivot of these crises is to be found in money capital, and their immediate sphere of impact is therefore banking, the stock exchange and finance” (Marx 1990: 236).

of accumulation by dispossession, profiting, that is to say, not from exploitation of labour but from direct appropriation of income chiefly from those who are not financially privileged or do not occupy an appropriate position in the market for credit.

We cannot deal with these modern underconsumptionist approaches at this point; however, we have put them under a detailed critique elsewhere (Milios and Sotiropoulos 2009). We will, therefore, restrict ourselves in highlighting certain conclusions stemming from the overaccumulation problematic, which we have formulated in this paper:

1) The pointer of causality between reproduction and mass consumption has been reversed. It is thus defended the validity of the Marxian thesis that “the rate of accumulation is the independent variable; the rate of wages is the dependent not the independent variable” (Marx 1990: 770). Marxian criticism of Say’s Law does not, as the theoreticians of underconsumption had assumed, depend on there always being excess demand under pure capitalism but on there not always being an equilibrium between supply and demand. Crises testify to this tendency towards disequilibrium. But there are no permanent crises.

2) Crises are conjunctural suspensions of the conditions for unimpeded reproduction of total social capital. They constitute transitory manifestations of the internal contradictions of capitalism and not permanently operative causal relationships inherently governing capitalist relations (a permanent deficiency in consuming power as against production, or the ever acting “law of the falling tendency in the profit rate”).

3) Demand as *motive power of capitalist production* is a concept to be rejected.

4) The disequilibrium between supply and demand is not the cause or the essential content of the crisis, but a (superficial) manifestation of it – its form of appearance.

5) The essential content of the crisis has to do with overproduction of capital and the fall in the rate of profit that is associated with this phenomenon.

6) Expanding reproduction of social capital presupposes the existence of the credit system.

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