

## EN\_GJS10 Outline Economic crisis 28/29 November 2010

### 1. Marxist theory on crises

- Capitalism is an intrinsically unstable system, subject to fluctuations and crises.
- These more or less deep crises are no accidents; they are the result of the internal contradictions of the system.
- These contradictions are the direct consequence of the laws of accumulation and of reproduction of capital.
- Capitalism is a historical system; it did not always exist and is destined to disappear.
- But this disappearance is not automatic. Marx underestimated its capacity of transforming and of adapting itself.
- Indeed, each crisis is the result of the expression of these contradictions but also of the mechanisms capitalism puts in place to resolve them through its own transformation.
- In the long term, we can recognize different phases and periodical phenomena, the “long waves”.

#### 1.1 The dual nature of the crises of capitalism.

For capitalism, there are two simultaneous aspects to the crises:

- they happen when the internal contradictions inherent to the system explode
- in their manifestations (bankruptcies, unemployment, drop of growth rate) they represent at the same time the mechanisms capitalism uses to overcome these contradictions

##### 1.1.1. The crises, products of the intrinsic contradictions of the capitalist mode of production.

The capitalist mode of production is defined by three fundamental characteristics: the private ownership of the means of production, competition between numerous private capitals and the generalized rule of the market.

#### ■ This characterisation brings us to two main laws of capital accumulation.

- **The increase of the organic composition of capital**

This counteracts the constant tendency to the development of the productive forces which is typical for capitalism and without precedent in human history.

This growth happens in a fundamentally anarchistic system:

- ▶ Each individual capitalist decides on production
  - in relation to his perspectives of future profits
  - not in relation to the fulfilment of needs
  - nor in view of possible future demands

- ▶ In order to survive, each capitalist must fight against the others

Even if he can temporarily make alliances with other capitalists against the workers.

- ▶ In order to survive amongst competitors, each capitalist is obliged to accumulate capital = incessantly investing, modernising equipments, replacing them with new equipment, enlarging the business.

Competition between private capitals results in a permanent tendency to accumulate capital, which revolutionizes permanently the production methods and the products themselves: each capitalist wants to invest all the time, either to increase his production capacity or to improve productivity (higher performance of the machines).

*The bourgeoisie, historically, has played a most revolutionary part. The bourgeoisie, wherever it has got the upper hand, has put an end to all feudal, patriarchal, idyllic relations.(...)The bourgeoisie has disclosed how it came to pass that the brutal display of vigour in the Middle Ages, which reactionaries so much admire, found its fitting complement in the most slothful indolence. It has been the first to show what man's activity can bring about. It has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and Gothic cathedrals; it has conducted expeditions that put in the shade all former Exoduses of nations and crusades. (...)The bourgeoisie cannot exist without constantly revolutionising the instruments of production, and thereby the relations of production, and with them the whole relations of society. Conservation of the old modes of production in unaltered form, was, on the contrary, the first condition of existence for all earlier industrial classes. Constant revolutionising of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. All fixed, fast-frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses his real conditions of life, and his relations with his kind.(...) The bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together. Subjection of Nature's forces to man, machinery, application of chemistry to industry and agriculture, steam-navigation, railways, electric telegraphs, clearing of whole continents for cultivation, canalisation of rivers, whole populations conjured out of the ground — what earlier century had even a presentiment that such productive forces slumbered in the lap of social labour?*

K.Marx, F.Engels, *Communist Manifesto* (1848) Chapter 1

The accumulation of capital is thus a permanent feature of capitalism.

- ▶ each capitalist replaces incessantly variable capital (V) by constant capital (C)
- ▶ this results in the global increase of the organic composition of capital c

$$c = C/V$$

the ratio of constant capital to variable capital = the relation between **life labour** and **dead labour**

- **The increase of the rate of surplus-value**

The capitalist tries always to increase the rate of surplus-value by all means and permanently through the relative surplus-value (as a consequence of the growth of the productive forces) and through the absolute surplus-value if the social relationships of forces allow it.

- **It is the combination of these two laws that results in the contradictions provoking the crises**
- **The tendency of the falling rate of profit and crises of over-accumulation.**

The continuing increase of the organic composition of capital (as a result of competition in capitalism) results in a structural tendency towards the relative falling of the rates of profit.

The rate of profit equals, at the level of the economy as a whole, the ratio between the amount of surplus-value (PL) extracted from the workers and the amount of capital put into the production by the capitalists, for buying machines, raw materials, energy ... (C) and what is necessary for the wages (V).

$$\text{Rate of profit} = PL/(C+V)$$

► **The capitalist cuts the branch on which he is seated**

By continuously replacing living labour by dead labour, capital which creates value (variable capital V) is replaced by capital that does not create value (constant capital C).

► In other words, the short term interests of each individual capitalist go in the long run against the global interest of the capitalist mode of production (this is a paradox, on the opposite of the “invisible hand” of the market)

The rate of profit can be written differently:  
Each fraction is divided by V

$$\frac{PL/V}{C/V+V/V}$$

$$PL/V/(C/V+1)$$

When  $c=C/V$  increases, then  $PL/V$  must at least increase to the same amount in order for the rate of profit not to fall.

Increases of the rate of profit are possible if there is a relationship of forces in favour of the capitalist, whilst an increase of c depends in most cases only on technical conditions; most of the time, c increases faster than  $PL/V$  and so the rate of profits has the tendency to fall.

**There are forces that counteract this fall:**

► International exchanges can have an influence on the value of commodities. At the epoch of Marx, there was colonial commerce: industrialised countries imported raw materials at low prices. If these were consumer commodities, they helped at lowering the value of the work force V, so augmenting the rate of surplus-value. Today, this is also the case for tee-shirts imported from China. But V plays also a role in determining the organic composition of capital:  $c=C/V$ . But if the cheaper imported goods are means of production C, then c can decrease. The final result is undetermined.

► The process of mechanisation itself can lead to the use of machines with a price that does not increase as much as their productive capacity. This slows down the increase of organic composition. At the same time, the increases in productivity in the sector of consumption goods, through which relative surplus-value can increase, are only obtained by an increase in the organic composition of capital.

The tendency towards the falling of the rate can be explained by the fact that a growing quantity of constant capital is necessary in order to maintain the same rates of profits. But capitalists can make enormous profits as we can see at the moment.

The crisis erupts when profits fall. At the same time, there is a process of **over-accumulation of capital**: the amount of accumulated capital has become too large to be transformed into value at a sufficiently large rate of profit.

• **The problem of the realisation of the surplus-value and crises of overproduction**

Under capitalism, there is no guarantee that future demand will be large enough to absorb production

► the production of commodities in the capitalist mode of production does not anticipate needs nor the future evolution of solvent demands.

► production is organised in a fundamentally anarchistic competitive way, the only rationale is the search for profits.

It is even the reverse: there is a **contradiction between the extraction and the realisation of surplus-value** (and this is larger with increasing numbers of salaried workers in the population).

► a continuous increase of the rate of exploitation means to work towards the decrease of  $V$ , which means that solvent demand cannot grow sufficiently.

The capitalist are confronted structurally with a problem of the realisation of the surplus-value.

What is more, the economic equilibrium depends on the respect of a number of proportions between the different economic sectors ( goods for the productive sector and consumers goods). These conditions of equilibrium are called by Marx the “patterns of the process of reproduction”:

“The conditions of equilibrium can be summarized in the following way: The economy is in equilibrium when the production of production goods creates the demand of consumption goods equal to the demand of production goods created by the production of consumption goods.”

(Pierre Salama and Tran Hai Hac, 1992)

Capitalism is periodically confronted with crises of overproduction (1929, 1973-74), part of the commodities can not be sold at their value although there is a considerable amount of needs that are not fulfilled.

*There are not too many necessities of life produced, in proportion to the existing population. Quite the reverse. Too little is produced to decently and humanely satisfy the wants of the great mass.*

*There are not too many means of production produced to employ the able-bodied portion of the population. Quite the reverse. In the first place, too large a portion of the produced population is not really capable of working, and is through force of circumstances made dependent on exploiting the labour of others, or on labour which can pass under this name only under a miserable mode of production. In the second place, not enough means of production are produced to permit the employment of the entire able-bodied population under the most productive conditions, so that their absolute working period could be shortened by the mass and effectiveness of the constant capital employed during working-hours.*

*On the other hand, too many means of labour and necessities of life are produced at times to permit of their serving as means for the exploitation of labourers at a certain rate of profit. Too many commodities are produced to permit of a realisation and conversion into new capital of the value and surplus-value contained in them under the conditions of distribution and consumption peculiar to capitalist production, i.e., too many to permit of the consummation of this process without constantly recurring explosions.*

### **K. Marx, Capital, Vol.3, Chapter 15**

Not too much wealth is produced. But at times too much wealth is produced in its capitalistic, self-contradictory forms.

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This is the big difference between crises in capitalism and crises in previous modes of production. The latter were nearly always crises of shortages, of under production (i.e. a bad harvest caused by war or bad weather) which blocked all normal economic activity. Misery spreads in the countryside and the difficulties reach also the towns that depend on the countryside. The crisis then clearly caused by an under production of goods, of user values.

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#### ***Why is over production possible?***

*The possibility of over production is not easy to understand. According to the “law of opportunities” attributed to the French economist of the beginning of the 19<sup>th</sup> century, Jean-Baptiste Say, ‘the supply creates its own demand’: all production of goods constitutes at the same time a distribution of incomes capable of absorbing the commodities that are produced.*

There are two essential points described by Say in this process:

- The balance between supply and demand: creating a product of a value of 100 € distributes the 100 € as a revenue (divided for example in 50€ of salaries, 40 € of payments for suppliers, 10 € for the head of the company). The result is that it is impossible to have generalized over production, there can only be sectorial or temporary problems.
- Products are exchanged against products. J.-B. Say writes 'Money is only a temporary passage in this double exchange; at the end of it, we have always paid products with products'. Money plays a totally secondary role in the process.

In *Capital*, Vol .1, book1, Marx criticizes sharply the law of Says. Marx stressed the difference between simple barter (exchange without money) and a monetary economy: in the first case, the operations are simultaneous but in the second case, the situation is completely different ('after having sold, I am not obliged to buy at the same place, nor at the same time nor from the same person to which I sold something'). The use of money also, is not neutral: once the operation of exchange is finished 'the buyer has the commodity, the seller has the money, which means that the commodity has a property that makes it always welcome on the market, at any moment' : there is the possibility of a temporal difference. This is what makes the crisis possible: 'If the divide between selling and buying increases, the intimate links between them are accentuated— by a crisis'.

Marx further on underlines the contradictions of commodities in capitalist production: user value/exchange value, private labour/social labour, concrete labour/abstract labour. These contradictions imply the possibility of crises. He also stresses the difference between the immediate exchange of products, the circulation of commodities et the production of commodities. Over production is in general not the over production of goods but of commodities.

**The difference between “goods” and “products” is of particular importance in order to understand the possibility and the general characteristics of the capitalist crises.**

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STEINBECK

### ***The crisis of agriculture in California***

*The men who work in the fields, the owners of the little orchards, watch and calculate. The year is heavy with produce*

*The men who work in the experimental farms have made new fruits: nectarines and forty kinds of plums, walnuts with paper shells. And always they work, selecting, grafting, changing, driving themselves, driving the earth to produce.*

*And first the cherries ripen. Cent and a half a pound. Hell, we can't pick 'em for that. Black cherries and red cherries, full and sweet, and the birds eat half of each cherry and the yellowjackets buzz into the holes the birds made.*

*The purple prunes soften and sweeten. My God, we can't pick them and dry and sulphur them. We can't pay wages, no matter what wages. And the purple prunes carpet the ground.*

*The little farmers watched debt creep up on them like the tide. They sprayed the trees and sold no crop, they pruned and grafted and could not pick the crop*

*This vineyard will belong to the bank. Only the great owners can survive, for they own the canneries, too. And four pears peeled and cut in half, cooked and canned, still cost fifteen cents. And the canned pears do not spoil. They will last for years*

*Men who can graft the trees and make the seed fertile and big can find no way to let the hungry people eat their produce. Men who have created new fruits in the world cannot create a system whereby their fruits may be eaten.*

*The works of the roots of the vines, of the trees, must be destroyed to keep up the price, and this is the saddest, bitterest thing of all. Carloads of oranges dumped on the ground. The people came for miles to take the fruit, but this could not be. How would they buy oranges at twenty cents a dozen if they could drive out and pick them up? And men with hoses squirt kerosene on the oranges, and they are angry at the crime, angry at the people who have come to take the fruit. A million people hungry, needing the fruit—and kerosene sprayed over the golden mountains.*

*And the smell of rot fills the country.*

*Burn coffee for fuel in the ships. Burn corn to keep warm, it makes a hot fire. Dump potatoes in the rivers and place guards along the banks to keep the hungry people from fishing them out. Slaughter the pigs and bury them, and let the putrescence drip down into the earth.*

*There is a crime here that goes beyond denunciation. There is a sorrow here that weeping cannot symbolize.*

*The fertile earth, the straight tree rows, the sturdy trunks, and the ripe fruit. And children dying of pellagra must die because a profit cannot be taken from an orange.*

*The people come with nets to fish for potatoes in the river, and the guards hold them back;*

*The people come with nets to fish for potatoes in the river, and the guards hold them back; they come in rattling cars to get the dumped oranges, but the kerosene is sprayed. And they stand still and watch the potatoes float by, listen to the screaming pigs being killed in a ditch and covered with quick-lime, watch the mountains of oranges slop down to a putrefying ooze; and in the eyes of the people there is the failure; and in the eyes of the hungry there is a growing wrath. In the souls of the people the grapes of wrath are filling and growing heavy, growing heavy for the vintage.*

### **1.1.2. The crisis is the mechanism through which capitalism tries to overcome its contradictions**

As a consequence of a crisis capitalists try create the conditions for the restoration of the rate of profit:

- ▶ Increase the rate of surplus-value by increasing the reserve army (unemployment, attacks against the workers)
- ▶ Destroy constant capital in order to diminish the organic composition of capital (bankruptcies, wars, ...)

#### ***Industrial reserve army:***

Capitalism's permanent tendency to replace labour by capital and to eject workers who are in surplus in relation to the needs of the production, into unemployment or precariousness, whereby a permanent unemployment rate puts pressure on the rate of exploitation of the workers who are employed. *'The excess labour imposed on the fraction of the working class who is in active service, increases the ranks of the reserve and, by increasing the pressure of competition of the latter on the former, this force undergoes obediently the orders of capital'*. K. Marx, Vol. 1, Book 1, Chap XXV

**That is the reason why, for capitalists, unemployment is not the problem but the solution.**

We will see that the current period is characterized by the fact that capital has managed to restore its rate of profit ( since the mid-eighties) without being capable to resolve its problem of the realisation of surplus-value.

We see then a 'work done by the crisis': during a rather long period (several years) the capitalist mode of production will transform the way it functions and the outcome of the crisis will have transformed capitalism although the fundamentals remain the same.

## **1.2. A periodization of capitalism**

We have seen that capitalism is a fundamentally unstable system; Its trajectory is subject to **two types of movements**:

- ▶ The cycle of capital which leads to regular booms and busts (short cycles)
- ▶ A succession of long historic periods characterized by profound crises

### **1.2.1. The short cycles**

They have been studied by economists since the 19<sup>th</sup> century: in that period they occurred frequently about every ten years. In the Communist Manifesto (1848), Marx and Engels noted their frequent return. They are characterized by the sequence expansion- crisis – depression – upturn .

In the context of the short cycles, crises allow restructuring, the adaptation of the stock of capital to conditions of an adequate valuation from the point of view of the capitalists. **The crisis is not an unjustified catastrophe without cause; it is useful for capitalism as it allows to ‘cut the dead branches’.**

Four different theses have been advanced by several economists considering themselves as Marxists to explain the economic crises:

- the fall of the rate of profit
- the disproportion between the sector of the production goods and the sector of the consumption goods
- under consumption
- over accumulation

**In fact, these single factor explanations don’t reflect reality.**

All these factors can be integrated into a global theory: *“In the framework of Marxist economic theory, the crises of over production are at the same time crises of over accumulation of capital and crises of over production of commodities. The first aspect cannot be explained without stressing the second one; the second cannot be explained without reference to the first”.* (E. Mandel, Introduction au livre III du capital)

### 1.2.2. The long waves

#### ■ A periodization of capital subject to debate

- The successive crises make capitalism go through **different historical phases** with their own characteristics

▶ Following several economists ( Kondratieff, Schumpeter), E.Mandel analyses this periodization in the **theory of the long waves of capitalism.**

▶ These phases become visible through the movements of prices, the growth rate of the production and the evolution of the volume of international commerce, with an ascending and a descending phase.

- Since the beginning of capitalism, we have witnessed **four phases.**

#### **The successive long waves**

	Expansive wave	Recessive wave
1 <sup>st</sup> long wave	1789-1816	1816-1847
2 <sup>nd</sup> long wave	1848-1873	1873-1896
3 <sup>rd</sup> long wave	1896-1919	1919-1945
4 <sup>th</sup> long wave	1940/45-1968/73 'Golden Sixties'	1968/73-? The 'crisis'

#### ■ The concept of ‘productive order’

Each long wave is marked by a dominant mode of functioning of capitalism, which we can call ‘productive order’ containing the combination of four series of elements:

##### a) Accumulation of capital

This includes a double relation:

- b) Material productive forces and technologies**
- c) Regulation of social relations**
- d) International division of labour**

## 2. The “great crises” in the history of capitalism

*We see then: the means of production and of exchange, on whose foundation the bourgeoisie built itself up, were generated in feudal society. At a certain stage in the development of these means of production and of exchange, the conditions under which feudal society produced and exchanged, the feudal organisation of agriculture and manufacturing industry, in one word, the feudal relations of property became no longer compatible with the already developed productive forces; they became so many fetters. They had to be burst asunder; they were burst asunder.*

*Into their place stepped free competition, accompanied by a social and political constitution adapted in it, and the economic and political sway of the bourgeois class.*

*A similar movement is going on before our own eyes. Modern bourgeois society, with its relations of production, of exchange and of property, a society that has conjured up such gigantic means of production and of exchange, is like the sorcerer who is no longer able to control the powers of the nether world whom he has called up by his spells. For many a decade past the history of industry and commerce is but the history of the revolt of modern productive forces against modern conditions of production, against the property relations that are the conditions for the existence of the bourgeois and of its rule. It is enough to mention the commercial crises that by their periodical return put the existence of the entire bourgeois society on its trial, each time more threateningly. In these crises, a great part not only of the existing products, but also of the previously created productive forces, are periodically destroyed. In these crises, there breaks out an epidemic that, in all earlier epochs, would have seemed an absurdity — the epidemic of over-production. Society suddenly finds itself put back into a state of momentary barbarism; it appears as if a famine, a universal war of devastation, had cut off the supply of every means of subsistence; industry and commerce seem to be destroyed; and why? Because there is too much civilisation, too much means of subsistence, too much industry, too much commerce. The productive forces at the disposal of society no longer tend to further the development of the conditions of bourgeois property; on the contrary, they have become too powerful for these conditions, by which they are fettered, and so soon as they overcome these fetters, they bring disorder into the whole of bourgeois society, endanger the existence of bourgeois property. The conditions of bourgeois society are too narrow to*

*comprise the wealth created by them. And how does the bourgeoisie get over these crises? On the one hand by enforced destruction of a mass of productive forces; on the other, by the conquest of new markets, and by the more thorough exploitation of the old ones. That is to say, by paving the way for more extensive and more destructive crises, and by diminishing the means whereby crises are prevented.*

*The weapons with which the bourgeoisie felled feudalism to the ground are now turned against the bourgeoisie itself.*