PERIODICAL CRISES

Pre-capitalist and capitalist crises

AN economic crisis is an interruption in the normal reproduction process. The human and material basis of reproduction, the mass of productive labour power and of instruments of labour effectively employed is reduced. There follows a decline in both human consumption and productive consumption, that is, a reduction in the amount of labour both living and dead available for production during the next cycle. In this way a crisis reproduces itself spirally, the break in the normal production process causing a shrinkage in the starting-basis of this process.

In pre-capitalist societies crises took the form of *material destruction* of the elements of reproduction, whether simple or expanded, as a result of natural or social catastrophes: "Before and even during the eighteenth century, crops, wars, plagues, and so on were absolutely and relatively very much more important [than business fluctuations]."[1]

Wars, plagues and other epidemics, floods, draught, earthquakes, all destroy society's productive forces, the producers and the means of production. Depopulation and faminine condition one another and bring about an overall reduction in both current production and social reserves. As agriculture is the basis of all expanded reproduction, it is above all a reduction in agricultural production, in the output of agricultural labour, that lies at the root of pre-capitalist crisis. This reduction is usually caused by non-economic factors.[2] Causes inherent in the mode of production—increasing exhaustion of the soil, without any possibility of extending cultivation to fresh land, and flight of the producers from increasing exploitation—may, however in certain circumstances take the place of non-economic disasters as causes of crisis.

Crises occur in a different way in capitalist society. In this society the material destruction of the elements of production occurs not as the cause but as the result of crisis. It is not because there are fewer workers engaged in production that a crisis happens, it is because a crisis breaks out that there are fewer workers engaged in production. It is not because hunger reigns in people's homes that the output of labour declines and crisis breaks out, but the other way round.

Pre-capitalist crisis is a crisis of *under-production of use-values*. It is due to inadequate development of production, or to inadequacy of exchange and of transport facilities. A crisis like this, in a particular province or country, may coincide with normal conditions of reproduction in a neighbouring province or country. A capitalist crisis, however, is a crisis of *overproduction of exchange-values*. It is due to inadequacy not of production or physical capacity to consume, but of *monetarily effective demand*. A relative abundance of commodities finds no equivalent on the market, cannot realise its exchange value, remains unsaleable, and drags its owners down to ruin.

Unlike a pre-capitalist crisis, a crisis in the capitalist epoch thus presupposes the universalisation of commodity production. Whereas pre-capitalist crisis is by definition local and limited in space, capitalist crisis is by definition general, and involves most of the countries united in the capitalist system of production and exchange of commodities: *

"Whereas the crises of the Ancien Régime were phenomena of shortage suddenly experienced, and for thousands of years the very idea of crisis was linked with under-production and famine . . . crises since the Revolution are always, except during wars, phenomena of overabundance of an explosive nature, which also lead to deep-going social changes."[3]

General possibility of capitalist crisis

This new type of crisis, called a crisis of over-production, seems to result from the very characteristics of the commodity, and of the general development of commodity production. The intrinsic contradiction of the commodity, the contradiction between use-value and exchange-value, leads in fact to the *splitting of the commodity into the commodity itself and money*. This splitting is what creates the general possibility of capitalist crises.

So long as society essentially produces use-values, a situation of "poverty amid plenty", of masses of use-values being destroyed while masses of people are condemned to poverty, cannot occur. The direct appropriation of use-values by the consumers prevents any such paradoxical coincidence. As soon, however, as commodity production becomes general, this direct appropriation ceases to be possible. Henceforth, in order to consume a commodity, it is necessary to possess the equivalent of its exchange-value. To appropriate use-values one has to be able to *buy* them.

From this time forward crises of overproduction are theoretically possible. For them to occur, all that is needed is for the owners of

* This does not mean, of course, that all the crises of the capitalist epoch necessarily have to affect *all* countries. The universality of capitalist crisis is a matter of a predominant feature, not an absolute and mechanical rule.

commodities to find themselves unable, for whatever reason, to encounter customers who possess sufficient money-capital to realise the exchange-value of their commodities. The system of trade and credit tends to bridge over temporarily the separation between the commodity and its equivalent in money. The longer this bridge becomes, however, both in time and space, the more closely trade and credit bind all countries together in a single system, the more the contradiction inherent in the commodity and its divided condition is intensified.

If during the circulation of commodities *their price of production changes*, as a result, say, of the introduction of new methods of work, the intensifying of competition, or of a fall in the average rate of profit, a large number of commodities no longer find their equivalent on the market, and a large number of debts cannot be met. It is enough for an income not to be spent today but only tomorrow for it to be incapable of buying the same number of commodities, if their prices have risen in the meantime.[4] The contradiction between the commodity and the money equivalent which it has to find on the market thus develops into a contradiction between money as medium of circulation and money as medium of payment, a contradiction which in turn leads to the contradiction between the whole process of commodity circulation and the process of reproduction.

The law of markets

Vulgar political economy set up against this analysis of the theoretical possibilities of overproduction the idea that the value of commodities is by definition equal to the total incomes of the various classes of society which in one way or another take part in the production of these commodities. Deduced from this was the conclusion that all production of commodities is at the same time production of the incomes needed to absorb these commodities. Hence arose the well-known "law of markets" which is unjustly called "Say's law", since it was discovered not by the French economist J. B. Say but by the British economist James Mill, father of John Stuart Mill. This "law of markets" leaves no room for general overproduction; at most it allows of the existence of partial overproduction, overproduction in some sectors accompanied by underproduction in others, due to faulty distribution of the "factors of production" among the different sectors of the economy.

The mistake in the law of markets arises from the fact that it neglects the *time-factor*, that is, it assumes a static and immobile system instead of the dynamic capitalist system.* We know already that during the period between production and sale the prices of commodities can vary, in either direction, so creating either a surplus of

* This is admitted by Guitton.[5]

incomes or a surplus of commodities without counter-value in money on the market.*

On the other hand, the incomes distributed during a certain period of time will not necessarily be used to buy commodities during this same period; only the incomes of wage-earners, intended for the purchase of perishable consumer goods, will be so spent. This is not true of capitalist incomes, which *tend to be accumulated*, nor of that part of the value of commodities which represents not an income but the counter-value of used-up constant capital. The capitalists are under no obligation to invest these sums *immediately*, that is, to use them at once as purchasing power to acquire a certain category of goods. When the capitalists expect not a rise but rather a fall in their profits they may well put off such expenditure. The hoarding of incomes, non-productive saving, may thus give rise to a surplus of income which will correspond to an overproduction of certain commodities.[7] This brings about an initial reduction in employment which may entail overproduction spreading throughout all parts of the economy, which will cause a further decline in employment, and so forth.

In fact, the "law of markets" is valid only:

(*a*) if all problems of investment are eliminated,
(*b*) together with all problems of credit; and
(*c*) if the immediate sale, for cash, of all the commodities produced assumed, together with
(*d*) complete stability in the value of these goods and
(*e*) no difference of productivity between different enterprises.

These assumptions boil down to an assumption that production is not capitalist production, stimulated by thirst for profit and by competition, but petty commodity production.

Even in that case, monetary phenomena can upset the perfect equilibrium between incomes and commodity values. The law of markets is thus truly valid only for natural economy.[8] In this way we come again to the argument set forth at the beginning of this chapter, that a society which produces use-values cannot experience "overproduction".

The cyclical progress of capitalist economy

Increase in the organic composition of capital and a downward tendency of the average rate of profit, conditioned by this, are the general laws of development of the capitalist mode of production. By bringing about a periodical modification in the price of production of commodities they create the theoretical possibility of general crises of

* Marx notes that there is no automatic, immediate unity between production and realisation of value under capitalism. This unity results only from a process and is connected with a series of conditions.[6]

overproduction, if an interval between the production and sale of commodities is assumed. The capitalist mode of production thus acquires its characteristic rhythm of development—*uneven, unsteady*, proceeding by leaps which are followed by periods of stagnation and retreat.

The introduction of new machines and new production methods does not change the price of production in an imperceptible, gradual way. It changes it through sudden jerks, at more or less regular intervals, when society becomes aware *after the event* that too much social labour has been expended in producing certain commodities. This results, leaving all other factors out of account, from the rotation cycle of fixed capital, which embraces a whole succession of production cycles and rotation cycles of circulating capital. Keynes says:

"There are reasons, given firstly by the length of life of durable assets in relation to the normal growth in a given epoch, and secondly by the carrying-costs of surplus stocks, why the duration of the downward movement should have an order of magnitude which is not fortuitous, which does not fluctuate between, say, one year this time and ten years next time, but which shows some regularity of habit between, let us say, three and five years."[9]

A number of other writers express the same view, e.g., Aftalion, Pigou, Schumpeter, etc.[10] The "interval" factor operates in agricultural affairs too. There is a gap between the moment when, on the basis of favourable prices, a decision is taken to increase the cultivation of a certain product, or the raising of certain animal stock, and the moment when this decision actually results in an increase in production.[11]*

On the other hand, a certain period has to elapse before the market can react to the introduction of new production methods, that is, before it can be established whether these methods will continue to bring super-profits to their initiators or if they will lead, on the contrary, to an all-round lowering of prices of production. This period is precisely that during which the splitting of the commodity into the commodity itself and money is *stretched* to the utmost, which leads to the inevitable slump.

Capitalist production is production for profit. The variations in the average rate of profit are the decisive criteria of the actual condition of capitalist economy.†

* This leads to a phenomenon of inevitable cyclical fluctuations known as the "cobweb theorem".

† A large number of writers accept this view as self-evident, e.g. Aftalion, W. C. Mitchell, Keynes, Schumpeter, Hansen and Guitton.[12] Haberler, however, in his work on economic cycles, which is otherwise so clear, is guilty of the following enormity in order to remain faithful to the terminology of the marginalist school: "Variations in profits (or losses) are often regarded as the barometer of economic cycles. It does not, however, seem justified to put

The long-term tendency of the average rate of profit is a downward one. But this does not show itself in straight-line fashion. It becomes effective only through periodical adjustments and increases, in a *cyclical* movement the primary origin of which has just been shown. This cyclical movement can be briefly characterised in its main phases by the change in the average rate of profit:

(*a*) *Economic recovery*. Part of production capacity not having been used any more for a certain period, the stocks previously accumulated have been got rid of, and the demand for goods now exceeds the new supply. Prices and profits start to rise again. Some of the factories which have been closed now reopen, for the same reason, which encourages the capitalists to increase their investments—because when demand exceeds supply it means that *less* social labour is crystallised in the commodities present on the market than is socially necessary. This implies that the total value of these goods easily finds it equivalent on the market. The factories working at a level of productivity higher than the average will realise a substantial super-profit: the less productive enterprises still surviving after the crisis will realise the average profit. The circulation period of commodities is reduced, most enterprises undertaking production to order. The gap between the moment of purchase and the moment of payment for goods is very short.*

(*b*) *Boom and prosperity*. All available capital flows into production and trade, in order to take advantage of the increase in the average rate of profit.† Investments rapidly increase. During a whole period the establishment of new enterprises and the modernisation of existing

this factor on the same footing with the three fundamental criteria abovementioned. The term 'profit' is vague and ambiguous [!] . . . It is a combination of interest, rent, monopoly profits, etc. Profits in the doctrinal sense are part of the national income and are included under that head in 'real income'. The absence of profit (or loss) in the strict sense of the word is the very essence of the perfect equilibrium [!] of the economic system."[13] We are ready to lay odds that any business-man would explain to Mr. von Haberler that his "doctrine" is in conflict with reality . . . It is to be observed, furthermore, that Gayer, Rostow and Schwartz[14] have confirmed empirically that the cyclical movement of the textile industry coincides in the first part of the nineteenth century with cyclical fluctuations in the rate of profit.

* We leave aside for the moment many factors which enter into the cyclical movement and which we shall deal with later. It is above all necessary to grasp the *fundamental* mechanism of the rate of profit, which underlies the cyclical movement.

† It is thus not wrong to speak, as do Aftalion and Pigou, about "mistakes by too optimistic entrepreneurs". But it must be grasped that these are "mistakes" (of over-investment) from the *social* standpoint; because, from the point of view of the *private* entrepreneur, it is logical to try to increase production and sales to the maximum *at the moment when profit is highest*. Each one hopes he will survive the ensuing slump, that this will affect only the other man. And in fact, are not the most modern new plants those that stand up best to crises? "The trouble seems to be not so much that business men mistake their interests . . . as that their actual interests lie in doing the things

enterprises is the essential source of the general expansion of economic activity: "industry is industry's best customer". The newly-launched enterprises raise the average level of productivity well above the former average, but so long as supply is exceeded by demand prices continue to rise and the average rate of profit remains at a high level. The most modern enterprises realise substantial super-profits, which stimulates fresh investments and develops credit, speculation, etc.

(*c*) *Overproduction and slump.* As the newly-made investments increase more and more the total production of society, and thereby the quantity of commodities hurled on to the market, the relations between supply and demand change, at first imperceptibly, then more and more obviously. It is now seen that some of the commodities produced in the least favourabe conditions of productivity actually contain labour-time which is *wasted*, from the social standpoint. These goods have become unsaleable at their prices of production. For a certain period the factories where these unfavourable conditions exist nevertheless go on producing—*that is, wasting social labour-time*—thanks to the expansion of the credit system, and this is reflected in the accumulation of stocks, the lengthening of the circulation time of commodities, the widening of the gap between supply and demand, etc. At a certain moment it becomes impossible to bridge this gap with credit. Prices and profits collapse. Many capitalists are ruined; the enterprises which work at too low a level of productivity[17] have to close down.

(*d*) *Crisis and depression.* The fall in prices means that production is henceforth profitable only for the enterprises that work under the most favourable conditions of productivity. The firms that were realising super-profits now have to be satisfied with the average profit. In fact, a new level of average profit is thus established, corresponding to the new organic composition of capital. At the same time, however, the crisis, through the bankruptcy and closure of many factories, means the destruction of a mass of machinery, of fixed capital. By the fall in prices, capital, as exchange value, is also lowered in value, and the total value of society's capital is reduced. The smaller amount of capital which is left as a result of this destruction can more easily be utilised. It will be invested easily under conditions making possible, at the moment of economic recovery, a new rise in the average rate of profit.

which bring on the cycle, so long as they are acting as individual business men or representatives of individual business interests."[15]

Natalia Moszkowska does not understand the periodical coincidences of these "errors of judgment". Why does everybody make the same sort of mistake?[16] Perhaps because every entrepreneur is forced by competition to try for the highest profits? Is this not a vivid illustration of the contradiction between the *social* character of production and the *private* character of appropriation (the hunt for private profit) under capitalism?

The cyclical movement of capital is thus nothing but the mechanism through which the tendency of the average rate of profit to fall is realised. At the same time, it is the system's reaction to this fall, through the lowering of the value of capital during crises. Crises make possible the periodical adaptation of the amount of labour actually expended in the production of commodities to the amount of labour which is *socially necessary*, the individual value of commodities to their socially-determined value, the surplus-value contained in these commodities to the average rate of profit. Because capitalist production is not consciously planned and organised production, these adjustments take place not *a priori* but *a posteriori*. For this reason they necessitate violent shocks, the destruction of thousands of lives and enormous quantities of values and created wealth.

The internal logic of the capitalist cycle

The contradiction between use-value and exchange value, the contradiction between the commodity and its money equivalent, provide only the *general possibility* of capitalist crises of overproduction. They do not yet explain why, or in what specific conditions, these crises periodically follow one another. The variations in the rate of profit reveal the inner mechanism of the economic cycle. They explain the general significance of it as a periodical readjustment of the conditions of equilibrium of capitalist reproduction. But they do not reveal the "concrete causes" of crises. These factors can be distinguished from the causes of crises in the strict sense by contrasting, in the tradition of Aristotle's logic, and as the economist G. von Haberler does, the causes *sine qua non*—without which there would not be any crises—with the causes *per quam*—which explain the immediate reasons why crises break out. To analyse the latter requires a concrete analysis of all the elements of capitalist production.

For expanded reproduction to take place without interruption, the *conditions of equilibrium*, indicated in Chapter 10, must be constantly reproduced. The purchases of consumer-goods by all the workers and the capitalists engaged in producing capital goods must be equivalent to the purchases of capital goods by the capitalists engaged in producing consumer goods (including in both categories the purchases needed in order to expand production). The constant reproduction of these conditions of equilibrium thus requires a *proportional development* of the two sectors of production. The periodical occurrence of crises is to be explained only by a periodical break in this proportionality or, in other words, by an *uneven development* of these two sectors.

Up to now, however, we have not left the province of definition, that is, of tautology. To say that periodical crises occur because of disproportion between the two sectors of production is like saying