CONTROVERSY

A Note on the Causes of Crises

EMILE BURNS' INSISTENCE on the inadequacy of any loose formulation which talks of " over-production of armaments " as a cause of crisis, and in particular any formulation which places this on a par with over-production in the consumption trades, is timely and welcome; and there is a great deal in his short article that gives important food for thought and discussion. It is true and important, as he points out, that the " purchasing power of the State " is not limited in the same way as is mass demand for consumption goods. At the same time, in suggesting that a crisis can *only* develop from a lack of markets for consumption goods, *i.e.*, through a contraction (relative or absolute—the article does not quite make clear which) in mass effective demand, I think he is in danger of giving his theory a rather lop-sided character that has more affinity to Rosa Luxemburg than to Marx.

It is true that Marx in the passage cited referred to the consuming power of *the masses*. But it is, surely, absurd to suggest that Marx *never* referred to any other sort of consumption, let alone any other sort of demand ? (Here I tend to agree with what John Knight says in his reply). I do not think Burns can have meant this suggestion to be taken literally. Does not Marx spend some time, in the *Critique*, speaking about " productive consumption," *e.g.*, consumption of constant capital in the process of production ? In his famous tables in vol. 2 Marx points out that the output of Department 2 (consumption goods industries) can find a market first in V, secondly in S of both Departments (*i.e.*, in wages and in that part of surplus value that is *spent* and not accumulated). The product of Department 1 (means of production industries) finds a market in gross investment (or accumulation) in both Departments, *i.e.*, in *replacement* of worn-out capital equipment (C) under simple reproduction, and in replacement *plus* expansion of equipment under expanded reproduction. Now, it is perfectly true that with regard to the former there is a vitally important class difference between V and S, which bourgeois economists have tended to obscure (as Emile Burns points out) : namely, a characteristic of the capitalist class is that it treats its income not only as a fund for consumption but as a source of *further accumulation*, (*i.e.*, it saves part of S in order to acquire yet more surplus value in the future). Non-Marxist economists in the past have assumed (with a few exceptions such as J. A. Hobson) that a transfer from V to S will have no effect on demand, and hence need cause no hitch. But, of course, such a transfer will, in fact, reduce demand for consumption goods, since a shift from wages to profits will increase saving. Hence, one must warmly agree with Emile Burns in emphasising that the contradiction between expanding productive power and consumption of which Marx spoke is *essentially* a contrast between productive power and the income of the *masses*: and exists precisely because a class society depresses the income of the masses, and does so as a necessity of its nature. But that is not to say that there are not occasions on which changes in capitalist consumption may have importance in the causation of a crisis: as we shall see in a moment, Marx referred specifically to one case where it may. Nor is it to say that crises can *only* originate in Department 2 (as Burns' article seems to maintain, if I understand him rightly).

That Marx's statement which Burns' article cites is *not* to be interpreted in a crude under-consumptionist sense is, to my mind, made perfectly clear by the famous passage of Marx where he points out that "it is purely a tautology to say that crises are caused by the scarcity of solvent customers or paying consumption," and goes on to point out that it is not a sufficient explanation of crises merely "to attempt to clothe this tautology with a semblance of profounder justification by saying that the working-class receive too small a portion of their own product, and that the evil would be remedied by giving them a larger share of it," since "crises are always preceded by a period in which . . . . the working-class actually get a larger share of the annual product intended for consumption."*

What Marx meant by the statement that "the last cause of all real crises" is the contradiction between the "restricted consumption of the masses" and "the tendency of capitalism to develop the productive forces" without limit is fairly plain, once it is placed in the context of all the things he said about crises. He was referring to this crucial dilemma in which capitalism always finds itself: to earn more profit on *existing* capital equipment it must increase demand; to expand its chance of amassing profit in the future, the capitalist class must "save," not spend, a large slice of its income. *Therefore*, the only effective way of expanding demand is to increase wages (but this, since it would eat into profit by increasing cost, is impossible as a solution); while at the same time, the progress of capital accumulation makes the contradiction progressively more acute in the future, both by piling-up the tendency for the profit rate to fall (owing to increase of C relative to V, or of capital equipment relative to labour power) and by increasing the *mass* of surplus value relatively to wages. But this is not the same thing as to say that crises can *only* originate in the consumption trades, still less that a crisis can only occur because the proportion of current income that becomes mass purchasing power declines.

In what principal ways, then, did Marx show that crises could occur? If my reading of *Capital* is correct, there are three principal ways:

1. Under expanded reproduction at a constant rate crises can occur owing to a disrupting of the "balance" or proportions between Departments 1 and 2 and the constituents, C, V and S, in each. As Marx showed, under capitalist anarchy of production, this balance "only occurs as an accident." A disturbance of the balance would show itself as a relative over-production *either* in Department 1 *or* in Department 2. And since equilibrium is an "accident," periodic dislocation sufficient to produce crises is inevitable.
2. The case of expanded reproduction at an *increasing* rate. This is the case where a crisis will arise from difficulties of "realising" surplus value: *i.e.*, it will originate in the consumption trades from deficiency of demand. It is a close parallel (if not identical with) the case which the Keynes school have recently been discussing so much: where an increase of saving causes unemployment in the consumption trades and does *not* lead to compensating expansion in the constructional trades (*via* lower interest rates and increased investment as economists have usually contended). Marx puts the matter in this way†: suppose the capitalists decide to *increase* the proportion

**Capital*, vol. 2, pp. 475-6. A footnote adds: "Advocates of the theory of crises of Rodbertus are requested to make a note of this." Rodbertus held that crises were caused because wage-earners received a diminishing share of the product.

†Vol. 2, pp. 593-6.

of S that they accumulate. Then their decreased spending leaves goods unsold in the hands of capitalists in the consumption trades. How, then, are the latter to realise the funds with which to invest in new machines, etc., to be purchased from Department 1 ? If they cannot, the investment process is broken and a crisis develops. And if they cannot, how can expanded reproduction ever *increase* its rate, or even start in the first place ?

This passage (which seems to have been too often overlooked) shows that Marx was proof against the criticism of Rosa Luxemburg that he had underestimated the difficulties of expanded reproduction by neglecting the problem of " realisation." And Marx's answer to the riddle was much sounder than hers.* He reserves the answer until the last paragraph of Vol. 2. The difficulty can be met if, but only if, consumption goods that are unsold (on account of increased saving) are sold to gold producers—in other words, if new money comes into the system, and the unsold goods are disposed of in a one-way transaction against gold.† " New markets " (of which Luxemburg talked) are not by themselves sufficient, since ordinary two-way trade of goods against goods does not meet the difficulty. (It is to be noted that export of *capital* is to all intents and purposes a one-way exchange of goods for gold, or at least for paper claims on gold).

The case referred to by Marx arose because of a relative decline in capitalists' own spending out of S. But it could equally well arise from an increased ratio of saving to spending due to a shift from wages to profits. This is the case to which Burns' article presumably refers.

3. In Vol. 3 Marx proceeds to show that *even if* (" by an accident ") the proportions necessary for expanded reproduction to take place (as defined in the tables in Vol. 2) are maintained, and even if the problem of " realisation " does not arise or is successfully met, the tendency as capital accumulates for C to rise relatively to V will create a tendency for " the rate of profit to fall." When this occurs, a crisis will develop through investment being curtailed; and the crisis will in this case arise first in Department 1 (the constructional trades) and then spread to Department 2 through the unemployment and lower wages caused in the former. This falling profit rate that precipitates the crisis may show itself at first *either* in a falling price of products in either department *or* in a rise of costs (raw materials, etc.). It will be caused essentially by the increased productive capacity in both or either department—an increase of C, or of capital equipment—resulting from the investment of the preceding period. The boom which feeds on investment prepares its own inevitable collapse.

All this is not to say, of course, that Marx advanced eclectically three or four separate theories of crises. Marx said that a crisis was the expression of *all* the contradictions of capitalism. The basic contradiction between the productive forces and the relations of production under capitalism might find expression in any of these ways, according to the concrete circumstances of the particular time and place. That is why *concrete* study of each particular

*As a matter of fact, she appears to have thought (she was not altogether clear on the matter) that expanded reproduction even at a *constant* rate was always impossible in the absence of some " third market." Marx showed that this was not necessarily the case: this particular problem only came when the rate of saving, instead of being constant, increased.

†Vol. 2, p. 610. Under the modern credit system, an expansion of credit (*i.e.*, of bank money) could have a similar effect.

crisis is necessary to discover the precise sequence of events through which the crisis is likely to develop.

What is the relevance of all this to the present situation ?

Hitherto in this country (as in Germany up to a year or two ago) an expansion of orders for Department 1 has been able to draw upon plentiful *reserve capacity*—surplus blast-furnace or mining capacity, or unexhausted possibilities of importing raw materials. State loan-expenditure (some of it financed ultimately by bank-credit expansion, *i.e.*, by new money) has enabled Problem 2 (above) to be successfully surmounted. (In 1938 there was a definite development of crisis symptoms of type 2, originating in the consumption trades; but the increased armaments expenditure in 1939 has submerged this for the time being). The period on which we seem now to be entering (similar to that on which Germany entered two years or so back) is one in which these reserves are becoming exhausted, and an increased rate of armament orders will have dangerous inflationary results unless methods are found successfully to restrict either (a) the activity of Department 1 devoted, not to armament purposes, but to ordinary replacement and increase of C, or (b) the activity of Department 2 directed either (i) to capitalist consumption (ii) to mass consumption. I agree with Burns in thinking we can rule out (b) (i) for practical purposes : this is not likely to be changed appreciably, and even when one or two restrictions are imposed on luxuries, as in Germany, the " big people " usually find plenty of ways of circumventing them. (a) has been tried both in Italy and Germany by limiting private investment in new firms or extension of plant; but still more, of course, (b) (ii) has been relied upon, partly by simply keeping money wages down, partly by restricting the *output* of consumption goods (inability to import raw cotton, priority lists favouring armament industries, etc.). Commodity taxes would also serve the same purpose. Burns himself points out that when restriction of consumption takes the latter form (curtailed supply), it does not cause an over-production crisis in Department 2—on the contrary; and that is why I do not think one can expect a recurrence of the 1938 events in the *near* future. But if these measures of restriction are unsuccessful, and the increase of armament expenditure results in inflationary symptoms, then the effect of this will be a sharp rise in costs *both* in the industries making consumption goods *and* in those making ordinary (non-armament) capital goods (due to armament orders bidding up the price of essential raw materials; as building materials rose sharply 1½ to 2 years ago and gave a check to private building); and the result may be the appearance of acute crisis symptoms in these trades. (This is, however, something different from saying that inflation is an " expression of the over-production crisis in the armament industry " : a statement made by Knight which I find it hard to understand. Rather could inflation be termed a symptom of *shortage* of real resources available to expand armament production). It is to avoid this danger that Germany wants to dominate Rumania and Jugoslavia, etc., and to extort raw material imports from them, while fobbing them off with mouth-organs and second-hand armaments in return (C.f. Einzig's *Bloodless Invasion*). This situation might well develop in this country as part of the foreign trade balance problem—the increased difficulty of importing. This is the *real* limit to " State orders " : not its ability to find the " purchasing power," but its ability to seize from somewhere the real resources required. And it is here that I feel that John Knight's formulation about armament over-production is inadequate and even misleading.

At a somewhat later stage Problem No. 3 (above) is likely to develop—a falling profit-rate tendency due to the increase of capital equipment (of C relatively to V). True, this is not likely to develop in the section of industry working for Government orders so long as the flow of Government orders continues. But it will do so in that section of Department 1 working for private investment orders and in Department 2. The importance of this is that it will tend to occur whether or not there is the relative decline in wages of which Burns' article speaks. Which is likely to be the *immediate* cause of crisis —whether curtailment of investment orders affecting Department 1 or over production in Department 2—is not possible, I think, at this stage to foresee.

Of course, it is possible, in the abstract, for armament orders to increase at an accelerating rate (as has been the case up to now) and so to provide a counter-weight to any such crisis tendencies (*e.g.*, by counterbalancing any unemployment that may develop in Department 2 with increased employment in armaments). But, *in practice*, such an increase would come up against very severe limits, and the concrete possibility of " compensating " crisis-developments elsewhere (*i.e.*, outside the armament trades) will grow progressively less. It is, surely, only by a very narrow definition of " economic " that Burns can say that " there is no economic limit to the purchasing power of the State " ? One of these limits consists in the increasing difficulty of importing certain " key " raw materials that we have already mentioned. Nor can budgetary difficulties be ignored—the difficulty of maintaining interest payments on a swelling mass of State debt. True, in the abstract, there is no limit to the extent to which the State may raise funds " by force or fraud "—by taxation of workers, or by taxation of the capitalists, or by " conversion operations," reducing existing State debt to a lower interest rate. But it is notorious that in Germany the Fascist State has preferred to borrow rather than to tax capitalists (thereby, incidentally, increasing profits for the time-being); while repeated conversion operations, to lower interest rates, would clearly create very grave political tension within the capitalist class. There remains taxation of the workers and middle class or reduction of money wages. And, as Burns points out, if an expansion of armament orders financed by reducing mass purchasing power is intended as a counter-weight to some *existing* crisis tendency (*e.g.*, of type 3 above), it will fail in its effect, because the reduction of mass purchasing power will *further* depress the consumption trades.

True, the possibility or impossibility of any of these " ways out " for capitalism depends on class factors. But so is this always the case. " There is never *no* ' way out ' for capitalism." Whether it can find one or not depends on the state of class forces in the existing concrete situation. We must avoid looking for too mechanistic an answer to the question.

Once it comes to the point when, for any reason, the rate of armament expenditure *declines*, then of course a crisis will develop simultaneously in Departments 1 and 2, owing both to " limited consuming power of the masses " (to be made worse probably by attacks on wages) and to the difficulty of stimulating private investment sufficiently to balance the fall in the armament demand for the products of Department 1. A capitalist government cannot achieve a " switch-over to consumption." (A People's Front Government, on the other hand, would be in a different position, because its primary aim would be to raise the standard of life of the masses, not to preserve profits). But for the reasons mentioned above, a crisis is likely to develop *before* this point (a *declining* rate of armament expenditure) is reached : namely, at the point where the practicable rate of *increase* of armament expenditure is no longer able to offset the developing crisis tendencies elsewhere (*i.e.*, in Department 2 and in the sections of Department 1 not working on Government orders).

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