

## Chapter Six

THE BREAKDOWN CONTROVERSY IN NEO-MARXIAN LITERATURE: THE THEORIES OF  
UNDERCONSUMPTION AND DISPROPORTIONALITY

In Marxian literature there is a large body of conflicting theory on the causes of cycles and of ultimate breakdown. As we have indicated previously, a theory of breakdown must be at the same time a theory of cycles. A theory of cycles, however, need not be a breakdown theory, since its assumptions may be such that it views cycles as fluctuations around an equilibrium trend line. Such is the case with respect to most orthodox, and some Marxian, business cycle theories. Further, it must be recalled that both cycle theory and breakdown theory are only theories; that is, they generalize the logical, and not the historical, tendencies of capitalism. Adequate theory must ultimately explain and be verified by historical experience. But it is not intended to describe historical experience.

Much of the Marxian literature confuses theory with reality, logical with historical tendencies. Although it attempts to deal with both the cycle and the ultimate breakdown, it never clarifies the relation between the two. The discussion that follows does not attempt a chronology of the neo-Marxian controversy, but only a survey of the main theories.

The three leading theories of cycles and/or breakdown attributed to Marx are: (1) the theory of falling profits; (2) the theory of underconsumption; (3) the theory of disproportionality.

All of these theories are ultimately reduced to a theory of falling profits. The drive for profits is the motor of the system, and different disturbing factors can be called upon to explain why the motor balks. The real problem is to discover if and why there is an inherent, systematic, and periodic tendency for profits to become inadequate.

But there is an essential difference between the first theory of falling profits, on the one hand, and the second and third theories, on the other. The last two can be grouped together as theories of "realization" crises. The difference is that in the first theory cycles and breakdown occur in spite of equilibrium (prices equal values), and in the latter case because of disequilibrium (price deviations from value) in the value system. Sweezy puts the difference succinctly as follows:

In the one case, we have to do with movements in the rate of surplus value and the composition of capital, with the value system remaining intact; in the other case we have to do with as yet unspecified forces tending to create a general shortage in effective demand for commodities; not indeed in the sense that demand is insufficient to buy all the commodities offered, but that it is insufficient to buy them all at a satisfactory rate of profit. The starting point of the crisis is in both cases a decline in the rate of profit; but what lies behind the decline in the rate of profit in the one case requires a very different analysis from what lies behind the rate of profit in the other.

#### I. The Theory of Falling Profits

The conventional theory of falling profits ascribes the cycle to the falling rate of profit. There are two variants of this

I. Sweezy, Theory of Capitalist Development, 146.

theory, one based on the rise in the organic composition of capital, the other on the absorption of the reserve army and the rise in wages. We have already shown that the real basis of the falling rate of profit is the rise in the organic composition of capital. The rising wages argument denies both the primary assumption of the Marxian system necessary as a first approximation, i. e., that commodities sell at their values, and also the fundamental tendency of the accumulation process, i. e., the rising organic composition of capital.

As applied to the cycle, the argument of the theory of the falling rate of profit (based on the rising organic composition of capital) is as follows. It starts with an analysis of the upswing during which the rise in the organic composition of capital depresses the rate of profit. At a certain point the rate of profit is insufficient to call forth further accumulation. This leads to crisis and depression, during which the processes of rationalization and centralization gradually restore the rate of profit. Thereupon follows recovery and a new upswing.

The analysis may and may not include movements in prices, wages, and the rate of interest. These fluctuate in the cycle, but do not operate causally.

As applied to the long run, the theory simply states that the rate of profit falls over time, as well as in each cyclical upswing. This fall blunts the stimulus to accumulate and produces eventual stagnation. Logically, according to this theory, since

accumulation is held to be a function of the rate of profit, cyclical swings should become increasingly mild, and the cycle peter out into stagnation. This line is not taken by Marxian writers, however.

There are several logical weaknesses in this theory. In the first place, the falling rate of profit is a long run tendency. Such a long-run tendency can produce short-run effects, but Marxian critics have not demonstrated specifically how it produces cycles. Secondly, while the rate of profit falls throughout each upswing, the mass of profits continues to rise. When, in spite of the rising mass of profits, does the rate of profit become inadequate? An appeal to the dubious concept of an unspecified normal minimum rate is no solution. The rate of profit is not the determinant, but the result.

2. From the fact that Marx himself deals at great length with the falling rate of profit (as caused by the rising organic composition of capital) it seems that the most obvious interpretation of his theory of breakdown should run in these terms. However, on the basis of much less evidence, his followers generally interpreted his theory as one of underconsumption. This can be explained by the fact that the theory of underconsumption has very great popular appeal. It was particularly well suited to the wage demands of the trade unions from which the German Social Democratic Party drew its main support.

While all Marxist critics mention the falling rate of profit, few regard it as the ultimate cause of cycles and breakdown within the Marxian system. In the older literature, by exception, this interpretation appears in Georg Charasof, Das System des Marxismus (Berlin, 1910), Ch. I. It also appears in Maurice Dobb, Political Economy and Capitalism, Ch. IV, and Erick Preiser, "Das Wesen der Marx'schen Krisentheorie," Wirtschaft und Gesellschaft (Festschrift für Franz Oppenheimer) (Frankfurt, 1924), 249-274.

3. According to modern economic theory the upswing comes to a close when the natural or real rate of interest equals the market rate of interest (Wicksell), or when the marginal efficiency of capital equals the rate of interest (Keynes). In the Marxian system, however, the money rate of interest, while an institutional datum in the short run, is ultimately determined by the rate of profit. On a lower stage of abstraction the rate of interest and its relation to the rate of profit

of the rate of investment.

The second variant of the falling profits theory is the related theory, developed by Henryk Grossman, based on movements in the mass of profits. As we shall see, it is not necessary that the mass of profits fall absolutely, although this is the limiting case, but only that under certain specified assumptions, the mass of profits be inadequate to maintain a given rate of accumulation. This theory alone seems to be fully consistent with Marx's meaning and to provide an adequate explanation of cycles and breakdown. We reserve the full development of the argument for the following chapter.

II. The Theory of Underconsumption

Both theories of cycles and breakdown based on the problem of "realization", that is, the difficulty of realizing the value already embodied in commodities, are concerned with the problem of equilibrium of supply and demand. Both theories attribute the limitations of the accumulation process to disproportions in production. The underconsumption theory stresses the disproportions in the production of consumers' goods and producers' goods, a disproportion which allegedly arises from the nature of capitalist distributive system. The strict disproportion theory stresses the disproportions in production in general, a disproportion which arises merely from the anarchy of capitalist production.

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can be taken into the analysis. But at this point the rate of interest does not even enter the argument, and cannot be called upon to determine the minimum rate of profit.

Underconsumption (or overproduction) is merely a special form of disproportionality, although some underconsumption theories fail to recognize this. We deal with the underconsumption theory first, however, in view of the historical priority of the theory, and the fact that in Marxian literature the theory of disproportionality arises as an answer to the theory of underconsumption.

The theory of underconsumption is the most popular -- and most illogical -- theory in Marxian literature. This is an old theory to which the Marxists have added nothing new, except their particular terminology. Fundamentally, the theory goes back to Siamondi, Malthus, and Rodbertus, each of whom gives it his own particular twist.

<sup>neo-</sup>  
In Marxian literature, the theory was first propounded by Heinrich Cunow in 1898. It was restated, ~~and reworked~~ by the revisionist, Conrad Schmidt, in 1901, reaffirmed (and later abandoned) as the official orthodox position by Kautsky in 1902, by Louis Boudin in 1907; and fully elaborated by Rosa Luxemburg in 1912, and by Fritz Sternberg<sup>4</sup> in 1926.

The essential propositions of the underconsumption theory are two: (1) the limited market for capitalist production makes unlimited capital accumulation in a closed capitalist economy impossible; (2) the limitations of the world market, to which recourse must be made, periodically provoke crises, and ultimately, breakdown. The basis of the argument is that the division of income between workers

4. For a convenient English summary of the underconsumption literature in the debate on breakdown theory, cf. Sweezy, op. cit., 196-209.

and capitalists, especially as intensified by the displacement of workers by machinery, and the consequent fall in the workers' share of income, makes it impossible for the demand for consumption goods to keep pace with the rapid expansion of production. As a result of the underconsumption of the masses, and the fact that the capitalists cannot consume the surplus product because they must continually accumulate a larger portion of their surplus value, commodities are overproduced, and surplus value cannot be realized at home. Each overstocking of the market, both at home and abroad, means crisis and depression, which in turn is automatically followed by a new spurt of accumulation, as more non-capitalist markets are taken into the capitalist orbit. Crises become ever more severe with the growing disproportion between supply and demand, and the increasing difficulty of finding non-capitalist markets. With the progressive extension of the capitalist form of production to the whole world, the non-capitalist market vanishes; thereupon follows complete stagnation (Kautsky's chronic depression) and breakdown.

#### A. The Limitations of the Home Market

The early Marxian formulations of the theory of underconsumption are very general and inconclusive assertions about the contradiction between the expansion of production and the limitations of the market. In these formulations of the theory, the conclusion is reached, although it is never proved, that accumulation, while limited by the insufficiency of the home market, does proceed, with periodic interruptions, largely due to the expansion of the world market.

The most elaborate attempt to demonstrate that the home market is itself insufficient to absorb the entire product is that of Rosa Luxemburg.<sup>5</sup> Her argument is that accumulation is not only limited by the contradictions of capitalism, but that it is absolutely impossible in a purely capitalist, closed economy.

Luxemburg's analysis of the problem of accumulation centers around the question of the realization of surplus value. Her analysis is carried on within the framework of Marx's reproduction schemata.

Her opinion of Marx's schemata, even that of simple reproduction, is highly inconsistent. On the one hand, she begins with the observation that one of Marx's greatest achievements is that he is the first economist since Quesnay to pose correctly the problem of the reproduction of the total social capital.<sup>6</sup> Marx's schema of simple reproduction furnishes "the scientific solution of the problem."<sup>7</sup> But, she asks, "what significance does the schema have for reality?"<sup>8</sup> Her answer is that although reality

5. The chief work of Rosa Luxemburg is Die Akkumulation des Kapitals, Ein Beitrag zur ökonomischen Erklärung des Imperialismus (1912). This was followed by Die Akkumulation des Kapitals oder was die Epigonen aus der Marxschen Theorie gemacht haben, Eine Antikritik (1917), generally known as Antikritik. Reference to these works will be made from the combined edition, Leipzig, 1921.

6. Die Akkumulation des Kapitals, I.

7. Ibid., 76.

8. Ibid., 76.



is not as simple as it appears in the schema, the latter does picture an average, or ideal state, to which the system of reality tends to return.<sup>9</sup>

On the other hand, Luxemburg finds logical difficulties with the simple reproduction model. The first is that simple reproduction is itself a fiction, a logical impossibility, since, from the fact that it requires a continuously available surplus product, it appeals to a prior state of enlarged reproduction.<sup>10</sup> This is, of course, an imaginary difficulty. The model of simple reproduction is not concerned with what happened in the "first year." Simple reproduction, as a going process, naturally presupposes, and itself makes possible, the continuous availability of all elements of capital.

The second difficulty is with the division of social production into only two departments: means of production, and means of consumption. According to Luxemburg, there should be a third department for gold, the means of circulation.<sup>11</sup> This is an even more absurd objection, which would add to the social product a fixed amount of value, while in reality gold production constitutes a cost, which subtracts from the social product a variable amount of value.<sup>12</sup>

9. Ibid., 77.

10. Ibid., 60-5.

11. Ibid., 71-5.

12. Whether gold production is included in Department I, or in a special third department is, in one sense, a formal question. In any case, it must be regarded as a subtraction rather than as an

Even more strongly does Luxemburg criticize Marx's schema of enlarged reproduction. It should be recalled that in Marx's models of accumulation the initiative is taken by Department I, while Department II adapts its accumulation to scale. Luxemburg objects to this "arbitrary construction," wherein "accumulation in Department II appears only as a consequence and condition of the other."<sup>13</sup>

In her view,

The schema assumes a movement of total capital which contradicts the actual course of capitalist development. . . which at first sight is characterized by two facts: on the one hand, by sudden, periodic expansion of all areas of production; on the other hand, by most irregular development of different spheres of production.<sup>14</sup>

In demanding that the reproduction models portray historical reality, Luxemburg completely confuses theory with reality. Under no circumstances is Marx's model of accumulation a picture of reality. Like all theoretical models, it is merely an abstract

addition to the commodity value available for production and consumption. But as a theoretical question it is important, in that the classification of gold production within a special department for "means of circulation" implies a total misunderstanding of the metamorphosis of commodities, within which the same magnitude of value appears in different forms. It ignores the fact that the commodity gold has a use value, apart from its use value as a means of circulation. The separation of gold in a third department implies the abandonment of the commodity theory of money.

For a thorough examination of this problem, cf. Henryk Grossman, "Die Goldproduktion im Reproduktionsschema von Marx und Rosa Luxemburg," Festschrift für Carl Grünberg, (Leipzig, 1932), 152-184.

13. Akkumulation des Kapitals, 84.

14. Ibid., 313. To complain that this is not reality shows complete misunderstanding of the Marxian method. The reproduction schemata, it should be remembered, are constructed on the first level of successive approximation to reality, that is, on the level of values.

statement of equilibrium relations. Within the model of propor-  
 tional accumulation, the initiative can come from either department. 15  
 Within reality, as Marx points out repeatedly, there is no such  
 proportional accumulation. Luxemburg's strongest objection to Marx's  
 schema of accumulation is that, in illustrating equilibrium relations  
 between the two departments, it conceals the "immanent contradiction  
 between the unlimited capacity for expansion of the productive forces,  
 and the limited capacity for expansion of social consumption under  
 capitalist relations of distribution."<sup>16</sup> The argument now shifts  
 from the question of proportionality to that of effective demand.  
 In Luxemburg's view, neither department has any incentive to accumu-  
 late, proportionally or otherwise, if there is no effective demand  
 for its commodities. Therefore she asks,

Now where does this constantly increasing demand come from,  
 which is the basis for the progressive expansion of produc-  
 tion in the Marxian schema?

First of all, this much is clear: it is impossible that  
 it comes from the capitalists themselves, that is, from their  
 personal consumption. On the contrary, accumulation con-  
 sists precisely in the fact that they do not themselves consume  
 a part -- and a growing part, at least absolutely -- of the  
 surplus value, but create with this part the goods which are  
 used by others. The personal consumption of the capitalists  
 certainly increases with accumulation; it can even increase  
 in the value consumed. However, only a part of the surplus  
 value is used for the consumption of the capitalists. The  
 basis of accumulation is precisely the non-consumption of

15. As a question of exposition it does not matter which department  
 accumulates first. However, in giving the initiating role to  
 Department I, Marx expresses his theoretical position, which he  
 shares with the classical economists, that production determines  
 consumption. Luxemburg, on the other hand, in asserting that the  
 scale of accumulation depends on Department II (*ibid.*, 102-3) takes  
 the theoretical position of subjective value theory that consumption  
 determines production.

16. Akkumulation des Kapitals, 313.

surplus value by the capitalists. For whom is produced, then, this other part, the accumulated part of the surplus value? According to the Marxian schema, the movement proceeds from Department I, from the production of means of production. Who needs these increased means of production? The schema answers: Department II needs them in order to produce more means of consumption. But who needs these increased means of consumption? The schema answers: precisely Department II, because it now employs more workers. Obviously, we turn in a circle.<sup>17</sup>

Luxemburg now tries to escape from this circle, to find some group whose demand furnishes an impetus to expanded reproduction. First, there are the workers. But this is no way out, since, "If the workers buy means of consumption, they return to the capitalist class only the sum of wages received by them to the amount of the variable capital."<sup>18</sup> Then there are the capitalists, who indeed do consume part of the surplus value. But the unconsumed part of the surplus value still presents difficulties, since it cannot be used to purchase additional means of production unless there is an increased demand for the commodities created by these means of production. The natural increase in the population furnishes no solution, since capitalist production is not concerned with the "needs" of the working class, but only with the determinants of profit. One possible means of escape seems possible: consumers such as the clergy, landlords, civil servants, professional workers, and others who are neither capitalists nor workers. But these "third persons", who consume, but do not create, surplus value, must be counted as part of the capitalist class.

17. Ibid., 104.

18. Ibid., 106.

Luxemburg then concludes that

Since by this means, within capitalist production, absolutely no apparent buyers can be found for the commodities in which the accumulated part of the surplus value is embodied, there remains only one solution: foreign trade.<sup>19</sup>

The errors in this analysis are astonishingly elementary.

In the first place, Luxemburg ignores not only the obvious fact that the reproduction schema is a theoretical model and not a picture of reality, but also the fact that it is an ex post rather than a causal model, and is therefore not concerned with the "incentive" (prospective demand) to accumulate. In the second place, she fails to realize that accumulation itself creates the demand for both means of consumption and means of production. Luxemburg's error arises from her rejection of the "mathematical exercises with addition and subtraction. . . . in order to consider the concrete social conditions of accumulation."<sup>20</sup>

The equilibrium conditions for expanded reproduction furnish the solution to the problem of the realization of surplus value.<sup>21</sup>

19. Ibid., 108. Luxemburg examines Marx's efforts to solve her spurious problem, which is now confused with the problem of the source of the money for the realization of surplus value. She asserts that Volume II of Capital leaves the problem unsolved, a fact which she attributes to the incomplete state of Marx's work. (Ibid., 137-140.)

20. Ibid., 92.

21. These are the equilibrium conditions for both simple reproduction and expanded reproduction as presented by Sweezy (op. cit., 182-4).

In Simple Reproduction:

Department I:  
(Means of Production)  $c_1 + v_1 + s_1 = w_1$

But Luxemburg's incorrect assumptions with regard to the conditions of accumulation, her neglect of the fact that accumulation precisely requires increments of variable capital and constant capital, which directly constitute the demand for producers' goods and consumers' goods, and thus the means for the realization of surplus value,

Department II:  $c_2 + v_2 + s_2 = w_2$   
(Means of Consumption)

This means that:

$$c_1 + v_1 + s_1 = c_1 + c_2$$

$$c_2 + v_2 + s_2 = v_1 + s_1 + v_2 + s_2$$

Each of these equations is reduced to the final condition of equilibrium between the two departments:

$$c_2 = v + s$$

In expanded reproduction surplus value is no longer consumed in entirety by the capitalist class, but is divided into (1)  $s_c$ , capitalists' consumption, equal to that of the previous period; (2)  $s_{\Delta c}$ , the increment in capitalists' consumption; (3)  $s_{av}$ , the increment in variable capital; and (4)  $s_{ac}$ , the increment in constant capital. This is expressed as follows:

Department I:  $c_1 + v_1 + s_{c1} + s_{\Delta c1} + s_{av1} + s_{ac1} = w_1$

Department II:  $c_2 + v_2 + s_{c2} + s_{\Delta c2} + s_{av2} + s_{ac2} = w_2$

This means that:

$$c_1 + s_{c1} + c_2 + s_{ac2} = c_1 + v_1 + s_{c1} + s_{\Delta c1} + s_{av1} + s_{ac1}$$

$$v_1 + s_{c1} + s_{\Delta c1} + s_{av1} + v_2 + s_{c2} + s_{\Delta c2} + s_{av2}$$

$$= c_2 + v_2 + s_{c2} + s_{\Delta c2} + s_{av2} + s_{ac2}$$

Both of these equilibrium equations reduce to the single condition of equilibrium for expanded reproduction:

$$c_2 + s_{ac2} = v_1 + s_{c1} + s_{\Delta c1} + s_{av1}$$

Luxemburg's difficulty arises from her neglect of  $s_{\Delta c}$ ,  $s_{av}$  and  $s_{ac}$  in both departments.

drive her to a spurious solution of an imaginary difficulty.

In spite of the repeated demonstrations of the logical errors in Luxemburg's attempted demonstration of the necessary inadequacy of the home market, the theory of underconsumption still flourishes. More recent formulations of the theory are allegedly based on the antagonistic relations of distribution in capitalist society, which make it impossible for the working class to realize more than a declining fraction of its product. But like their predecessors, these theories are, in fact, merely theories of a logically undemonstrated tendency to disproportionality between the production of producers' goods and the production of consumers' goods.

"Underconsumption" turns out to be overproduction of consumers' goods and underproduction of producers' goods.

The most recent formulation of the theory of underconsumption, by Sweezy, although free from the logical errors of Rosa Luxemburg, is no less unconvincing. Inasmuch as this formulation is

22. This same imaginary difficulty is reproduced, in part, by Fritz Sternberg (Der Imperialismus, 101-3). In contrast to Luxemburg, who insists that all surplus value to be accumulated is unrealizable -- within the capitalist economy, Sternberg finds only the surplus value of Department II to be unrealizable, and the surplus product thus to consist thus of consumers' goods. He bases his argument, as at times does Luxemburg, on the fact that the organic composition of capital must be greater in Department I than in Department II. This may be so in reality, because of the different technical requirements of the two kinds of production. But this is irrelevant to the question of equilibrium relations between the two departments.

23. Natalie Moszkowska, Zur Kritik Moderner Krisentheorie (Prag, 1935) and Leon Sartre, Esquisse d'une Theorie Marxiste des Crises Periodiques (Paris, 1937).

which is a development of the Lenin-Bukharin theory of under-consumption, presents the strongest case for the theory, it is worth examining in some detail.

The initial assumptions are that accumulation rises as a proportion of surplus value, and that investment in constant capital rises as a proportion of accumulation. From these assumptions, which are themselves basic to Marx's analysis, it is argued that

since the increment of capitalists' consumption is a diminishing proportion of total surplus value, and since the increment of wages is a diminishing proportion of total accumulation, it follows that the rate of growth of consumption (i. e., the ratio of increment of consumption to total consumption) declines relative to the rate of growth of means of production (i. e., the ratio of investment to total means of production). In other words, the ratio of the rate of growth of consumption to the rate of growth of means of production declines. This is a result which flows logically from the characteristic pattern of capitalists' behavior.

If we now change our angle of vision and look upon production as a natural technical process of creating use value, we see that a definite relation must exist between the mass of means of production (assuming, it will be remembered, that they are fully utilized) and the output of consumption goods. Moreover, a definite relation must similarly exist between changes in the stock of means of production (investment) and changes in the output of consumption goods. These relations are ultimately determined by the technical characteristics of production, and accordingly can vary with the progressive development of methods of production. Such evidence as we have, however, strongly suggests a remarkably high degree of stability for a reasonably well-developed capitalist economy. In other words, it appears that over long periods a given percentage increase in the stock of means of production will generally be accompanied by approximately the same percentage increase in output.<sup>24</sup>

24. Sweezy, op. cit., 181-182.



From this contradiction between the declining ratio of the rate of growth of consumption to the rate of growth of means of production, and the stable ratio of the rate of growth in the output of consumption goods to the rate of growth of means of production, Sweezy finds that "there is an inherent tendency for the growth in consumption to fall behind the growth in the output of consumption goods."<sup>26</sup>

What we cannot accept in this analysis is, of course, the assumption of a necessarily fixed relation between either the stocks or rates of growth of means of production and the means of consumption. We do not assume that in reality any rate of growth of means of production is compatible with any rate of growth of means of production. But we do question Sweezy's argument that the historically stable ratio between these two rates of growth proves a tendency to underconsumption. Whatever the historical experience may have been, this fixed relation need not exist in practice, much less in theory. Sweezy's contradiction is a contradiction between a theoretical assumption, which is basic to Marxian theory, and an historical fact, which is not. But to prove that this contradiction, and, therefore, that a tendency to underconsumption must exist, one would have to demonstrate a logical contradiction between two equally valid theoretical assumptions.

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26. Ibid., 183

### B. The Ultimate Exhaustion of the Non-capitalist Market

The theory that the capitalist economy is dependent on the world market, and will some day collapse with the exhaustion of that market, is found in many Marxian underconsumption, or overproduction, theories. As early as 1892, Kautsky writes, in the Erfurt Program of the German Social Democratic Party, that while the capitalist economy expands by virtue of the expanding market, it likewise digs its own grave by creating competitors out of the countries which constitute its market.

In short, the moment is drawing near when the markets of the world can no longer be extended and will begin to contract. But this would mean the bankruptcy of the whole capitalist class.

For some time past the extension of the market has not kept pace with the requirements of capitalist production. The latter is consequently more and more hampered and finds it increasingly difficult to develop fully the productive powers that it possesses. The intervals of prosperity become ever shorter; the length of the crises ever longer.<sup>27</sup>

In this formulation, the world market assists the accumulation of capital. So far as overproduction rests only on the plan-<sup>28</sup>lessness of the capitalist economy, rather than on the inability of that economy to realize surplus value at home (Luxemburg's argument), the foreign market is not an absolute necessity.

By contrast, in subsequent formulations of the theory of underconsumption, or overproduction (including that of Kautsky himself in 1902, which envisages the future of capitalism as one of dépression<sup>29</sup> depression), the non-capitalist market does appear as an absolute necessity. This version of the theory, which allegedly explains both the internal development of the capitalist economy and the drive to imperialism, is attributed to Rosa Luxemburg, but actually appears first in Marxist literature in an article by Cunow in 1898. Here Cunow writes that the tendency to breakdown, due to insufficient demand at home, is only temporarily arrested by the possibility of exploiting foreign markets. He concludes that

27. Karl Kautsky, The Class Struggle (Erfurt Program) (Chicago, 1910), 84-5. This translation is based on the 8th German edition (1907) of Das Erfurter Programm, 1892.

28. Ibid., 71-2.

29. Kautsky, "Krisentheorien," Die Neue Zeit, Jhrg. XX, Bd. II (1901-2) 133-143.

... in the future the expansion of the industrial, and still more of the capital, markets can be pushed no further than in the last ten years. The temporary character of the present economic situation. . . already appears evident. . . .<sup>30</sup>

The only question is

how long the capitalist form of production can still maintain itself in a single country and under what conditions its breakdown will take place.<sup>31</sup>

In Luxemburg's formulation, the non-capitalist market appears to have much more logical necessity. For if accumulation per se is theoretically impossible in a purely capitalist, closed economy, the non-capitalist market must be the explanation of the historical facts.

Turning from theory to history, Luxemburg shows that "historically capitalism comes into the world and is developed in a non-capitalist social milieu."<sup>32</sup> The non-capitalist milieu is not only a market, but a source of raw materials and labor power and a field for the investment of surplus capital. The capitalist economy is therefore in constant struggle with the pre-capitalist, natural economy, whose resources form the basis of capitalist accumulation.

30. Heinrich Cunow, "Zur Zusammenbruchstheorie," Die Neue Zeit, Jarg. XVII, Bd. I (1898-9), 425.

31. Ibid., 427.

32. Luxemburg (op. cit., 339) devotes a large part of her work to the question of "primitive accumulation" -- the plundering of natural resources, and expropriation of the agricultural population (ibid., 489-94, 339-391). The need of extra resources, however, is in full contradiction to the alleged surplus of commodities, as is the alleged shortage of labor power in contradiction to the existence of the reserve army.

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From historical development, it is clear, according to Luxemburg, that the theoretical assumption of the general and exclusive rule of the capitalist form of production is incorrect.

We see. . . that capitalism in its full bloom, in every consideration, is connected with the existence of non-capitalist strata and societies. This relation is not exhausted by the question of markets for the surplus product. . . . The process of the accumulation of capital is bound to the non-capitalist form of production in all of its value and material considerations: constant capital variable capital and surplus value; . . . . The accumulation of capital, far from being representable under the assumption of the exclusive and absolute rule of the capitalist form of production, is rather unthinkable in any respect without the noncapitalist milieu.<sup>33</sup>

The non-capitalist milieu is so essential to the life of a capitalist economy, that the imperialist struggle over markets and sources of raw materials is inevitable. Then as the non-capitalist milieu becomes exhausted, it becomes impossible for the capitalist world to maintain itself. Economic stagnation and class struggle must eventually abolish the capitalist system. Luxemburg describes the future as follows:

The more violently capital, through military methods in the outer world, and also at home, cleans out non-capitalist elements and depresses the living conditions of all working people, the more does the day-by-day history of capital accumulation on the world stage become transformed into a continuous chain of political and social catastrophes and convulsions which, together with periodic economic catastrophes in the form of crises, will make impossible the continuation of accumulation and will make necessary the rebellion of the international working class against the domination of capital even before the latter smashes itself against its own self-created economic barriers.<sup>34</sup>

33. Ibid., 337.

34. Ibid., 445. Quoted by Sweezy, op. cit., 205-6.

The logical errors of Luxemburg's theory of the non-capitalist milieu are as glaring as the errors in her theory of the impossibility of realizing surplus value within the capitalist country. The former theory, forced upon her by the latter, is in flat contradiction to one of Marx's basic assumptions: that the system is a closed economy. Marx's pure capitalist economy is situated within the environment of the world market, but it is analyzed in abstraction from its foreign trade.

But even more serious are Luxemburg's assumptions with regard to foreign trade. Contrary to these assumptions, (1) the trade of capitalist countries is principally with other capitalist countries which can afford to buy capitalist commodities, rather than with the backward, non-capitalist countries; (2) with the industrialization of backward countries, the external market is widened rather than narrowed; (3) it is impossible to sell to non-capitalist countries, in order to realize surplus value, without at the same time buying from them. If there is no demand for the surplus product at home, surely there is no demand for the commodities received in exchange. If Luxemburg would draw from her premises all the necessary conclusions, she would be forced to conclude that accumulation, and therefore the capitalist system itself, is impossible, with or without foreign trade.

The proponents of the theory of underconsumption offer what they regard as good evidence, taken directly from Marx's

writings, that underconsumption is, in fact, his explanation of crises and breakdown. One of the favorite passages is the following:

The conditions of direct exploitation and those of the realization of surplus value are not identical. They are separated logically as well as by time and place. The first are only limited by the productive power of society, the last by the proportional relations of the various lines of production and by the consuming power of society. This last named power is not determined either by the absolute productive power nor by the absolute consuming power, but by the consuming power based on antagonistic conditions of distribution, which reduces the consumption of the great mass of the population to a variable minimum within more or less narrow limits. The consuming power is furthermore restricted by the tendency to accumulate, the greed for an expansion of capital, and production of surplus value on an enlarged scale.<sup>35</sup>

Another piece of evidence is Marx's statement that

The last cause of all real crises always remains the poverty and restricted consumption of the masses as compared to the tendency of capitalist production to develop the productive forces in such a way that only the absolute power of consumption of the entire society would be their limit.<sup>36</sup>

Neither of these passages, if correctly interpreted, offers any evidence of a theory of underconsumption in Marx. The distinction between the creation and realization of surplus value, both in logic and in time and place, is the distinction between production and circulation, which offers only the possibility of crises. Further, it is true that the consuming power of capitalist society is limited by the antagonistic conditions of distribution, so far as the operation of the law of value limits the working class

35. Capital, III, 286.

36. Ibid., III, 566.

income to the value of labor power, and by the tendency to accumulate, so far as part of the capitalists' income must be accumulated rather than consumed. But this does not mean that at any given level of production the total purchasing power is inadequate to absorb the total supply of commodities. Rather does the accumulation process constantly increase purchasing power and the total volume of consumption.

The "last cause" of all real crises is indeed restricted consumption as compared with the tendency to absolute development of the productive forces. This means that the "cause" of the cycle and ultimate breakdown is the operation of the law of value itself, which at the same time both increases productivity and limits production. Underconsumption exists only with reference to the possibilities of capitalist production, which can never be realized, because the capitalist system, by its incessant drive for profits, tends to destroy the very basis of its profitability. Only as identified with the inherent limits to production, imposed by the law of value, can underconsumption be regarded as the last cause of crisis. The "last cause" is thus the very nature of the capitalist system itself. But a theory of cycles and breakdown must demonstrate specifically how this last cause operates.

The errors of the underconsumptionists arise from deeper sources than merely logical errors in handling reproduction schemata. What is really involved is a lack of comprehension of the method and content of Marx's analysis of capitalism. For Marx, the



essential contradiction of capitalism, and the source of its breakdown, arises within the sphere of production. For Luxemburg, although not for more able the/underconsumptionists, the contradiction of capitalism arises within the sphere of circulation. Therefore, the theory of underconsumption is inconsistent in appealing to Marx's "last cause," since the theory is mainly concerned with the problem of realizing surplus value already produced.

Marx's analysis stands in contrast both to subjective value theory and the "vulgar economy" of his own day, which deals with the capitalist economy only in terms of the surface of the economy, with market phenomena. For Marx, circulation is not the starting point of analysis, although a necessary part of the analysis. The metamorphosis of money capital, C-M-C, implies the metamorphosis of money capital, M-C-M, and thus the possibility of crises. But the essential contradictions of the economy which produces cycles and breakdown arise within production.

The Marxist underconsumptionists, like the petty bourgeois critics of capitalism (Proudhon, Veblen, and Keynes!) go one step deeper than the market analysts since their argument deals not ~~as~~ <sup>as</sup> with circulation, ~~but primarily~~ with income distribution. Implicit within their theory is acceptance of the capitalist system. For like the petty bourgeois critics of capitalism they reach the conclusion that all would be well, if only income distribution could be altered. Marx refutes this conclusion in his criticism of John Stuart Mill and others, "who conceive the bourgeois form of production as absolute, but the bourgeois form of distribution as historically

relative, and thus transitory. The form of distribution is only the form of production sub alia specie.<sup>37</sup>

Marx specifically answers the argument that underconsumption and crises result from low wages by pointing out that

if one were to attempt to clothe this tautology [that crises are caused by the scarcity of solvent consumers] with a profounder justification by saying that the working class receive too small a portion of their own product, and the evil would be remedied by giving them a larger share of it, or raising their wages, we should reply that crises are precisely always preceded by a period in which wages rise generally and the working class actually get a larger share of the annual product intended for consumption. From the point of view of advocates of "simple" (1) common sense, such a period should rather remove a crisis. It seems, then, that capitalist production comprises certain conditions which are independent of good or bad will and permit the working class to enjoy that relative prosperity only momentarily, and at that always as a harbinger of a coming crisis.<sup>38</sup>

From this passage and its appended footnote, "Advocates of the theory of crisis of Rodbertus are requested to make a note of this."<sup>39</sup>

It is clear that Marx expressly rejects the theory of underconsumption.

In basing their theory of crises and breakdown on market phenomena, the underconsumptionists are powerless to explain the fundamental dynamics of capitalist development. According to the theory of underconsumption, there should be chronic overproduction, rather than periodic crises. But the underconsumptionists never fully develop the logical consequences of their theory. If they would do so, they would be forced into a theory either of

37. Theorien über den Mehrwert, III, 93.

38. Capital, II, 476.

39. Ibid., II, 476 note.

disproportionality, or of falling profits. It is to the first alternative explanation that we must now turn.

### III. The Theory of Disproportionality

One answer to the theory of underconsumption is what is known in Marxian criticism as the theory of disproportionality.

In the debate between the underconsumptionists and the disproportionality theorists the issues in the old debate on Say's Law reappear in Marxian terminology. The only difference is that in the classical debate the proponents of Say's Law admit the possibility of disproportions, or partial gluts, but deny that these disproportions produce crises, while in the Marxian debate, the proponents of Say's Law assert that only disproportions can cause crises.

In answer to the assertion that insufficient demand is the explanation of crises in the Marxian system, the theorists of disproportionality point to Marx's own reproduction schemata, where, given an annual turnover of capital, consumption equals production, demand equals supply. Disequilibrium occurs only with disproportionality between the outputs of the two departments.

40. In reality, overproduction within Department I is much less likely to create disturbance than overproduction within Department II. This is because a surplus product of means of production, while a disturbance of technical equilibrium in production, need not disturb the value equilibrium of the market, insofar as the realization of fixed capital, which is produced in Department I, is expected to require more time than that of consumers' goods. Adaptation of Department II to Department I, or the expansion of the consumers' goods industries, which use a larger proportion of living labor, is much easier than adaptation of Department I to Department II. If the overproduction occurs in Department II,

Overproduction in one department means underproduction in the other. Commodities may go unsold, or may be sold at prices below their values, but this is only a result of the faulty allocation of resources with respect to the relative demands for means of production and means of consumption. In logic, if not in practice, there is perfect equilibrium in the exchange between the two departments. Moreover, since commodities are sold at their values, this aggregative equilibrium implies that each producing unit within each department is similarly in equilibrium.

On the abstract level of analysis to which the reproduction schemata correspond, unlimited accumulation is perfectly possible. Any disturbance or limit to the accumulation process can be deduced only from the assumption, which is not yet included in the analysis, that the rate of accumulation is a function of the rate or mass of profits, or from the fact that disproportions are inherent in the planless nature of the capitalist economy.

With underconsumption reduced to a special kind of disproportionality, that between the two departments, all realization crises turn out to be the result of disproportionate production. The case of disproportionality between the two departments, in which

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the technical disequilibrium in production leads immediately to falling prices and a value disequilibrium on the market. This means that, "overproduction in II. . . could not be compensated in any other way than by a great crash." (*Capital*, II, 608.) The technical differences between Department I and Department II thus form the basis for Marx's formal presentation of the accumulation process in which Department II adapts its accumulation to that of Department I.

there is overproduction of consumers' goods, and underproduction of producers' goods, differs from the case of disproportionality among individual industries, in that the former disproportionality is allegedly due to changes in income distribution, to which the structure of production does not correspond, while the latter disproportionality is simply due to the "anarchy of capitalist production", or individual production for an unknown market. In either case the structure of supply does not correspond to the structure of demand.

In the Marxist discussions of the problem of disproportionality, attention was originally centered on the question of disproportionality between the two departments, later extended to include the question of disproportionality among different industries irrespective of their departments. The conclusion of the disproportionality theory is that crises occur only because of the planlessness of the economy. But within the system itself, there are no inherent limits to the accumulation process.

The theory is most fully developed in the works of the Russian economist, Tugan-Baranowsky. <sup>41</sup> Rejecting the theory of

41. Michael Tugan-Baranowsky, Theoretische Grundlagen des Marxismus (Leipzig, 1905); Studien zur Theorie und Geschichte der Handelskrisen in England (Jena, 1901); Les Crises Industrielles en Angleterre (Paris, 1913). The last two books are based on the original 1894 Russian edition. The French edition includes additional material, and a more precise formulation of Tugan-Baranowsky's own theory of business cycles.

Tugan-Baranowsky's contribution to Marxist criticism is part of the extended debate between the Russian Narodniki (Populists) and the "Legal Marxists" (with whom Tugan-Baranowsky can be grouped,

the falling rate of profit, and the theory of underconsumption, as logically untenable, Tugan-Baranowsky finds disproportionality to be the only explanation of crises.

although he never claimed to be a Marxist) at the end of the 19th century. While in Germany the central question in Marxist discussion was, "Can capitalism survive?", in Russia the central question was, "Can capitalism develop?" The Narodniki held an underconsumptionist position and argued that capitalist development was impossible in view of the limited home market and the difficulty of obtaining foreign markets. The legal Marxists, who based their arguments on Marx's reproduction schemata, held that capitalist development would itself create its own internal market. This latter view emerged victorious from the debate. Rosa Luxemburg gives a long and excellent account of this debate, as of parallel debates of Say and Ricardo versus Malthus and Sismondi, and of Rodbertus versus Kirchman. (Die Akkumulation des Kapitals, 142-238.)

42. Tugan-Baranowsky rejects the theory of the falling rate of profit because he rejects the labor theory of value. (Handelskrisen, 208-215.) His own value theory is extremely confused. It is a fusion of the marginal utility theory of value with the relative labor theory of value of Ricardo, as distinct from the absolute labor theory of value of Marx. (Theoretische Grundlagen, 158-9.) At the same time, he develops the theory of absolute labor cost. Labor is the only absolute cost in that men are the subject of the economy, and labor is the sole social cost. (Ibid., 143-7.) With this distinction between cost and value, he is able to assert that material means of production create value, although they do not constitute a social cost. This confusion of value with use value appears in the following passage: "The means of production play the same role as workers in the process of production, as in the formation of the average rate of profit. Machines are equivalent to workers under modern economic conditions; they create use values as do the workers and affect the rate of profit to the same extent." (Handelskrisen, 225.)

In his analysis of the Marxian accumulation scheme, Tugan deduces a rising, rather than a falling, rate of profit. (Ibid., 216; Grundlagen, 185.) This deduction follows only from the assumption that the increase in the rate of surplus value, which rises with increasing productivity, is greater than the increase of the organic composition of capital. However, since Tugan's analysis is based on a premise (that constant capital also creates value) foreign to the Marxian system, his conclusion has no validity for that system.

Tugan attacks the theory of underconsumption in both its classical and Marxian forms. But while he refutes the theory that crises are caused by underconsumption, he does not accept the Ricardian alternative, that crises are impossible, except as induced from the outside. Crises are precisely due to the fact that the system does not automatically adapt so as to eliminate disproportionality. Crises are for Tugan what they are for Marx -- the forcible restoration of equilibrium. But Tugan, unlike Marx, confuses the form of the crisis, the separation of purchase and sale, and the function of money as means of payment, with the cause of the crisis.<sup>43</sup> He says specifically that crises are due to the separation of purchase and sale, to the fact that within a money economy, unlike a barter economy, the interruption of commodity circulation may mean general overproduction.<sup>44</sup>

Tugan argues that in simple commodity production, where production is for immediate consumption, general overproduction is possible. But in capitalist production, especially because of the credit system, where production is for the market, general overproduction becomes necessary. But the necessity arises only because of the planless nature of the economy, which makes it difficult for

43. Tugan's own theory of business cycles makes this same confusion. In this case the separation is in the purchase and sale of fixed capital. In simplest terms, the cycle is due to the periodic transformation of continuously accumulated loanable funds into fixed capital. The crisis occurs when the exhaustion of money capital imposes a reduction of demand for fixed capital, and therefore for all other commodities. The crisis is thus characterized, but not caused, by general overproduction. (Les Crises industrielles, 258-76.)

44. Handelskrisen, 12.

newly invested capital to find a market for its products. The difficulty is not caused by insufficient consumers' demand, but simply by the fact that the structure of supply is not adjusted to the structure of demand. Tugan affirms, therefore, that

If social production were organized according to a plan, if the directors of production had perfect knowledge of demand and the power freely to transfer labor and capital from one branch of production to another, however low social consumption might be, the supply of commodities could not surpass the demand.<sup>45</sup>

Under conditions of proper allocation of resources, accumulation proceeds without interruption. This result follows from the Marxian reproduction schema, which, says Tugan, refutes the theory expressed by Marx in the third volume of Capital, and also by neo-Marxists, that there is a necessary limit to the accumulation process. In fact, Tugan says, the only limit to accumulation is the productive power of society, and this is itself generally without limit.<sup>46</sup> Regardless of the rise in the organic composition of capital or the displacement of labor, regardless of the fact that the number of workers and the volume of consumption may decline absolutely, given proportional production, accumulation has no limits. The logical conclusion of the argument is as follows:

If all workers except one disappear and are replaced by machines, then this one single worker will place the whole enormous mass of machinery in motion and with its assistance produce new machines -- and the consumption goods of the capitalists. The working class will disappear, which will not in the least disturb the self-expansion process of capital. The capitalists will

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45. Ibid., 33.

46. Ibid., 31, 195.



receive no smaller mass of consumption goods, the entire product of one year will be realized and utilized by the production and consumption of the capitalists in the following year. Even if the capitalists desire to limit their own consumption, no difficulty is presented; in this case the production of capitalists' consumption goods partially ceases, and an even larger part of the social product consists of means of production, which serve the purpose of further expanding production. For example, iron and coal are produced which serve always to expand the production of iron and coal. The expanded production of iron and coal of each succeeding year uses up the increased mass of products turned out in the preceding year, until the supply of necessary minerals is exhausted.

This may all sound very strange, yes, perhaps like the greatest nonsense. Perhaps -- truth is certainly not always an easy thing to understand; nevertheless it remains truth. As truth naturally I do not mean the wholly arbitrary and unreal assumption that the replacement of manual labor by machinery leads to an absolute diminution in the number of workers (this hypothesis has only served to show that my theory, even if driven to the limit of unreality, does not break down), but rather the thesis that, given a proportional distribution of social production, no decline in social consumption is capable of producing a superfluous product.<sup>47</sup>

In criticising this extreme conclusion of the theory of disproportionality, and the corollary of that theory, that without disproportions the system proceeds indefinitely and without crises, there are three issues which should be kept distinct: (1) the assumptions of the theory; (2) the logic of the argument; (3) the implications of the theory. Much of the confusion and inconsistency in the arguments for and against the theory arise from a failure to differentiate among these issues.

The immediate response to Tugan's theory was one of complete hostility. Both orthodox and revisionist Marxists denounced

<sup>47</sup>. Grundlagen, 230-31. Quoted by Sweezy. op. cit., 168-9.

the theory as a fantastic flight from reality, a denial of the indisputable fact that, in Marx's words, "Consumption furnishes the impulse for production as well as its object, which plays in production the part of its guiding aim."<sup>48</sup> The essential criticism was of only one of Tugan's assumptions, that is, the "assuming away" of the material conditions of life, the natural basis of the economy. His second assumption, that the rate of profit does not fall, but, in fact, rises in the accumulation process, was generally neglected.

There was little or no criticism of the logic of the argument, nor could there be. Granted its assumptions, the conclusions of the theory follow with strict necessity. That the theory merely concludes what it has already assumed, namely, an equality of supply and demand, weakens the argument but it does not alone offer a basis for disproof.

The really invalid assumption is not that the mere production of producers' goods may go on forever undisturbed. The unreality of that assumption robs the conclusion derived from it of any application to the real world, but it is a perfectly permissible assumption within the framework of the similarly unreal reproduction schemata. The essentially invalid assumption is that of the rising rate of profit, which is in fundamental conflict with the Marxian system within which Tugan attempts to reason. Only with this invalid assumption, is it possible to argue that, given proportionality, there is neither crisis nor breakdown. One of Tugan's reproduction models

<sup>48</sup>. Critique of Political Economy, 279.

assumes a constant rate of surplus value and a constant organic composition of capital,<sup>49</sup> from which no change in the rate of profit would follow. Others assume both a rising organic composition and a rising rate of surplus value;<sup>50</sup> in this case, if Marx's, rather than Tugan's, assumptions with regard to the rate of profit were maintained, reproduction would eventually be limited by an insufficiency of surplus value. Tugan's world of producers' goods never breaks down only because of the assumption that constant as well as variable capital produces value, and therefore, surplus value.

The implication of the theory that there is no endogenous cause of breakdown originally escaped Tugan's critics. After a time, most of them adopted the theory of disproportionality, in one form or another. Hilferding, for example, on the one hand denounces Tugan's "madness"; on the other hand, accepts the fundamental proposition that the only limit to the accumulation process, and the source of crises, is disproportional production. He finds that in reality crises arise "only from unregulated production," but that if the correct proportions were maintained "production could be extended indefinitely without leading to overproduction, . . ."<sup>51</sup>

49. Handelskrisen, 21-2.

50. Grundlagen, 224-6.

51. Das Finanzkapital, 300. Hilferding's conclusion conflicts with his cycle theory based on the falling rate of profit (due to rising wages) (ibid., 301), and with his monetary theory of the cycle (ibid., 363-368). His confusion is due to the fact that he never keeps clear the distinction between the theoretical cause of cycles, and the empirical facts of the real crisis.

Similarly, Otto Bauer comes to adopt the theory of disproportionality. In his formulation of the theory, the problem is one of the relation between accumulation and the increase in the population. The only limit to accumulation lies in the available labor force. Disproportionality means over or underaccumulation. Yet this disproportionality is automatically overcome as the accumulation process adapts to the population.

The periodic return of prosperity, crisis, and depression is the empirical expression of the fact that the mechanism of the capitalist form of production spontaneously checks overaccumulation and underaccumulation, that the accumulation of capital always adapts to the increase of the population.<sup>52</sup>

This theory reappears later in the work of Natalie Moszkowska, in the distinction between "material" and "personal" factors of production.<sup>53</sup>

Finally Kautsky, at one time the official spokesman for the theory of underconsumption, accepts the theory of disproportionality. In his preface to a 1926 edition of Volume II of Capital, he writes that in this volume Marx "shows that the most important

52. "Die Akkumulation des Kapitals," Die Neue Zeit, Jhrg. XXXI, Bd. I (1912-1913), 371. Bauer's inconsistency is evident from the fact that in this same article he speaks of crises due to the falling rate of profit which itself arises out of the lag of purchasing power behind the increase in capital. (Ibid., 331.)

53. Das Marxsche System, 139-45. Moszkowska attempts to reconcile here theory of "overaccumulation" with the theory of disproportionality. She gives four kinds of disproportionality, of which the first is the most important, which lead to overaccumulation and crises. These are disproportions between (1) material and personal factors of production; (2) the two departments of production; (3) accumulation and consumption; (4) the level of profits and the level of wages. (Ibid., 136). This fourfold classification of causes of crises is hardly a theory of business cycles. It is at best a description of the disproportions which appear in the crisis.

cause of crises is to be found in the stagnation of the circulation process of capital, in the occasional rupture of the proportionality of production."<sup>54</sup>

A particular form of disproportionality to which Kautsky previously calls attention is that between agriculture and industry. The fact that the increase in agricultural production cannot keep pace with that in industrial production is adduced to be a cause of crises.<sup>55</sup>

The fundamental implication of the theory of disproportionality is that the capitalist system as an economic order, does not produce the conditions of its own downfall. Crises may indeed occur when the conditions of equilibrium are disturbed, but they are repeatedly overcome. While the theory of underconsumption affirms a tendency to breakdown, but is unable to demonstrate the necessity of cycles, the theory of disproportionality affirms the necessity of crises, and thus of cycles, but is unable to demonstrate a tendency to breakdown.

According to the theory of disproportionality, the system is, as in classical theory, essentially adaptive.<sup>56</sup> From this it follows that if the system is to be replaced by another economic order, it must be for moral and political reasons. There are no

54. Kautsky, Preface to the Volksausgabe Kapital, II, (Berlin, 1926), xxii. Quoted by Henryk Grossman, Das Akkumulations- und Zusammenbruchgesetz des kapitalischen Systems, 67 note.

55. "Finanzkapital und Krisen," Die Neue Zeit, Jhrg. XXIX, Bd. I (1910-11), 838-46.

56. Disproportionality theory embodies the same contradiction that appears in the Ricardian system. It usually admits the falling rate of profit (with the exception of the version of Tugan-Baranowsky), at the same time it affirms the possibility of unlimited accumulation, given the possibilities of adaptation. If anything, Ricardo is more pessimistic than the Marxist revisionists.

endogenous sources of breakdown. Tugan-Baranowsky does, in fact, argue that the capitalist system must be replaced because its economic mechanisms conflict with its alleged moral ideals. A system which reduces men, the proper end of the economy, into mere means of production, is morally untenable, and must be replaced by a more just and rational order.<sup>57</sup>

Hilferding also asserts that capitalism will not break down economically, but it will be replaced by socialism only through the class struggle. The proletariat will come to power all the more easily as finance capital, through its concentration of economic power within the banking system, paves the way for socialist organization. Thus he writes:

The socializing function of finance capital makes the overthrow of capitalism very much easier. . . . The seizure of six great Berlin banks would today mean the expropriation of the most important spheres of Big Industry.<sup>58</sup>

Kautsky similarly denies any economic necessity of the breakdown of the system. Marx's theory of breakdown, he asserts, was relevant only to Marx's own time and place, but has no relevance for mature capitalism. "Today we can no longer say that the capitalist form of production. . . through its own economic development prepares its end."<sup>59</sup>

The theory of disproportionality, and its corollary, the denial of the economic necessity of breakdown, is, as pointed out

57. Grundlagen, 237-9.

58. Hilferding, op. cit., 473.

59. Grossman, op. cit., 59-77.

by Grossman in a ruthlessly logical analysis of this theory, a complete abandonment of the materialist conception of history, a betrayal of scientific socialism.<sup>60</sup> With this theory Marxist revisionism returns to utopian socialism. Social change is no longer a function of economic development, but a product either of putschism, or of the application of reason. However, if the capitalist system is viewed as a self-adapting system capable of indefinite expansion, and of furnishing an ever-rising standard of living, there is no reason why it should be replaced. The full logic of revisionist theory, which was expressed in political action, if concealed in economic pronouncements, implies the complete acceptance of the capitalist system.

We have now completed our analysis of two of the leading interpretations of Marx's theory of cycles and breakdown and found them both to be inadequate.<sup>61</sup> We criticize these theories

60. Grossman, *op. cit.*, 59-77.

61. All Marxian theories of cycles and/or breakdown, except the theory of falling profits, can be classified as theories of underconsumption or disproportionality. And, as we have seen, all theories of underconsumption, where not based on a misconception of the reproduction process (as in the case of Rosa Luxemburg) are, ultimately, theories of disproportionality. We have made no attempt to analyze individual theories, unless, as in the case of Luxemburg and Tugan-Baranowsky, they are leading examples of their type. But Marxian literature abounds in individual variants of cycle and breakdown theory, many of which give several "causes" of crises of breakdown. Typical of the most inadequate type of theory, that which loosely ascribes breakdown to the "contradictions of capitalism" is the breakdown theory of Bukharin. He speaks of the movement of profits as the chief motor of the

theories from the point of view of Marx's explicit assertion that capitalist development proceeds in cyclical swings and must eventually break down. A theory which denies this assertion, or cannot deduce these tendencies, may be adequate from the point of view of its own assumptions. But it cannot claim to be an adequate interpretation of Marx's theory if the results it obtains follow from assumptions other than those of Marx.

The theory of underconsumption is logically unsatisfactory, either because, in Rosa Luxemburg's formulation, it is based on misunderstanding of the reproduction process; or in the form of a disproportionality theory, it attempts to prove underconsumption by a disproportion for which there is no theoretical necessity. Further, without many more assumptions than the theory includes, it is not able to explain cycles.

capitalist economy. (Nicholas Bukharin, Der Imperialismus und die Akkumulation des Kapitals, Wien-Berlin, 1926, 122.) But he does not explain breakdown from falling profits. Instead, after a long criticism of the logical errors of Rosa Luxemburg (a criticism not without its own logical errors), he speaks of capitalist contradictions, as follows: "The capitalist economy is a 'unity of oppositions'. The process of development of the capitalist economy is a process of constant reproduction of capitalist contradictions." (Ibid., 120.) Bukharin then lists many contradictions including those between production and consumption, and between different branches of production, contradictions which are reproduced and heightened by capitalist development. But he is unable to furnish a causal explanation of why, at any given point, these contradictions can no longer be overcome. No less unsatisfactory is Bukharin's explanation of the breakdown of the capitalist economy -- the destruction of the economy through war -- an explanation which is no theoretical demonstration of economic necessity, but is merely a description of concrete events in Russia. (Die Ökonomik der Transformationsperiode, Hamburg, 1922, 184-187. Cf. Grossman, op. cit., 45-50.)



The strict disproportionality theory is a logically unsatisfactory interpretation of Marx insofar as it is able to deny the secular tendency to breakdown only by neglecting the basic tendency which follows from Marx's assumptions, the falling rate of profit.