

**State Expenditure
and the
Marxian Theory
of
Crisis**

**by
Rudi Schmiede and David Yaffe**

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This document is a reissue of the article written by Rudi Schmiede and David Yaffe in August 1971. Although the authors feel that certain changes are necessary, it has been considered that this could only be done satisfactorily in a longer document. Comrades wishing to see an extended version of this article, making the necessary changes, should refer to David Yaffe's article "The Marxian Theory of Crisis, Capital and the State" in the Bulletin of the Conference of Socialist Economists, Winter 1972. David Yaffe is prepared to visit any branch to discuss, debate, and develop the ideas contained in this document. Comrades should contact him at [REDACTED], Parkhill Road, London, NW3 2YU. Further copies of this document can also be obtained from him for 5p (plus 3p postage).

—STATE EXPENDITURE & THE MARXIAN THEORY OF CRISIS—

Marxist Political Economy¹

What distinguishes Marx from his Classical predecessors is that he never loses sight of the fact that the 'value-producing' process, central to capitalist production, is only an historical form of the material production and reproduction process of society. The labouring process becomes a 'value-producing' process and the social relations are transformed into economic categories under *capital production*. Capitalist production is orientated not towards consumption needs, that is the production of use-values, but towards production for profit, that is the production of exchange-values. It is the dual nature of a commodity under capitalist production conditions, that is as a *use-value* and *exchange-value*, that constitute the most general contradiction of the capitalist system. This may be put in another form: while the labour process is only limited by the natural resources available, by the historical stage of development of the social productivity of labour and the mass of labour in society, the labour process as a 'value-producing' process has much narrower limits. Under capitalist production natural resources are only utilised, the social productivity of labour only developed, labour is only employed if it serves the self-expansion of capital, i.e., the reproduction of the existing capital values and the creation of additional value, surplus-value. Capitalist production, therefore, is the production of exchange-values through the production of commodities, its aim being surplus-value as additional exchange-value. Surplus-value is the difference between the exchange-value of labour-power (representing that part of the working-day in which the worker produces the equivalent of his own means of subsistence, necessary labour-time) and its productive capacity (representing the total working-day). So that an increase in the productivity of labour, viewed capitalistically, makes no sense unless it increases surplus-value i.e., decreases the value of labour-power or the time necessary to sustain and reproduce the workers. In other words, the productivity of labour is constrained by the need to produce value and surplus-value, is bound to the *reproduction and self-expansion of capital*. This reflects itself in the difference between productive labour from the standpoint of material production (independent of the historical mode of production) and productive labour in its specific capitalistic form. While productive labour in general is concerned with production for human needs, under capitalism, according to Marx, 'Productive labour is simply labour that produces capital'. And further 'Labour is only productive so long as it is producing its antithesis', capital and 'a productive labourer is one who directly augments capital'.² It follows from this, that from the *standpoint of capitalism as a whole*, 'variable capital' represents only the wages of productive labourers, not of the total labour force. That surplus-value is not equal to the total surplus product but only the surplus product of productive labourers. This point shall be relevant later on when we consider the role of the 'unproductive' sector in modern capitalism.

Accumulation is the continuous process of reproduction and self-expansion of capital (*Verwertungsprozess des Kapitals*). While in exceptional cases, extended-reproduction on the same technological scale is possible, in general, accumulation 'revolutionises out and out the technical processes of labour'.³ Since

continuous accumulation under capitalist production conditions soon comes across the limits of the existing working population, this requires the transition from the production of absolute surplus-value (extension of the working-day) to that of relative surplus-value (decreasing the necessary part of the working-day by an increase in the social productivity of labour). Increases in the productivity of labour from the standpoint of material production involve a change in what Marx calls the *technical composition of capital*.

This latter composition is determined by the relation between the mass of the means of production employed, on the one hand, and the mass of labour necessary for their employment on the other.⁴

Increases in productivity involving increases in the *technical composition of capital* are represented under capitalist production by changes in the *value composition of capital* i.e. the ratio of constant capital, or value of means of production, and variable capital or value of labour power. Between the technical and value composition there is a 'strict correlation'. Marx expresses this relation by saying that:

'The value composition, in so far as it is determined by its technical composition and mirrors the changes of the latter (is called) the *organic composition of capital*'.⁵

The importance of grasping the process of accumulation from both its material-and-value side is crucial for understanding Marx's theory of crisis.

The development of the social productivity of labour under capitalism, leads to a decrease of exchange-value of commodities relative to their use-value, (they are produced with less expenditure of labour-time, socially necessary labour-time being the measure of value) together with an increase of the mass of use-values. The accompanying *rise in the organic composition of capital*⁶ means that the mass of the means of production grows faster than the mass of labour employed from the material side, and from the value side, constant capital grows faster than variable capital. However, due to the increasing productivity of labour the value-composition rises slower than the technical-composition. If the rate of exploitation, the proportion between surplus and necessary labour-time remained the same, the *rise in the organic composition of capital* would lead to a *falling rate of profit* since it is only the variable part of capital that yields surplus-value, while the rate of profit is measured on total investments i.e. constant and variable capital. This inherent tendency for the rate of profit to fall is called by Marx

'the most important law of modern political economy and the most essential one for understanding the most complicated relationships. It is the most important law from an historical standpoint.'⁷

Since the increase in the organic composition of capital represents an increase in productivity, the rate of surplus-value will *not* remain constant but will be increased because the value of the *mass of products* constituting the equivalent for the necessary labour-time is cheapened. This is the result of an increase in relative surplus-value.

‘The tendency of the rate of profit to fall is bound up with a tendency of the rate of surplus-value to rise, hence with a tendency for the rate of labour exploitation to rise. . . . Both the rise in the rate of surplus-value and the fall in the rate of profit are but specific forms through which growing productivity of labour is expressed under capitalism.’⁸

Does this mean that the fall in the rate of profit can be completely compensated by an increase of surplus-value, Or as Sweezy puts it ‘it is not possible to demonstrate a falling rate of profit by beginning the analysis with the rising organic composition of capital.’⁹ Marx was quite aware of this objection when he said that

‘the compensation of the reduction in the number of labourers by means of an increase of exploitation has certain insurmountable limits. It may, for this reason, check the fall in the rate of profit, but cannot prevent it entirely.’¹⁰

Sweezy could find no real answer to this problem because he fails to see the capitalist process of production from both its value and material side. His own discussion rests on purely *value* considerations whereas Marx sees the process in its entirety. Surplus-value is produced by living labour and the physical and social limitations and possibilities involving this labour affect the production of surplus-value.

‘Inasmuch as the development of the productive forces reduces the paid portion of employed labour, it raises the surplus-value, because it raises its rate; but in as much as it reduces the total mass of labour employed by a given capital, it reduces the factor of the number by which the rate of surplus-value is multiplied to obtain its mass. Two labourers, each working 12 hours daily, cannot produce the same mass of surplus-value as 24 who work only two hours, even if they could live on air and hence did not have to work for themselves at all.’¹¹

Although the argument is unclear as to what is the surplus labour-time of the 24 labourers, the point is clear. While the means of production per man employed have no ‘*finits*’ limit theoretically, surplus-value per man has an impassable limit, namely the duration of the working day.¹² Further as capitalism develops it becomes increasingly more difficult to shorten the necessary labour-time by an increase in productivity.

‘The greater the surplus-value appropriated by capital because of the augmented productivity . . . or the smaller the already established fraction of the working-day which provides an equivalent for the workers, so much the smaller is the increase in surplus-value which capital can obtain from an increase in productivity. Surplus-value increases, but in ever diminishing proportion to productivity. To the extent that capital is already developed . . . so much the more frightfully must it increase

productivity even to expand (ie, to increase surplus-value) by a lessened proportion – because its barrier always remains the proportion between the fraction of the day which expresses necessary labour and the entire working-day. Only within these boundaries can it move’.¹³

So that the accumulation process involves a rise in the organic composition of capital, a rise in the productivity of labour and a relative decrease in the labour employed. These express themselves in a tendency of rate of profit to fall, although the mass of profits or surplus-value absolutely increase and the rate of exploitation increases. This means,

‘The progress of the process of production and accumulation *must*, therefore, be accompanied by a growth of the mass of available and appropriated surplus labour and consequently by a growth of the absolute mass of profit appropriated by the social capital. . . . The same laws, then, produce for the social capital an increase in the absolute mass of profit and a falling rate of profit’.¹⁴

Besides this immanent tendency, within the accumulation process, to check the tendency of the rate of profit to fall there are other counteracting tendency that can apply temporarily. These are the increase in the rate of surplus-value by lengthening the working-day or intensification of labour, the pushing down of wages below their value, the cheapening of the elements of constant capital, and foreign trade.¹⁵ The fall in the rate of profit is, therefore, not linear but in some periods is only latent coming to the fore more or less strongly in other periods and appearing in the form of a crisis cycle.

On this theory capitalism is always driven to a higher and higher productivity of social labour in order to produce sufficient surplus-value for the continuous reproduction and expansion of the growing capital. But this process is a contradictory one.

‘The contradiction . . . consists in this that the capitalist mode of production has a tendency to develop the productive forces absolutely, regardless of value and of the surplus-value contained in it and regardless of the social conditions under which capitalist production takes place; while it has on the other hand for its aim the preservation of the value of the existing capital and its self expansion to the highest limit (that is an ever accelerated growth of this value). . . . The means, this unconditional development of the productive forces of society, comes continually into conflict with the limited end, the self-expansion of the existing capital’.¹⁶

When the expansion of production outruns its profitability, when existing conditions of exploitation preclude a further profitable capital expansion or what amounts to the same thing, an increase of accumulation does not increase the mass of surplus-value or profit, an *absolute* over-accumulation has occurred and the accumulation process comes to a halt.¹⁷ This interruption of the accumulation process constitutes the capitalist crisis. It represents an *overproduction of capital with respect to the degree of exploitation*. From the point of view of profitability at this stage, existing capital is at the same time *too small and too large*. It is too large in relation to the existing surplus-value and it is not large enough to overcome the lack of surplus-value.

Capital has only been overproduced in relation to profitability. This is not a material overproduction for the world in this respect is under-capitalised.¹⁸ This stresses once again the central contradiction between the commodity as a use-value and as an exchange-value, between production for use and that for profit.

At this stage in the argument, before we discuss the crisis mechanism, it is necessary to say something about competition. With a relatively decreasing mass of surplus-value in relation to the growing mass of constant capital, competition for this declining mass becomes a vital element in the accumulation process. Competition is the result of the struggle for profits and extra-profits accompanying the rise in the productivity of labour. For those first introducing new methods of production can sell their cheaper produced commodities above their price of production and *under* their social value (above their individual value). Competition is the force that equilibrates different production prices to a new social average value. That all values and prices represent social averages is already assumed in the general theory of accumulation discussed so far. The falling tendency of the rate of profit and the necessity of absolute over-accumulation is deduced independent of considerations of competition.

Competition comes into its own in the crisis situation. The crisis while representing an end to the accumulation process, is nevertheless the precondition for its continuation on a higher level. In the crisis profitability of capitalist production is restored, in principle, in a number of ways. Assuming no physical destruction of capital takes place (either through lack of use or abandonment or destruction through war), the same quantity of use-value, of means of production, before the crisis represents a smaller exchange-value of means of production after the crisis through devaluation of constant capital. However, neither the rate of surplus-value nor the mass of surplus-value are affected as they relate to the unaltered use-value of capital and hence to its unaltered productive capacity. Hence the rate of profit will increase because the same amount of surplus-value relates to a lower total capital.

Secondly, with the centralisation and restructuring of capital that takes place in the crisis through competition, only the more productive capitals survive and allow for a higher social productivity of labour. It is this mechanism which decreases the value of labour-power and thereby increases the rate of exploitation and mass of surplus-value.

Thirdly, this restructuring usually includes the abandoning of part of the least profitable and often obsolete constant capital and as such frees the surviving capital (in money or commodity form) for new, more productive investment. Fourthly, due to the relative surplus-population (increase in unemployment) wages, which had a tendency to go above their value in the period of prosperity previous to the crisis are now temporarily pushed below their value. Simultaneously the working-day can also be lengthened and in this way an increase in absolute surplus-value results. Finally, the intensification of labour can be increased above average.

All these factors together play a role in the restoration of profitability of capital and this allows the accumulation process to continue on a new higher level. The crisis therefore, removes the temporary barrier to further accumulation but only to set new limits on a higher level still.

It may seem surprising that competition has only been introduced at this stage. In effect competition takes place throughout the production process reflecting the striving after surplus-value and tending to equalise profit rates, establishing prices of production and driving the less efficient capitals out of business. But it is only in the crisis that competition really becomes 'a life and death struggle'.

'Under all circumstances, a portion of the old capital would be compelled to lie fallow, to give up its capacity of capital and stop acting and producing value as such. The competitive struggle would decide what part would have to go into this fallow state. So long as everything goes well, competition affects a practical brotherhood of the capitalist class as we have seen in the case of the average rate of profit, so that each shares in the common loot in proportion to the magnitude of his share of investment. But as soon as it is no longer a question of sharing profits, but of sharing losses, everyone tries to reduce his own share to a minimum and load as much as possible upon the shoulders of some other competitor . . . competition then transforms itself into a fight of hostile brothers. The antagonism of the interests of the individual capitalists and those of the capitalist class as a whole then makes itself felt just as previously the identity of these interests impressed itself practically as competition'.¹⁹

It has been found necessary to give a detailed interpretation of the crisis mechanism central to Marx's theory of accumulation because in general the accumulation process has been insufficiently understood. The mediation between the value process and the material process has often been lost sight of and moreover circulation and production have been separated from the 'total' process. This has led to two main distorted versions of the theory of crisis, namely, the disproportionality thesis and underconsumptionist thesis. The general features of these positions will now be discussed.

Disproportionality Thesis

The disproportionality thesis rests upon an untenable interpretation of the reproduction schema in the second volume of *Capital*. In these schema Marx shows the necessary relationships that must hold between the two principle departments (that of means of production industries and means of consumption industries) if the process of simple and extended reproduction is to continue undisturbed. His aim is to show that:

'the exchange relations between the two great departments of social production must be in accordance with regard to their value as well as use-value side, if the equilibrium conditions of the reproduction of total social capital are to be maintained'.²⁰

'In this sense the reproduction schema of the second volume can be regarded as a (provisional) solution of the so-called realisation problem'.²¹

In other words, Marx shows that if certain conditions of proportionality in the exchange between the two departments are observed, all commodities are sold at their value and no over-production of commodities would occur. That is, the general cause of the capitalist crisis does not lie in the circulation process. It is for this reason that the Russian Legal Marxists, following the lead of Tugan Baranowski, as in the case of Bulgakov, and also the early Lenin, relied on these schema in their arguments against the Narodniks. The Narodniks had claimed, that due to the under-development of Russia, the lack of 'internal' and 'external' markets, capitalism would not be able to develop. Against this the Legal Marxists and Lenin had argued that capitalist industrialisation was possible since a relatively faster growth of the means of production industries could be achieved by altering the proportional relationships in the two sectors. But as Rosa Luxemburg remarks

'the question was whether capitalism in general and Russian capitalism in particular is capable of development; these Marxists, however, proved this capacity to the extent of even offering theoretical proof that capitalism can go on for ever'.²²

The latter proof was what interested and was taken up by the German Social Democrats. First Hilferding, then Otto Bauer and finally Kautsky took the reproduction schema and suitably developed them in order to show that undisturbed accumulation can take place and that the law of the falling rate of profit would be superceded. Crisis could only be due to disproportionalities and these could be avoided by thorough planning. For example the idea of an economic breakdown of capitalism for Hilferding 'is no rational conception at all'.²³ This is because 'In capitalist production both reproduction on a simple as well as on an extended scale can proceed undisturbed if *only* these proportions are maintained'.²⁴

What neither the Russian Legal Marxists nor the German Social Democrats understood was the theoretical role of the reproduction schema in Marx's theory of accumulation. The first point is that the reproduction schema abstract from decisive elements of the capitalist production process. They are the increase in the organic composition of capital with the accompanying increase in technical process and production of relative surplus-value. As soon as these factors are taken into account the law of the tendential fall of the rate of profit must apply. Henryk Grossman showed this in a critique of Otto Bauer's reproduction schema (which included the increasing organic composition of capital). Bauer claimed that his schema showed that undisturbed accumulation was possible but he only worked out the results of his schema for four years. Grossman continued it and showed that after a certain period, the system must break down due to a lack of surplus-value.²⁵ What the theorists of disproportionality crises forget is that Marx shows the *possibility* and *necessity* of crises, of over-production of

capital assuming proportionality between the departments and that all commodities are sold at their value. While disturbances and disproportionalities are a continual feature of the capitalist system of production they are only partial in their effect, and since they are always present they cannot be the explanation of the crisis cycle.

Underconsumptionist Thesis

Rosa Luxemburg in her critique of the above 'harmonistic' interpretation of the Marxian theory claims to have shown that the capitalist system must break down due to a lack of markets for the sale of commodities as accumulation proceeds. That is, eventually the system would find its limit in restricted consumption possibilities due to the lack of non-capitalist markets.

'Whereas for Marx the problems of capitalism are connected with the process of production, Rosa Luxemburg shifts the problems that are decisive for the existence of capitalism out of the sphere of production into the sphere of circulation'.²⁶

The underconsumptionist theories in their various forms have one central shortcoming in common. That is, they break the crucial connection between the production and circulation process and consider the latter independently and as the limitation of the former. Whether it is the lack of non-capitalist markets (Rosa Luxemburg), or the 'inherent *tendency* to expand the capacity to produce consumption goods more rapidly than the demand for consumption goods' (Paul Sweezy) or the lack of effective demand that dulls the incentive to invest (Joan Robinson and other left-Keynesians), it is the circulation process that finally is a limitation on the process of production. The last two cases either manifest themselves in a crisis (over-production of consumption goods) or in stagnation (idle productive resources are not utilised to produce additional capacity because it is realised that the additional capacity would be redundant relative to the demand for the commodities it could produce).²⁷

Marx himself criticised very harshly all underconsumptionist theories known to him (especially Malthus and Chalmers). For Marx it is the 'discrepancy between material and value production which leads to difficulties in the accumulation process'.²⁸ The crisis is an over-production of capital in relation to profitability or, what amounts to the same thing, an under-production of surplus-value in relation to the growing mass of total capital.

'An overproduction of capital, not of individual commodities, signifies therefore an over-accumulation of capital—although the overproduction of capital always includes the overproduction of commodities'.²⁹

The over-accumulation of *capital* is the cause of the over-production of commodities and the latter is *not* the limitation to the capitalist production process.

The under-consumptionists either view the capitalist system 'statically' and confuse effective demand with 'consumption' demand (wasteful or otherwise) or they view the system from its 'material' side only and we are faced with a 'potential' or 'actual' over-production of commodities. Now effective demand under capitalism is constituted by the consumption of workers and capitalists (wasteful or otherwise), the replacement of constant capital used up in the production process and by the additional surplus-value invested, i.e. additional capital. It is this latter part, central to the accumulation process, that determines the capacity of the capitalist system to expand. This brings us finally back to the 'theory of the falling rate of profit' on which the explanation of declining profitability and the consequent halt in the accumulation process rests.

In this respect it is significant to note that Joan Robinson's criticism of Marx in her *Essay on Marxian Economics* is quite consistent with her Keynesian position. She says in relation to the two famous passages in Volume III of *Capital*, that on superficial reading attribute to Marx an under-consumptionist position:

'Thus to clinch (Marx's?) argument it is necessary to show that investment depends upon the rate of profit and that the rate of profit depends, in the last resort, upon consuming power. It is necessary, in short, to supply a theory of the rate of profit based on the principle of effective demand' and,

'The theory of the rate of profit is a red herring across the trail, and prevented Marx from running the theory of effective demand down to earth'.³¹

The overcoming of the 'realisation' difficulties can be achieved, only, in the sphere of production and by production on an ever-expanding scale. In this sense, as Marx says:

'is is sheer tautology to say that crises are caused by the scarcity of effective consumption, or of effective consumers. The capitalist system does not know any other modes of consumption than effective ones. . . . But if we were to attempt to give this tautology the semblance of a profounder justification by saying that the working-class receives too small a portion of its own product and that the evil would be remedied as soon as it receives a larger share of it and its wages in consequence, one could only remark that crises are always prepared by precisely a period in which wages rise generally and the working-class gets a larger share of that part of the annual product which is intended for consumption'.³¹

Neither 'underconsumption' nor 'disproportionalities' are the cause of the capitalist crisis nor are they barriers to its further development.

'The real barrier of capitalist production is capital itself. It is the fact that capital and its self-expansion appear as the starting and closing joint, as the motive and aim of production; that production is merely production for *capital*, and not vice versa, the means of production mere means for an ever expanding system of the life process for the benefit of the *society* of producers'.³²

Theories of the Role of Armaments in the Economy

Theories of the role of armaments in the economy were first developed as modified versions of the underconsumptionist position. The theories that we shall mainly discuss are those put forward by theorists who claim to be Marxists. In this respect, it is sometimes difficult to decide what exactly constitutes the core of their theories. It will be the aim of the rest of the paper to show that even though such theories sometimes acknowledge, more or less seriously, Marx's theory of the falling rate of profit, they show no real understanding of Marx's position. And where they are not explicitly underconsumptionist, they, if consistently developed, are no more than a modified version of the Keynesian theory of effective demand.

The first ideas about the role of armaments in the economy were concerned with theories of imperialism. In the case of Rosa Luxemburg, militarism fitted into a theory of imperialism, but also had another function

'In addition, militarism has yet another important function. From the purely economic point of view, it is a pre-eminent means for the realisation of surplus value; it is in itself a province of accumulation'.³³

Luxemburg's position is very confused; she sees armaments production as financed out of taxes which fall entirely on wages and as robbing the non-capitalist strata of their purchasing power.³⁴ So that arms production can be regarded

'as a kind of "forced saving" imposed on the workers. These savings are extra to the saving out of surplus (-value). They are invested in armaments, and that ends the story'.³⁵

In that case they cannot be a pre-eminent means for the realisation of surplus-value over and above what the national capitalist market can absorb, as here, extra surplus-value is created by increasing the rate of exploitation. That is, from the standpoint of the capitalist class as a whole, the lowering of wages. Joan Robinson recognised this inconsistency and suggests a more consistent position.

'The analysis which best fits Rosa Luxemburg's own argument, and the facts, is that armaments provide an outlet for the investment of surplus (over and above any contribution there may be from forced saving out of wages), which, unlike other kinds of investment *creates no further problem by increasing productive capacity*. (Not to mention the huge new investment opportunities created by reconstruction after the capitalist nations have turned their weapons against each other.)³⁶

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This position outlined by Joan Robinson is one we shall meet again in one form or another when we come to consider the various versions of the *Permanent Arms Economy*.³⁷ In this case the aim of the theory has changed somewhat, and is rather to explain the stability of capitalism in the post-war years. It is this problem of stability that gives significance to Keynesian bias that Joan Robinson gives to Rosa Luxemburg's position.

Staring from the impression that 'since the advent of the permanent war economy the cycle (of prosperity and slump) has somehow been broken' Tony Cliff tries to restate the cause of the traditional cycle.

'In the *final* analysis, the cause of the capitalist crisis is that a greater and greater part of the income of society falls into the hands of the capitalist class and a greater and greater part of this is directed not towards buying means of consumption, but, instead, means of production. That is, it is directed towards the accumulation of capital. But, as all means of production are *potentially* means of consumption – that is, after a certain lapse of time, the value of the means of production becomes incorporated in means of consumption – the relative increase in the part of the national income directed to accumulation must lead to overproduction'.

And more directly, 'The basic cause of capitalist crisis of overproduction is the relatively low purchasing power of the masses compared with the production capacity of industry'.³⁸ The basis of this is Marx's famous statement in Volume III of *Capital*,

'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'.³⁹

We have shown in an earlier quote from Marx (p 00-00) that he did not consider such statements to be *explanations* of the crisis. Marx called it a tautology to explain the crisis by a lack of effective consumption and thus the above passage is no more than a description or a restatement of the capitalist relations of production. That over-production of capital includes over-production of commodities and therefore underconsumption its synonym, does not make the latter the explanation of the crisis, on the contrary, it needs to be explained.

The 'permanent war economy' according to Cliff, stabilises the over-producing capitalism because, 'the new State demand for arms, army clothing, barracks etc,' together with 'the increasing purchasing power of the people' who indirectly receive employment by arms expenditure, provides 'greater openings for capital investment'.⁴⁰ The 'permanent war economy' as 'internal' market has replaced the necessary 'external' markets of Rosa Luxemburg. The 'third' buyer – not worker nor capitalist consumer – need not necessarily be the non-capitalist producer but the non-producing state'.⁴¹

These outlined characteristics of the 'permanent war economy' were already developed in the work of Fritz Sternberg⁴² and T N Vance.⁴³ For instance, Sternberg suggests that the 'crisis' problem and the 'market' problem are synonymous and 'that in (the) war economy . . . the question of market out-

lets was solved naturally'.⁴⁴ While the problem of the crises preceding the war economy was 'that no additional markets could be found for the increased production capacity'.⁴⁵ T N Vance, a theoretician in the Trotskyist tradition, also saw the central problem of capitalism to be one of 'realisation'. He says;

'The ruling class is impaled on the horns of a most serious dilemma; to allow these growing and mature accumulations to enter into economic circulation means to undermine the very foundations of existing society: to reduce or eliminate these expanding accumulations of unpaid labour requires the ruling class or sections of it to commit *hara-kiri*'.

And consequently

'Society as a whole must suffer the fate of economic disequilibrium unless the ruling class can bring its State to intervene in such a manner as to resolve this basis dilemma'.

We are told about,

'the necessity of state intervention to immobilise *excess* accumulation of unpaid labour and how this problem was solved in Ancient Egypt by pyramid-building and in feudal times by the building of elaborate monasteries and shrines'.⁴⁶

For this author the problem then is not only specific to capitalism. 'War outlays, in fact, have become the modern substitute for pyramids'.⁴⁷ Further, in a later article, he suggests, that the

'Korean war came in the nick of time. The threatened crisis due to relative over production of consumer goods was averted and the dominance of the Permanent War Economy guaranteed'.⁴⁸

So far we have shown the underconsumptionist bias in these various positions. Before we go on to explain the mechanism of the arms-economy, it is first necessary to say something about the latest, and most well known, version of this theory. In a book called *Western Capitalism Since the War* and in various essays, Michael Kidron develops a more elaborate view of the 'Permanent Arms economy'. There are a number of confused positions held together in this theory, and, in general, the underconsumptionist aspect is pushed into the background. Kidron tries more than all the other theorists to relate his position to the 'Marxian theory of the falling rate of profit'. So that before this theory is discussed fully it will be necessary to explain in a general way the stabilising function of armaments production as it is described by all these theorists, and to show how Kidron attempts to relate this to the theory of 'the falling rate of profit'.

The 'underconsumptionist' and 'lack of effective demand' arguments for the interference of the State in the economy are quite usual. What is important to the arms-economy theorists is why armaments production, and only such production, can really explain the stability of the post-war years. Arms expenditure as opposed to other 'Public' expenditures is more effective in stabilising the economy and preventing slump for the following reasons.

1 It does not compete with private interests producing in the same field. Thus, we are told by Cliff 'a state factory producing, let us say, shoes and competing with private shoe producers, would not decrease the danger of over-production of shoes, but increase it. But in the field of, say, barrack building, the state stands alone'.

2 That they employ the industries which are generally most affected by slumps - capital goods industries, heavy industry etc.

3 They decrease the productive capacity of capitalism and thereby slow down the growth of social capital.⁴⁹

4 They create end-markets for goods but not for consumer goods which would require higher wages to pay for them.

5 That, while not adding to the national productive capital, the capitalist class considers them an important power instrument in the defence of their wealth and even a weapon for enlarging its prospective markets.⁵⁰

6 They force other countries into the same expenditures.⁵¹

7 Kidron adds, 'that one obvious result of such expenditure is high employment and, as a direct consequence of that, rates of growth amongst the highest ever'. This is due to the sheer size of government contracts.⁵²

8 'Spin-off' from military research has not been negligible in helping civilian industry.⁵³

9 Further, industries that produce armaments profit benefit in various other ways. (a) Their investment risks are minimised by government guarantees and their monopoly position. (b) A large part of their research and development costs are taken over by the government.⁵⁴

In all these arguments, shorn of technicalities, what is crucial to the analysis is that arms production while decreasing productive capacity 'mops up unemployment' and offers outlets for investment and in so doing stabilises the economy. Now there seem to be two positions held by these theorists. The first sees the problem as one of over-production of commodities and armaments production as contributing to the 'realisation' of surplus-value while not exacerbating the problem further by increasing productive potential. That is, if further productive investment took place the additional surplus-value being 'realised' through accumulation of capital, the problem would become worse, since it would only enlarge the divergence between production and consumption (or 'effective' demand). Armaments production do not do this as they constitute a 'drain' of productive capital. Kidron sometimes seems to hold to this argument for example when he says that

'too much productive expenditure on the part of the state would both upset the balance between individual capitals and accentuate the systems bias towards over-production'.⁵⁵

But at other times another argument dominates, and this is most clear in his more recent essay in *World Crisis* where he says;

'Since arms are waste (or a 'luxury') in the strict sense that they are neither wage goods nor investment goods and therefore cannot constitute inputs into the system, they have no direct part in determining it and their production has no direct effect on profit rates over all. But since their production is a leak of high capital intensity it tends to offset the system's inbuilt bias towards declining rates of profit'.⁵⁶

The declining rate of profit argument here is explicitly related to Marx's own position,⁵⁷ but in his book this argument is formulated in Keynesian terminology. In discussing state expenditure Kidron says,

'For one thing too much *productive* expenditure by the state is ruled out. Seen from the individual capitalist corner, such expenditure would be a straight invasion of his preserve by an immensely more powerful and materially resourceful competitor; as such it needs to be fought off. Seen from that of the system, it would lead to such a rapid build-up of the capital-labour (value) ratio, to use one mode of expression, or to such a low marginal productivity of capital, to use another, and to such a low average rate of profit as a consequence, that the smallest rise in real wages would precipitate bankruptcy and slump'.⁵⁸

Here Kidron has confused Marx's organic composition of capital with a capital-labour (value) ratio and suggested that the build up of the latter is equivalent to a low marginal productivity of capital. As we have shown, the organic composition of capital for Marx, involves both value and technical relationships, whereas, in effect, what is central to Kidron's position is the Keynesian theory of effective demand. The low marginal productivity of capital relates to lack of investment outlets and low expectations about profits, and not to a fundamental disproportion between surplus-value production and the existing stock of capital. This latter relationship has the social productivity of labour as a central concept, and its increase together with the mass of surplus-value as the precondition for resolving the disproportionalities. While for Keynes the low marginal productivity of capital has its cause in an over-abundance of capital in relation to profit expectations, and therefore to a potential over-production of commodities (the capitalist will not invest), for Marx the over-production of capital is only relative to the social productivity of labour and the existing exploitation conditions. It represents an insufficient mass of surplus-value in relation to total capital. So that for Marx the crisis is resolved by expanding profitable production and accumulation, while for Keynes, it is remedied by increasing 'effective demand' and 'stimulating' the incentive to invest, and this allows for government induced non-profitable waste-production.⁵⁹

That Kidron further has not understood the Marxian theory of accumulation and therefore the consequent tendency of the rate of profit to fall can be seen in his argument, crucial to his position, that armaments production do not affect the rate of profit. We shall show that this conclusion is false and that all that is left of Kidron's theory is a more-or-less modified version of the Keynesian theory of 'effective demand' with the concomitant separation of the problems of consumption and production. The central argument here is that 'arms-production' can be regarded as a 'luxury good', in the sense that they are not used as either instruments of production or means of subsistence, and that such goods do not directly affect the rate of profit. The 'proof' of this rests upon the results of a version of the 'transformation of values into prices' for simple reproduction, the attempt to reconcile the positions of volumes I and III of *Capital*. This transformation is the work of the neo-Ricardian Ladislau von Bortkiewicz,⁶⁰ and is reported and agreed to in Sweezy's *Theory of Capitalist Development*.⁶¹ For this 'transformation', society's production is divided into three departments, Department I being that of the production goods industries, Department II, that of workers' consumption goods industries, and Department III, that of capitalist consumption goods, including 'luxury goods'. The transformation is carried out assuming simple reproduction.

As a result of this 'transformation' an equation for the rate of profit is obtained and it is seen, mathematically, not to involve variables expressing the organic composition of capital in Department III. Sweezy, therefore, concludes and Kidron agrees, that changes in the organic composition in Department III do not affect the average rate of profit.⁶² This conclusion is untenable. Changes in the organic composition of capital *exclude* simple reproduction. Simple reproduction occurs on the assumption of non-changing organic composition of capital and a given rate of surplus-value. As we have shown, the accumulation process includes both changes in the organic composition of capital and the rate of exploitation. Therefore, the conclusions derived from a mathematical formula for simple reproduction (such as those above) have no bearing on the theory of accumulation and the falling rate of profit. In so far as 'luxury goods' production uses up surplus-value, then it affects the rate of profit on total capital. As Marx puts it,

'Since the profit of this (luxury production) sphere goes as well into the equalisation of the general profit rate as that of any other, increased productivity in the luxury industry would result in a fall in the general profit rate'.⁶³

Therefore increases in the organic composition of capital for luxury production would affect the general rate of profit as in other sectors.⁶⁴ This is so in spite of the character of 'luxury good' production as 'unproductive' in the capitalist sense. The luxury products 'represent mere surplus-labour'. Accordingly they affect the rate of exploitation:

'If too great a part of surplus-labour is directly represented in the form of luxuries so obviously the accumulation and the degree of reproduction would falter because too small a part is transformed back into capital'.⁶⁵

There are two more arguments against the Sweezy/Bortkiewicz method of transformation that enable the non-Marxist conclusion to be reached and we shall briefly state them. The first is that they use 'luxury goods' as the *numeraire* for the whole system which is not justifiable as clearly the *numeraire* would change with changes in the organic composition of capital and in their productivity of labour. This produces the quite unacceptable position for the Marxist framework, that total value does not equal total price.⁶⁶ Were the latter to hold then the whole analysis from the basis of the labour theory of value, is invalid. Secondly, gold production has no special property that would limit it to Department III. It can serve as means of production, as means of consumption, (whether necessary or luxury) as well as means of circulation. So we see that the foundation of the second argument of Kidron is wrong, and the theory rests or falls on its Keynesian basis.

Since the theory of Permanent Arms Economy fails to locate the contradictions of the capitalist system in the 'total' capital reproduction process itself, then it is a necessary consequence that the limits to further production are not seen, as in the case for Marx, to be 'immanent' to the system. Ideas of its newly emerging crisis conditions, therefore, must resolve around 'external' and 'contingent' factors. We shall give Kidron's list of the increasing contradictions in the arms economy and the point will become clear.

'Some of these contradictions are ideological'.⁶⁷ This argument seems to be based on the idea that it is far easier to attack the rationale behind increasing arms production (example, Vietnam war) than that behind the profit system. In other words, it is an argument based on increasing 'moral' apprehensiveness.⁶⁸

'Other contradictions are political and economic. The arms budget's flexibility as a stabiliser *within* each national economy is set at risk by its mediation *between* economies'.⁶⁹ Politically, this takes the form of the 'domino-effect' and the 'political' escalation of arms production. This endangers the ability of the arms budget to stabilise the national economy and it is made virtually impossible to maintain the correct proportions of arms expenditure. So that, *political* considerations here dominate the *economic*, and the disturbances are the 'contingent' results of political decisions. But, what has been here assumed and not shown is that 'Keynesian' state expenditures (in this case arms expenditures), given no external disturbances, are capable of solving the capitalist problem.⁷⁰ If economic competition, as sometimes seems the case for Kidron, influences political competition, in the form of the armaments race, then it can only be added that it is just this economic competition that needs to be explained and understood. The increasing economic competition in the world market cannot be taken for granted but must be shown to be the result of the increasing difficulties of capital reproduction and expansion in the world economy. So that, when Kidron states,

'In an *arms* economy the capacity for the economy to compete overall, in destructive potential, as well as in the more traditional forms, adds a further major constraint and with it a further nest of complications'.⁷¹

9

It is just this that he has not explained.

Finally, there is the technological argument that due to the increasing specialist nature of the arms economy, it is no longer capable of underpinning 'full employment even at the same level of relative expenditure' and the technological spin-off to civilian industry declines.⁷² But as the effect of this has not been gauged we cannot take it too seriously, and anyway, in the context of the theory of effective demand other 'waste' production of a labour-intensive kind could replace it.

Conclusions

In spite of all our criticisms, it is clear that state-expenditure, and in this respect arms production has been necessary and important, has played an enormous role in maintaining social and political stability since the second world-war. The question, therefore, of the nature and limits of this expenditure is crucial for Marxist theory. What follows is an attempt to explain the role and nature of state-expenditure and in particular, arms-expenditure in relation to Marx's theory of crisis. This explanation is only an outline and a framework in which further discussion may take place. In particular there is no discussion here about the efficacy of state intervention in the national economy today with the growth of international monetary markets and international firms.⁷³

We shall argue that far from decreasing productive capacity *per se*, arms expenditure makes enormous increases in the productivity of labour necessary, in order to finance the 'waste' production as well as maintaining a growing profitable 'private' sector. Only by understanding this, does it become clear why the process of concentration and centralisation of capital has continued at an accelerated rate. The 'rationalisations', including productivity deals, the Industrial Relations' Bill in Britain, and other attempts to make capital more 'productive', should be seen in this context. The sharpening competition on the world market is a further expression of the need to enlarge markets and take advantage of the 'economies' of large scale production. Finally, we suggest that the present difficulties of inflation and stagnation are the signs that we are reaching the 'limits of the mixed-economy'.

Towards the turn of the century the business cycle mechanism was no longer sufficient to bring the restructuring of capital through crisis and competition towards a greater profitability. As Paul Mattick puts it,

'The business-cycle as an instrument of accumulation has apparently come to an end; or rather, the business-cycle became a "cycle" of world-wars. Although this situation may be explained politically it is also a consequence of the capitalist accumulation process'.⁷⁴

And it was seen,

'that only under conditions of large-scale warfare . . . in which half of the Gross National Product served the needs of war, was there a full use of productive resources'.⁷⁵

The Keynesian anti-slump suggestions must be seen in this context. The period of wars had already brought the state to intervene massively in the economy. The basic argument of the

Keynesians was that the government intervention in the economy was needed to increase effective demand and compensate for the decline in the rate of private capital formation. This was necessary to prevent large-scale unemployment and consequent social unrest.

The second world-war, as all wars, led to a further redistribution of economic power and to a concentration and centralisation of capital in the hands of the most dominant economic powers. In this sense war takes over the 'role' of the crisis in allowing for the restructuring of capital and the ensuing increased productivity of labour. It, thereby, improves the conditions for further accumulation.

'War-production was then, in its effects, not really "waste-production" but a medium for the resumption of the accumulation process. In this sense, it was not a subsidy to armaments producers but a condition for a better profitability of post-war capitalism. This is an additional reason why, generally, capitalists will object to useful public works and welfare spending but not to the extension of "defence" expenditures'.⁷⁶

But, while after the first world-war many nations were able to reduce government-induced expenditure considerably

'conditions after world-war II made it clear that the war had failed to provide the impetus for a market-determined private capital accumulation on a scale sufficient to allow for the retraction of government-induced demand'.⁷⁷

A decrease in government expenditure led to a decrease in economic activity which made a resumption of this expenditure all the more necessary.

At this stage we must examine the nature of government expenditure and understand its relation to private capital formation. The point about state expenditures is that they are financed and paid for out of taxes. If the state finances its expenditures through deficit-spending, to this extent 'future' taxes, which presuppose the future profitability of capital, are assumed. In either case, present or 'future' surplus-value is appropriated from private capital by the state, in the form of taxes or loans, to pay for these expenditures. This represents a decline in accumulation and a decline in the rate of growth of the productivity of labour. This is so because the state-induced production is 'unproductive' from the point of view of capitalism as a whole. Although state expenditures 'realises' surplus-value, the products bought by the state do not function, in general, as capital, and therefore do not produce additional surplus-value. The finished products that the state buys are acquired with already produced surplus-value. The individual private capitalist producing for the state quite clearly gets the average rate of profit and 'surplus-value' is produced by his exploited workers. But from the standpoint of society, of total social capital, 'unproductive' state-expenditure constitutes a 'drain' of capital. So the profit acquired by the individual capitalist producing for the state comes to him only out of a redistribution of the already produced surplus-value. Marx says;

'Although the workers employed in luxury production produce capital for their employer their product cannot transform itself . . . again into capital, neither in constant nor variable'.⁷⁸

This does not only apply to armaments production, although this constitutes a large part of it, but also to other 'unproductive' expenditures, such as, the State apparatus itself, social welfare, public works, and education.

To the extent that state expenditure is productive it competes with the private sector, but normally this is not the case. Nationalisations in Western economies have usually taken place because the products cannot be produced profitably by the private sector and yet such products are vital to the private sector.⁷⁹ To the extent of this lack of profitability they are 'subsidised' out of the surplus-value produced by the private sector and our earlier arguments hold. This is also true for direct subsidies to private industry.

The substitution of government-induced demand has in Europe and America been an inflationary process. It has required deficit-financing on a large scale and monetary policies that make this possible, together with a massive expansion of credit facilities.

'A mild degree of inflation is probably helpful to capitalist growth; it reduces the money value of accumulated debt, it wipes out some part of the gains to workers from wage increases and it encourages business confidence'.⁸⁰

Inflationary policies replace the traditional deflationary policies as soon as the effects of deflation, and increased number of unemployed, threaten the social and political stability of the capitalist states. As Mattick puts it, 'Inflation became the preferred, if not unavoidable, way to react to depressions and to maintain levels of economic activity consistent with social stability'.⁸¹ Inflation is only the money expression of the increasing state-induced production, the form in which this appears on the private market.

'Through government purchases with borrowed money the public debt is monetised and . . . increases the social demand.⁸² 'instead of the accumulation of capital there is the accumulation of national debt'.⁸³

We have therefore the following mechanism. A declining rate of private capital formation means that governments must supplement production for the market with 'waste' production if they are to avoid high unemployment and social instability. But this is a capitalist expense indicating a latent tendency to crisis. This can only be avoided temporarily, it would seem, by an extension of the credit mechanism and through government borrowings. If all new capital went into 'waste' production, then capital accumulation would cease. But,

'A nonaccumulating capital is a capitalism in crisis, for it is only through the expansion of capital that market demand suffices for the realisation of profits made in production'.⁸⁴

It is clear, therefore, that there are limitations to arms production and other government-induced demand in a capitalist economy. If production grows faster in the 'non-productive'

sector of the economy than in the 'private' sector, the production of profit, or surplus-value, relative to total production, declines more rapidly than before. More surplus-value must be produced from a smaller base of productive labourers in order that the tendency of the rate of profit to fall is checked. As long as the productivity of labour can be sufficiently increased so as to maintain the rate of profit and finance the non-productive sector, government-induced expenditure will indeed be the 'cause' of high employment and social stability. But this process is self-defeating: to cope with the expense of the non-productive sector

'The exploitability of labour must be steadily raised. This means a higher organic composition of capital and a decline in the exploitable labour force relative to the growing capital. To maintain a state of high employment indefinitely . . . (the non-productive sector) . . . must increase faster than total production. But this implies a slow deterioration of private capital expansion which can only be halted by halting the extension of the . . . (non-productive sector)'.⁸⁵

The increasing concentration and centralisation of capital is, therefore, essential for increasing the social productivity of labour. Government-induced production helps in this respect because the sheer size of the state's 'orders' leads to a restructuring of capital in private industry. The enormous extension of credit facilities is necessary to finance the very large investment now needed to bring about the necessary and competitive increases in the productivity of labour. This extension of credit is based on expected future profitability. This has led to reoccurring liquidity problems, now affecting large corporations, and in Britain, nationalised industries. But this investment must continue on an ever-increasing scale if the mass of surplus-value to finance both the private and state sectors of the economy is to be forthcoming. If it is not, or if state-induced expenditure grows too rapidly and the necessary restructuring of capital is not achieved, then we can expect the latent crisis conditions to take the form of an actual crisis.⁸⁶

The limitations of the arms economy do not lie in military and technical considerations, they lie in the contradictions of capitalist production itself. The mixed-economy has not fundamentally changed the contradictions of the traditional capitalist system. They express themselves only in a new form that continually the government will be 'forced' to intervene in the economy to 'save' the private economy, and yet the problems will continually get worse because of the contradictory nature of this intervention. The situation now seems that both a contraction and extension of the government sector will lead to difficulties; a contraction to high unemployment; and an extension to increasing inflation. Either way stagnation and inflation are becoming a general feature of most Western economies.

It is only with such a theoretical framework that we can begin to understand the dilemma and seemingly contradictory policies of governments, whether conservative or social democratic, in facing what is only a new expression of the inner contradictions of capitalism. Stagnation, inflation, rising unemployment, incomes policy, productivity-deals, cuts in welfare expenditure, in other words, the offensive against the working-class, is capitalism's only political and economic answer. The imperative is to increase the rate of exploitation. Only by showing this can we demonstrate how the class struggle must turn eventually into a political struggle about the system of production itself.

Rudi Schmiede
David Yaffe
August 1971

- 1 This version of the Marxian theory of crisis owes a great deal to Paul Mattick, in particular, his book *Marx and Keynes, The Limits of the Mixed Economy*. Extending Horizons Books, Porter Sargent Publisher 1969, and Merlin Press 1971. More generally it can be said that we follow the same tradition of Political Economy that has clearly influenced Mattick. Two authors are important here, namely, Henryk Grossmann and Roman Rosdolsky. Unfortunately nothing from the last two authors has, as yet, been translated into English.
 - 2 *Grundrisse*, Berlin, 1953, pp 212-13, note. McLellan ed, pp 79-80, note.
 - 3 We have used both the Moscow Edition and the Kerr Chicago Edition of Marx's Capital. Where we have felt these translations to be inadequate we have translated directly from the German text in the Marx-Engels Werke, Dietz Verlag, Berlin, Vols 23-25. *Capital*, Vol I, Moscow Edit, p 510, and Kerr Edit, p 559. See also a manuscript not published as part of Vol I of *Capital*, and first published separately in 1933 by the Marx-Engels Institute, Moscow. Marx, *Resultate des unmittelbaren Produktionsprozesses* (subtitled, *Das Kapital*, I Buch, *Der Produktionsprozess des Kapitals*, VI Kapital) Archiv sozialistischer Literatur 17, Verlag Neue Kritik, Frankfurt, p 61
 - 4 *Capital*, Vol I, Moscow, p 612. Kerr, p 671
 - 5 Ibid
 - 6 Marxists who have tried to interpret and measure the organic composition of capital empirically have invariably used different formulas. It is our view that the organic composition of capital cannot be measured and merely to express it as a modified form of technical-composition or value-composition is to misunderstand the concept. Capital is, after all, for Marx, an expression of a social relation. Besides which, measurements of the technical composition comes across all the problems raised by the Capital theorists of Cambridge.
- 'Where technical progress is going on, physical net investment has no precise meaning, for each item of the stock of capital as it wears out is replaced by a physically different item of equipment.' (Joan Robinson, *The Accumulation of Capital*, Macmillan, 1966, p 116. See also 114ff)
- Further, were the organic composition of capital 'measurable', this would make nonsense of Marx's notion of commodity fetishism. It would then be only an expression of insufficient knowledge and measurement techniques.
- 7 *Grundrisse*, p 634
 - 8 *Capital*, Vol III, Moscow Edit, p 234. Kerr Edit, p 281
 - 9 Sweezy, *Theory of Capitalist Development*, 1962, p 105. Maurice Dobb in his *Political Economy and Capitalism* (1940), 1968, p 109 seems to hold a similar view.
 - 10 *Capital*, M/E Werke, Vol 25, pp 257-8. This is a slightly corrected translation of Moscow Edit, Vol III, p 242. Kerr Edit, p 290
 - 11 *Capital*, Vol III, Kerr Edit, p 290. Moscow, p 242
 - 12 For an interesting discussion on this question see S H Mage, *The Law of the Falling Tendency of the Rate of Profit*, Its place in the Marxian Theoretical System and Relevance to the US Economy, Columbia Univ PHD 1963, Univ Microfilms Inc, Ann Arbor, Michigan, p 143ff. A general discussion of the problems involved is followed by a mathematical proof that Marx's derivation of the falling rate of profit from a rising composition of capital is justified. This is followed by a consideration of the question, 'must the organic composition of capital increase?', and it is shown that this must be so if we take into account the rate of the growth of the labour force.

'The essential point is that "neutral" technological progress creates a full-employment situation in which there are irresistible pressures for a rapid increase in wages. Even aside from the ability of organised workers to enforce wage demands in these circumstances, unless

wages were rising so fast that profits and savings were reduced to a level consistent with the rate of growth of the labour force, the high rate of profit would stimulate a ratio of savings (investment) to capital stock greater than this labour force growth rate.

'In this situation, with wages tending to rise and profits to fall, it is obvious that every entrepreneur will seek to substitute for the "scarce" factor, labour. This "substitution", of course, is realised through investment — the "innovations" chosen for realisation will be those most labour-saving. In this way technological progress ceases to be "neutral" and becomes labour-saving, causing the organic composition of capital to increase.' (S H Mage, op cit, p 156ff)

- 13 *Grundrisse*, p 246 cited in Roman Rosdolsky *Zur Entstehungsgeschichte des Marxschen 'Kapital'*, Europaeische Verlagsanstalt Frankfurt, 1969, p 480, and Mage op cit, p 146
- 14 *Capital*, Vol III, Kerr Edit, p 256, Moscow Edit, p 214.
- 15 Although we do not discuss the theory of imperialism here it can only be developed from a Marxist standpoint in relation to the theory of crisis. One of the best recent examples of a discussion of 'underdevelopment' that uses concepts developed by the Marxian theory of accumulation is Ernesto Laclau, 'Imperialism in Latin America', *New Left Review*, 67. This contains a long-awaited critique of Gunter Frank's un-Marxist approach. For a more comprehensive discussion of foreign trade, imperialism, etc, see Henryk Grossmann, op cit, p 416ff
- 16 *Capital*, Vol III. Kerr Edit, p 292. Moscow Edit, p 244
- 17 *Capital*, Vol III. Kerr Edit, ff. Moscow Edit, p 246ff
- 18 Paul Mattick, op cit, p 68
- 19 *Capital*, Vol III. Kerr Edit, p 297. Moscow Edit, p 248
- 20 Roman Rosdolsky, op cit, pp 537-8
- 21 Ibid, p 539
- 22 Rosa Luxemburg, op cit, p 325
- 23 Cited in Rosdolsky, p 574, R Hilferding, *Das Finanzkapital*, 1927, p 471
- 24 R Hilferding, ibid, p 318
- 25 Grossmann, op cit, p 99ff
- 26 Ibid, p 21
- 27 Paul Sweezy, op cit, p 180
- 28 Paul Mattick, *Marxism and Monopoly Capitalism*, op cit, p 38
- 29 *Capital*, Vol III. Kerr Edit, p 294. Moscow Edit, p 246
- 30 Joan Robinson, *Essay on Marxian Economics*, Macmillan, London, 1963 (1942), pp 50 and 51
- 31 *Capital*, Vol II. Moscow Edit, pp 410-1. Kerr Edit, pp 475-6
- 32 *Capital*, Vol III. Kerr Edit, p 293. Moscow Edit, p 245
- 33 Rosa Luxemburg, op cit, p 454
- 34 Ibid, p 466
- 35 Joan Robinson, intro to *The Accumulation of Capital*, ibid, p 27
- 36 Ibid, pp 27-8. Our italics
- 37 In particular Tony Cliff, 'Perspectives of the Permanent War Economy', *Socialist Review*, pp 34-40, 1957, and Michael Kidron, *Western Capitalism Since the War*, Penguin, 1970
- 38 Cliff, op cit, p 37
- 39 *Capital*, Vol III. Kerr Edit, p 568. Moscow Edit, pp 472-3
- 40 Cliff, op cit, p 38. It is interesting here that Cliff bases his arguments on the effect of the arms budget on the Keynesian Multiplier analysis.
- 41 Cliff, *Rosa Luxemburg*, Socialist Review Pub, 1968 (second ed), p 90 note
- 42 Fritz Sternberg, *Kapitalismus und Sozialismus vor dem Weltgericht*, Rowohlt Verlag, 1952
- 43 T N Vance, *The Permanent War Economy*, Independent Socialist Press, Berkeley, Calif
- 44 Sternberg, op cit, p 400 and p 395
- 45 Ibid, pp 393-4. Sternberg was a disciple of Luxemburg and his theory lacks the 'Keynesian' element that we find in Cliff and Vance.
- 46 T N Vance, op cit, p 9
- 47 T N Vance, ibid, p 10
- 48 Ibid, p 16
- 49 This is a similar point to that made by Joan Robinson in her introduction to Rosa Luxemburg's *Accumulation of Capital*. See page 00 above
- 50 Rosa Luxemburg makes this point in her *Accumulation of Capital*, op cit, p 454ff
- 51 Cliff, *Socialist Review*, pp 38-9, where all these points are made
- 52 Kidron, op cit, p 49. This clearly must be reconciled with point 3. This is where the arguments about the 'rate of profit' is important. See below.
- 53 Kidron, ibid, p 52

- 54. Ibid. p.50-4. It is interesting that Baran and Sweezy in Monopoly Capital make similar points; especially see p.206-7. (1966 ed.)
- 55. Kidron. Op. Cit. p.55. This comes directly after a position that could be understood very differently. See below. It is not clear what Kidron means by overproduction.
- 56. Kidron. Capitalism - The Latest Stage, World Crisis, (Edited, Harris and Palmer) 1971, p.211.
- 57. Kidron, Op.Cit.208
- 58. Kidron, Western Capitalism Since the War, p.54-5
- 59. We use the term 'profitable' in the Marxist sense from the standpoint of society as a whole, or of total social capital. This is discussed further below.
- 60. Ladislaus von Bortkiewicz, 'On the Correction of Marx's Fundamental Theoretical Construction in the Third Volume of Capital', Appendix, Sweezy Edition, Karl Marx And the Close Of His System, by E.von Boshm-Bawerk, etc. New York, 1949. p.199 ff.
- 61. Sweezy, Theory of Capitalist Development, p.115 ff.
- 62. Kidron, Op.Cit.p.55. Kidron also uses the work of Piero Sraffa, Production of Commodities by Means of Commodities, Cambridge, 1963 as support for his position and our main criticism holds also against Sraffa's neo-Ricardian general equilibrium schema.
- 63. Marx, Theorien ueber den Mehrwert; Marx-Engels Werke, 26.3. p.343.
- 64. It should be remarked here that the linear dependance of the variables is implied by simple reproduction. In the case of Sraffa the matter is more complicated but his construction of the numeraire for the system is the key and the numeraire changes with changes in the organic composition of capital and in the productivity of labour. For a fuller critique of the Ricardian position, a critique implied in our analysis of the Marxian theory of crisis see Marx Theories of Surplus Value II. p.470 - 546 Lawrence and Wisbart 1969.
- 65. Op. Cit. P.242.
- 66. Von Bortkiewitz, Op.Cit.p.205. Sweezy, Op.Cit. p.122. See for a discussion of this, Mage, Op.Cit.p.234 Appendix A. For Sraffa the 'numeraire' involves his Standardcommodity.
- 67. Kidron, World Crisis, p.212
- 68. Kidron, Western Capitalism Since the War, p.154. Daran and Sweezy in Monopoly Capital, p.210, use very similar arguments. What is interesting here is that they have given up the labour theory of value for monopoly capitalism and so cannot locate the central contradiction in the capital-labour relationship. They must argue that the contradictions are social, political, and technological in nature, and therefore 'contingent' in the Marxist sense. Similar arguments apply to Kidron. See below.
- 69. Kidron, World Crisis, p.213, Western Capitalism Since the War, p.61. Analogous arguments in Monopoly Capital can be found on p.213 ff.
- 70. This will be dealt with below. p.17 ff.
- 71. Kidron, World Crisis, p.213
- 72. Ibid. p.63. and Western Capitalism Since the War, p.63
- 73. Robin Murray, 'Capital and the Nation State', New Left Review, 67, and Bill Warren 'How International Is Capital?' N.L.R.68. See these articles for the beinning of a discussion.
- 74. Mattick, Marx and Keynes, p.135.
- 75. Ibid.p.139
- 76. Ibid.p.137-8
- 77. Ibid.p.139
- 78. Marx, Theorien ueber den Mehrwert, p.241. Vol.26.3. M/E.Werke.
- 79. In the case of France certain of the nationalisations were political, e.g. Renault and this argument does not apply.
- 80. Michael Barratt-Brown, After Imperialism, Merlin Press, 1970,p.308.
- 81. Mattick, Op.Cit.p.183.
- 82. Ibid.p.183.
- 83. Mattick, International Socialism, 34,p.34.
- 84. Ibid.p.34.
- 85. Ibid.p.34.
- 86. For a discussion of the problem of liquidity ratios in U.S. industry, see Monthly Review vol22,no.4. Sept.1970, p.7-8. From 1946 to 1969 the liquidity of large U.S. corporations has decreased from 73.4% to 19.3%. Also see The Times, 30th Nov.1970, for a report on similar problems in Britain, Further for a discussion of the public sector's rising claim on resources see the report in The Times, 17th Feb.1971 p.21. It shows that, 'while total public expenditure, including transfer payments, is planned to rise, in real terms, during this period by about 2 1/2% a year, expenditure on resources will rise considerably faster - by about 3 1/2% a year, Indeed, there is reason to suppose that expenditure on resources will rise even faster than this.'

and,
 'This implies that the share of public sector resource purchase in the national income will tend to rise throughout the whole period (1974-75).'
 On the question of deficit spending the amount seems to be continually growing in the case of the U.S. Economy.
 'In January the President estimated that there would be a deficit of 11.6 billion dollars in the current fiscal year, ending on June 30,1972. Most people though that this was an underestimate even then but now it looks as if the figure will be doubled at least; some forecasts are for the deficit of 35 billion dollars. Last year's deficit is now put at over23 billion dollars, nearly 5 billion more than expected in January.'
Economist, July 31,1971, p.39.