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Marxian Crisis Theory: Structure and Implications

Richard D. Wolff*

ABSTRACT: This paper constructs a specifically Marxian theory of economic crisis from scattered but sufficient theoretical arguments in Marx's work. This theory integrates the following conceptual elements viewed as central: capital accumulation, falling rate of profit, realization problem, the efficiency structure of firms within an industry, and capitalists' expectations. Implications of this theory for assessments of government economic policy and of recent economic history are briefly suggested.

* * * * *

Several serious problems beset discussions of Marx's theory of economic crises. Despite many and varied contributions, disputes and debates, it remains evident that the Marxian notion of crisis eludes a clear, consistent formulation. Paul Sweezy's 1942 effort remains remarkable in its comprehensiveness and in its enduring influence upon subsequent discussion. However, contributions to this discussion from as varied a set of writers as Paul Samuelson, Nicholas Kaldor, Joan Robinson, Michael Kalecki, Sweezy himself, and a current group of younger Marxist economists indicate a need to try again for a general formulation which directly addresses the chief problems in the discussion. That is a basic purpose here.

This reformulation seeks to criticize and go beyond the dispute as to whether realization problems *or* falling rates of profit account for crisis in Marx. More centrally, this reformulation identifies a missing link in these discussions, namely the theoretical link between falling profit rates and/or realization problems, on the one hand, and the occurrence of crisis on the other. I attempt to construct such a linkage by integrating two generally neglected aspects of Marx's theory of capital accumulation into his general discussion of accumulation: 1) the ever-changing structure of different efficiencies among firms in each industry; and 2) the formation and effectivity of capitalists' expectations. I conclude by briefly and only indicatively sketching some implications of this reformulation that pertain to ongoing discussions of Marx's theory of crisis. These implications concern a Marxian assessment of the determination of governmental counter-crisis policies and their effects upon capitalists' expectations; an assessment of the effects of oligopoly upon the crisis tendencies; and an assessment of the containment of crisis in the United States economy from 1945 to 1970.

Marx's theory of crisis, the topic here, builds upon and presupposes his value theory and his theory of capital accumulation. Not only are these taken for granted in what follows, scant reference is made explicitly to political aspects of production, accumulation, etc., i.e. to class struggle. While of course class struggle effects and is effected by accumulation and crisis, the perspective here is rather to analyze the internal logic of capitalist accumulation and crisis, abstracting for the moment from the intervention of class struggle. The perspective here is one of deciphering the internal relations of accumulation so as to guide and inform de-

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cisions taken in class struggle. Analysis of any specific capitalist crisis, not attempted here, would necessarily include the role of class struggles.

Marx himself often ridiculed Say's Law and the broad acceptance it received among the classical economists. Further, the Marxian crisis theory articulates no formulas which produce a rigidly periodic cycle. The Marxian theory of crisis as understood here neither looks for nor finds any one feature or relationship, such as excess savings, to account for crisis. Rather, it is the entirety of capitalism as an economic system that makes capital accumulation its central dynamic and crisis an endemic feature of that accumulation.[1]

As developed below, for Marx the crisis that reaches observable proportions has its origin in one, or more likely several distinct mechanisms of the accumulation process. During any given period of capital accumulation, the peculiarities of time and place (the conditions of accumulation which include the lingering effects of the previous crises) interacting with the crisis-inducing mechanisms themselves will determine in historically specific ways how, when, and where a crisis will erupt. Marx's theory — here culled from dispersed writings, but mindful of the unified structure of his work — addresses itself less to when, where, and how than to why an ever-latent crisis can and does become actuality.[2] As Marx's goal was to analyze the basic laws of motion of the capitalist mode of production, crisis — a central element of that motion — could not but be a central concern.

Before proceeding to reconstruct, stepwise, the theory of crisis in Marx, it seems best to formulate what I take as its conceptual basis. "Accumulation," like "commodity," "capital," "labor" and so forth appear in Marx's work as contradictory unities of opposites. The movement of these unities comprises the sequential phases of unity-disunity-unity-disunity, etc. of the opposites. In the case of accumulation, Marx speaks of the unity of production and circulation, of extracting surplus value and of *realizing* it. Crisis is finally the disruption of the unity, the disruption of accumulation.

The cause of disunity lies in the structure of the unity, in the relationship of its opposites. Marx's theory of crisis, as reconstructed here, focuses on those aspects of the structure of accumulation that cause the disruption of its integrity. In this, Marx opposed the various bourgeois formulations whose logic presupposed a concept of the unity of opposites in which the unity nullified the opposites (1967, p. 495; 1973, pp. 401 ff., especially p. 412):

> The logic is always the same. If a relationship includes opposites, it comprises not only opposites but also the *unity* of opposites. It is therefore a unity without opposites. This is Mill's logic, by which he eliminates the "contradictions." (1971, p. 101.)

For Marx, unities produce disunities which produce reunifications: accumulation produces crisis which recommences accumulation. Accumulation comprises process within and relations between production and circulation which can and do disrupt their unity. Crisis similarly comprises processes and relations which operate to recommence accumulation. Thus, it misconstrues Marxism to search for causes of crisis in either production *or* circulation, in the production of surplus value *or* its realization.

The unity of contradictions to which attention is here paid — accumulation — is itself a sub-unity of the economy, itself a sub-unity of the social formation — all designated by the label "capitalist." Crisis as defined below is a concept appropriate to the level of the accumulation of capital. Until section VI, I generally ignore, as Marx usually did when discussing crisis, the intervention, the effectivity of certain aspects or levels of the economy other than accumulation, e.g., foreign trade. Until section V, I ignore as well the effectivity of the political and ideological levels of the social formation, e.g., class struggle and consciousness (Louis Althusser). I do this because, I believe, Marx similarly limited his comments on economic crisis. Moreover, to clarify Marx's theory of crisis contributes a basic first step toward the vastly more complex treatment of a social crisis of capitalism, where all levels must be treated together. Indeed, miscontrual of both the conceptual basis and the level of analysis in Marx's crisis theory explains the confusion among turn-of-the-century Marxists who so unfortunately comingled economic crisis and social collapse of capitalism.

In the final two sections, I merely offer some preliminary suggestions toward integrating the state and foreign trade into an analysis of crisis à la Marx.

From the Standpoint of Exchange

Marx's distinctive notion of crisis is broached first in the context of his analysis of the commodity as a unity of opposites: use-value and exchange-value.[3] He presents the possibility of crisis in the most abstract form, the metamorphosis of commodities, C-M-C. The essential feature of this metamorphosis is the possibility of separation, in time and place, between the acts of purchase and of sale. Both acts are required for reproduction of the capitalist system to proceed. The two must be united. Yet capitalist commodity exchange admits their separation and disunity, and for Marx, the consequent disruption of capitalist reproduction as defined below.

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What Marx presents as a second alternative formulation of the formal possibility of crisis offers, I believe, the most useful framework for developing his general theory of the causes of capitalist crisis. In this formulation, the focus is on the two-fold function of money corresponding to the two-fold or "double" existence of value in the actual process of circulation. On the one hand, the value of the commodity resides in the particular commodity; on the other it is expressed in the money equivalent. Marx puts the same point in another way by discussing the difference between the values of commodities and their "prices," *defined precisely as the particular ratios in which commodities of given values exchange* with one another at any particular time and place. The historical development of the predominance of exchange value over use value produces the money commodity or money as the means of payment possessing two contradictory aspects. Money acts as "measure of value and as realisation of value" (1968, p. 514). These two functions of money may become separated, that is, money as equivalent for embodied labor time may not equal money realized when actual exchange is consummated. In actual circulation of commodities, the exchange of any one commodity with money depends on the ever-changing needs and objectives of the exchanger. At any given moment, conditions external to the average socially necessary labor time embodied in any two commodities (including the money commodity) will likely produce a ratio of exchange not equal to the ratio of embodied socially necessary labor time.

The historical development of the division of labor and of exchange out of pre-capitalist modes of production interposed money universally between the direct exchange of product for product, commodity for commodity. What emerges to facilitate exchange may, however, also negate it. That is, disparity between the price actually obtained by and the value intrinsic to a particular commodity for sale may disrupt the continued production of that commodity and beyond that the production of commodities in general. When such disruption is rapidly generalized, we have the crisis that Marx's work explains.

The normal fluctuations of market conditions produce the fluctuations of prices and hence their disproportion to the values of commodities measured in embodied socially necessary labor time. The supply and demand variations that produce the price fluctuations also set in motion counteracting adjustments such that values operate as the pivot of price fluctuations. The economy exhibits constant movement toward re-establishing an equality between values and prices denominated in the money commodity (or its paper representation).

Regarding these ever-present movements to equalize price and value, Marx makes a key remark: "It is now entirely possible that consonance may be reached only by passing through the most extreme dissonance."[4] Crises are defined in Marx as such moments of the most extreme dissonance.[5]

This definition serves to focus attention on what Marx regarded as fundamental aspects of crises under competitive capitalism.

1. *Crises are occasions of extreme disproportion between values and prices.* (Under oligopoly conditions, matters are a bit more complex; see Section IV below.)

2. *Crises are mechanisms for eliminating those disproportions.*

3. *Crises occur when and insofar as the laws of motion of capitalism produce such extreme disproportions.*

4. *Crises do not occur if and when disproportions between values and prices are eliminated before becoming extreme.*

Marx's "extreme dissonance" is manifested in the rather sudden emergence of masses of disemployed workers and masses of idled means of production and financial capitals. In one apt phrase, "the reproduction process is paralysed" (1967, III, p. 488). At the same time, the paralysis in turn produces changes which will once again induce renewed reproduction, i.e., the crisis as mechanism to re-establish consonance between value and prices.

To summarize, crises in capitalism are characterized in general by a paralysis of the reproduction process following upon the emergence of divergence between values and prices as the proximate causes. The logical next step in our discussion must be to analyze the underlying causes of the proximate cause. What in the nature of reproduction brings about its own paralysis? Since, for Marx, the essence of capitalism's process of reproduction is the accumulation of capital, we may rephrase our question as: What in the nature of capitalist accumulation brings about its own paralysis?

From the Standpoint of Production

In *Capital, Volume 1*, Marx first introduces a possible cause of crisis while discussing the production of relative surplus value. Since relative surplus value is a basic conceptual element in Marx's theory of accumulation as capitalism's central dynamic, it is simple logical consistency for him here to counterpoint the possibility of crisis to the dominant theme of accumulation. Responding to a famous ambivalence of Ricardo's concerning the consequences for unemployment of the introduction of labor-saving technology, Marx notes that the secondary consequences of the introduction of such technology may or may not be sufficient to reabsorb the labor initially displaced. No *a*

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priori certainty either way is possible. However, should there be a tendency for labor-saving technological change as part of the capital accumulation process (Marx saw capitalist history in precisely these terms), then the distinct possibility that displaced labor may not be reabsorbed (as either productive or unproductive laborers) introduces the germs of a crisis. Workers not so reabsorbed, during *any* phase of an accumulation cycle, will have no wages to turn into effective demand, and decreased demand exerts a pressure to differentiate prices from values. The resultant disproportion between values and prices may or may not deepen into a crisis, depending on efficiency structures and capitalists' expectations. Since these aspects of Marx's theory pertain to all basic causes of crisis, they are developed below.

For the sake of logical completeness, the issue at this point is to investigate whether and why a labor-saving technological bias should characterize capitalist accumulation. The production of relative surplus value in Marx is the result of capitalist competition which requires each capitalist to strive after super-profits. For Marx the capitalist imperative to seek super-profits implies a long-term labor-saving technological bias to capital accumulation. The logic on this point is quite straightforward.

This logic begins with Marx's assumption that production of most commodities is carried on by several firms operating at different degrees of efficiency as measured by total labor time (in Marx's simple units of unskilled labor) required per physical unit of output (1968, p. 204 f.). While essential to Marx's argument in *Capital*, this assumption is often overlooked in discussions of Marx's crisis theory. As we shall see, neglect of the everchanging efficiency structures of industries accounts partly for a missing link in the causal explanation of capitalist crisis in most Marxist discussions. Similarly, because Marxists neglected it, the resulting gap in their reasoning attracted critical commentary.

Given different efficiencies, the exchange value of the commodity is, however, the average of these efficiencies. Thus, those firms producing at above average efficiency can, when selling their output, realize not only the surplus value produced by their employees but also a super-profit reflecting the difference between their level of efficiency and the average. Correspondingly, those firms producing at below average efficiency will realize less than the value of labor absorbed in their production process. Beyond a certain point, such relative inefficiency will induce a firm to discontinue production.[6]

Viewed dynamically, each firm must obviously live in fear of technological advances by any competitor. Such advances necessarily move every firm other than the innovator one step closer to an inability to realize the surplus value it produces and ultimately to that point of relative inefficiency requiring the firm's dissolution. And again, each firm can best avoid and/or prepare for such difficult times by itself innovating first. Technological progress is at once the optimum offensive and defensive strategy for each capitalist.

But why should such technological change exhibit any labor-saving bias, when it is clear that capital-saving technical change would do just as well in the ceaseless search for super-profits? The answer to this question depends upon the competitive imperative to innovate and on what Marx termed the "general law of capitalist accumulation." Put briefly, the general law argument holds that the logic of competition imposes on each capitalist and, by direct extension, on the capitalist *class* the need to accumulate capital as fast as realized surplus value makes possible. The pace of such accumulation is not constrained in advance by considerations of available labor power. Hence capital accumulation tends to outrun available labor power thereby bidding up wages and eating into profits and profit rates. The generality of this process implies a labor-saving technological bias both directly and indirectly. Directly, because firms may lessen the profit-reducing impact of rising wages by putting labor-saving technical changes into production. Indirectly, because if capital-saving technical progress should be the route chosen to gain super-profits, the immediate consequences must be to accelerate the growth in demand for labor power and hence the tendency to outrun labor-power supplies. This follows logically from the assumption that the capitalist competitor will tend to invest *all* his available surplus.[7] Thus either type of technical progress will lead toward a labor-saving bias sooner or later, a bias which gradually comes to be built into the general orientation of both investors and innovating managements.

On the basis of this analytical construct, it makes sense to organize various short periods of capitalism's economic history according to whether the fundamental labor-saving bias is or is not overwhelmed by bursts of capital-saving technical change. The latter then comprise certain "up-swings" climaxing in recessionary downturns.[8]

Once given the tendency for labor-saving technical change, inequalities between values and prices emerge if displaced workers are not immediately reabsorbed into production, i.e. if their purchasing power is sharply curtailed. More importantly, the basic process that produces the labor-saving bias, the "general law of capitalist accumulation" is itself directly a generator of such inequalities. When accumulation outruns available labor supplies bidding up wages and reducing profits and profit rates, the crisis point is reached first by the least efficient firms producing each distinct

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commodity. If discontinuation of production (bankruptcy, etc.) is called for, such firms will dismiss labor and stop further purchase of their commodity inputs. Both decisions diminish effective demand with the consequent pressure on prices to diverge from values. Only if the demise of such firms is immediately offset by accumulation elsewhere will their labor forces be reabsorbed and their passing exert no pressure on prices to diverge from values. However, as will be developed below, which way matters develop depends in large part upon capitalists' expectations about as well as the actual extent and duration of unemployment and the consequent diminished effective demand caused by any particular historical experience with reduced profits and profit rates.

Accumulation and Expectations

Clearly Marx saw in the general law the fundamental mechanism tending toward capitalist crisis. However, the operation of that mechanism is a subtle affair of diverse possibilities. The labor-saving technological change derived from that mechanism — whether located in the competitors' hunt for superprofits or their efforts to escape the impact of rising wages — has its own problematic consequences. Of great interest among these consequences for Marxism is the tendency for the organic composition of capital to rise for distinct, usually limited periods of time.

Unless offset by unlikely (although perfectly possible) increases in the rate of surplus value, such a rise in organic composition directly involves a diminution in the rate of profit.[9] In this context, our reference is to economy-wide developments in organic composition and profit rate decline. When these developments appear as adjuncts of the accumulation of capital, they once again place in jeopardy the continued production of least efficient firms and hence again encourage the seeds of crisis in such firms' demise.

Rising organic composition of capital may simultaneously induce divergence between prices and values in another manner. This process has become known as the "underconsumption" or "overproduction" issue, while being blown out of all proportion to its importance in Marx's work. The logic here involves the assumption — consistent with Marx's foregoing analyses — that competitive accumulation in both consumers and producers goods sectors will historically coincide with periods of rising organic composition as a recurrent feature of capitalist accumulation. Such coincidence will likely strain the exchange of values between the sectors, because rapidly rising organic composition constrains the effective demand for consumers goods while enlarging it for producers goods. Yet both sectors accumulate by hypothesis. The result may well be downward pressure on consumers goods prices whose resulting divergence from values again brings us to the difficulties encountered by the least efficient firms in such a situation.[10]

The "anarchy of production" under capitalism provokes its own suppression via the discipline of the capitalist crisis, albeit but temporarily. Profit rate fall is the key. The causative sequence may run from the competitive hunt for super-profits to the production of unemployment, and thus reduced effective demand and realized profit rates. Or the sequence may begin with accumulation outrunning available labor thereby lowering profit rates and eliminating inefficient firms.[11] Reduced effective demand emerges again: Marx's realization problem. Yet another sequential pattern with the same results lies ever latent in the potential for downward pressure on profit rates exerted by capital accumulation when accompanied by rising organic composition. Finally, rising organic composition may produce the realization problem in still another way: by disrupting the exchange of values between the consumers' and producers' goods sectors.

For Marx, all crises are constituted by collapsing effective demand, and hence suddenly accelerated drops in realized rates of profit, rising unemployment, reduced investment, and business failures.[12] None of these features *explain* the crisis; they *are* the crisis and thus need to be explained as consequences, recurrent in nature, of the "normal" accumulation process (1968, p. 515). Marx provides just such an explanation in the mechanisms and sequences outlined above which produce an insufficiency of effective demand as an endemic feature in and of accumulation. But it still remains to finish the Marxian approach by demonstrating how he links the development of the realization problem to a full-blown crisis. Put differently, it remains to show just exactly why *some* divergence between price and value can become an extreme dissonance, how a realization problem can become a realization crisis, or, simply, a crisis.

Marx's crisis theory necessarily incorporates capitalists' expectations in a very specific and limited manner.[13] What produces crisis is a relation, an interaction among aspects of capitalist accumulation in which expectations can play a central role. The need for each capitalist to form and act upon expectations about future market conditions is itself an aspect of capitalist accumulation (the "anarchy of production"). Similarly, the constantly changing range of efficiencies characterizing different firms within each industry is an aspect (part of the "production of relative surplus value"). Marx's theory holds that as accumulation proceeds and sooner or later experiences the various mechanisms which lower realized profit rates, it will be the interplay of these two aspects, expectations and different efficiencies, that will determine whether, when and how profound a crisis will emerge.

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When the accumulation process leads, as we have seen, to a realization problem, the industries immediately effected suffer reductions in their realized profit rates. This takes the least efficient firms in such industries toward or over the brink of discontinuance of operation. The precise impact of profit rate declines occasioned by accumulation depends on the structure of efficiencies in effected industries, on just how many firms were how much less efficient than the average in each industry. In any case, all other capitalists, more or less aware of the situation, must now guess how deep and how extensive the projected cutbacks in output, orders for inputs, and payrolls will be. Further, all capitalists must estimate the secondary or derived realization problems brought on by reduced expenditures on the parts of the initially discontinued firms and unemployed workers.

The individual capitalist's guesswork is a matter of penalty and reward. To guess that some initial realization problem will not go far, will not spread, and consequently to accumulate further in one's own business will be wisdom if the guess proves accurate, disaster if it does not. To make the opposite estimate and thus perhaps delay further accumulation will likewise be wisdom if one's estimate proves correct, but competitive disadvantage if it proves incorrect. By the same token, to delay accumulation for fear of crisis increases the likelihood of what is feared. To accumulate further in the confidence that some initial realization problem will not deepen can have effect one way or the other, depending on the particular mechanisms operating in the particular realization problem.

The profundity of a crisis depends basically on the qualitative and quantitative dimensions of the crisis-causing mechanisms actually operative in any particular case. Beyond the capital accumulation process, the all-important effectivities of other aspects of the economy and of the political and ideological levels, while not the object here, are crucial to the specific realization problem. The deeper the problem the more extreme will be the solution resorted to by accumulation: the crisis. Generally, for Marx, the contours of crisis emerge from the particular interaction of realized-profit-rate-reducing mechanisms in accumulation, the structure of efficiencies, and capitalists' reactions thereto. This interaction is not that of independent or equally determining elements. Rather, the sets of mechanisms and efficiency structures in each specific historical instance (and sets of past crises) dominate capitalists' expectations, but the expectations, too, have their effect. They can and do, under certain circumstances, turn a dip in the realized rate of profit into a crisis; they may, under others, prevent (that is, of course, delay) the emergence of crisis. In any case, the specific articulated interaction of accumulation and accumulators is the structural context of crisis in Marx's analysis of the capitalist mode of production. His "anarchy of production" is manifested not only in the crisis-producing mechanisms of accumulation, but also in the expectational responses of capitalists.[14]

Marx's approach to crisis is then markedly nonmechanical. When the aspects of capital accumulation which tend to diminish realized profit rates come into play, crisis does not necessarily, automatically follow. Matters are considerably more subtle. Efficiency structures and expectations play their roles in each case. Marx's theory can thus both recognize the influences of expectations and specify the limits of such influence. Clearly, an efficiency structure which sees large numbers of firms going under when profit rates dip will impact upon accumulation directly and hence on expectations. Expectations are here far more determined than determining. On the other hand, a different efficiency structure which sees relatively few firms discontinue when realized profit rates dip permits expectations to play a significant role in determining whether a crisis will or will not occur. Some implications of Marx's expectations theory for the effectivity of governmental counter-crisis policies are sketched below.

In the light of this formulation, certain critical comments directed at Marxian crisis theory may be reevaluated. Kaldor's comment (1961, p. 186) that "there is no inherent reason why" rising wages and resulting falling profits "should not result in a neat balanced growth equilibrium . . . with a correspondingly lower rate of capital accumulation" neglects precisely the Marxian linkage of falling profit rate to realization problem to expectations to accumulation. Similarly, Robinson's (1962, p. 38) discovery of a "weak point in Marx's . . . trade cycle theory," namely that he has no clear theoretical connection between falling profit rate and collapsing accumulation, can no longer be maintained. Samuelson's conclusions concerning the inadequacy of Marx's concept of the reserve army of the unemployed can likewise be traced to a non-recognition of just how Marx in fact linked accumulation to rising wages to falling profits and back to accumulation.[15]

In fact, even Sweezy (1942, p. 154) can be faulted for unnecessarily adding to Marxian crisis theory a construct it does not need. In trying to articulate the connection between falling profit rate and "choked off accumulation," he introduces "the normal range (of profit)." When profit rates fall beneath that range, accumulation slows. Beyond obvious questions about such a range, it is not needed to make the connection that Sweezy rightly saw as requiring demonstration. The integration into the crisis theory of the expectations mechanism that flows directly from Marx's assumption of differing efficiencies in the production of any commodity renders Sweezy's ad hoc and problematical addition superfluous.

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Finally, recent discussions within Marxian circles increasingly inject credit stoppages as the connecting link between diminished profit rates and the general crisis. As exemplified in the work of Makoto Itoh, the obvious relevance of credit conditions to the timing and particular quality of any crisis is unnecessarily made to take on the role of connecting link.

Within the framework of competitive capitalism, when the relations of production do in fact produce extreme divergence between prices and values, the crisis is at hand: mushrooming unemployment and idle capacity, shrinking profits and outright losses, financial panic, and so forth. The crisis combination of some or all of these phenomena constitutes simultaneously the last phase of the divergence between price and value and the first phase in re-establishing their consonance. Falling prices of labor power and produced means of production re-create the conditions for profitable accumulation which is the only means to overcome crisis. The crisis functions to recommence accumulation. "A crisis always forms the starting point of large new investments." (Marx, 1967, II, p. 186). The early stages of the upswing in accumulation are precisely those in which general consonance between prices and values obtains, because the conditions of accumulation minimize the tendencies toward dissonance. The labor reserve is freshly replenished during crisis. Rates of profit are high. Relatively inefficient firms disappear during crisis. The up-swing stages are in fact defined by the near absence of realization difficulties. It is only later on, when accumulation matures, that we may expect, along with the guessing capitalists, emerging evidence of general conditions tending toward divergence between prices and values once again: the business cycle.[16]

Oligopoly and Crisis

One implication of Marxian crisis theory pertains to oligopoly. Oligopolistic capitalism differs from competitive, not in the endemic quality of crisis — that is common to both — but in the form of appearance of the crisis, i.e., insufficient effective demand. Instead of the divergence between price and value, as Marx defined these terms in reference to competitive capitalism, oligopolist conditions produce insufficient effective demand without the necessity of accompanying price changes. Under oligopolistic capitalism, the realization problem becomes a more quantitative phenomenon: the oligopolist, as is well understood in non-Marxian contexts, responds to insufficient effective demand by reducing the quantity of output produced.

There is no convincing evidence to contradict the notion that oligopolistic capitalism still involves the competitive hunt for super-profits à la Marx. The difference is that there is less recourse to price competition. Moreover, Marx's general law of capitalist accumulation certainly applies with or without oligopolies. It follows that Marx's sequential mechanisms producing realization problems operate, however modified, under oligopolistic capitalism. The four fundamental aspects of crisis enumerated above still hold, with the obvious proviso that aspect No. 1 will be amended to read: *Crises are occasions of extreme insufficiency of effective demand (with or without value-price disproportions) and falling realized profit rates.*

Political Business Cycles

The Marxian theory of crisis developed here stands rather markedly apart from one strong current of argument among Marxists and others concerning a "political business cycle."[17] In Kalecki's original formulation, the state intervenes to advance capitalist *class*, i.e., political, interests at cyclical peaks to maintain working class discipline and hence profitable wage levels by producing unemployment. Similarly, it intervenes at cyclical troughs to enhance upswings by making and stimulating expenditures. At the peaks, "a powerful bloc" of "big business and the rentier interests" induces the state to cut budget deficits. Thus, what Keynesians often see as anti-inflationary, counter-cyclical policies of restraint, Kaleckians will rather see as cycle-producing or cycle-enhancing policies precisely aimed to freeze or lower wage levels.

Now Marx (1967, III, p. 253) envisioned the situation when a cycle peaks and profit rates slip rather differently: "As soon as it no longer is a question of sharing profits, but of sharing losses, everyone tries to reduce his own share to a minimum and shove it off upon another . . . . The antagonism between each individual capitalist's interests and those of the capitalist class as a whole, then comes to the surface." In terms of the Marxian crisis theory here elucidated, the accumulation process will produce its own peaking. The expectations of individual capitalists and the intensified competition among them will certainly lead to pressures on the state to pursue policies that will realize the economic conditions capitalists expect and thus act upon. Since, at cyclical peaks, capitalists intensify their competition as well as form different expectations, their demands on the state will correspondingly differ. Perhaps there is a clue here to the explanation of the lags observed in the formulation and execution of 'counter-cyclical' government policies.

Ultimately, of course, all capitalists share all the time an interest in higher profit rates as well as an interest in weakening labor demands for wage increases. But from this truth there derives no logical necessity for all capitalists to seek a state policy producing unemployment at the same time. It is precisely the conjuncture at cyclical peaks which argues that different

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interests among capitalists experiencing the cycle that is internal to the private accumulation process will induce differential demands for different state policies. Kalecki's "political business cycle" makes more sense as simply the description of how the state is brought in to an ongoing cyclical process at a time and in a way that reflects relative power positions among capitalists all seeking to minimize or shift their losses during recessions.

There are further implications of Marx's crisis theory for an assessment of state policies aimed at countering crises. While these cannot be developed here, they can be at least briefly indicated. In recessionary conditions, government policies can of course stimulate the economy. But whether stimulation succeeds, that is, whether it can sufficiently boost capitalists' expectations to prevent a crisis, depends less on the stimulation policies themselves than on the underlying interaction between accumulation, efficiency structures and expectations. Thus Marxian crisis theory suggests when and why anti-recessionary stimulation may succeed or fail.

Similarly, whether partially exogenous events (technological breakthroughs, political upheavals, sudden changes in foreign trade or investment conditions) can prevent a crisis depends upon the relationship in each case between expectations, efficiency structures and profit-squeezing accumulation mechanisms. Marx's theory does not deny the effectivity of Keynesian policies nor of partially exogenous influences upon expectations; rather it specifies the conditions limiting that effectivity.

Crises in the U.S.

In the United States during the period from 1918 to 1939 the most extreme crisis emerged in the 1930s. As calculated by Maurice Flamant and Jeanne Singer-Kérel, of the 250 months in this period, economic decline characterized 106 or 42 percent. For the period 1945 to 1965, there was no extreme crisis and the percentage of declining months was 18. Since 1965, this country has experienced another extreme crisis and the percentage of declining months will in all likelihood rise considerably above the 1945-1965 figure.

The figures suggest that notwithstanding variations in governmental techniques for managing business cycles, and despite the extensive oligopolization of industry, the cycles recur. While Keynesian policies have served to delay, moderate, anticipate, stimulate, or otherwise modify business cycles, the cycles recur. While oligopolization (including multi-national and multi-product firm expansion) permits price and market controls by oligopolies, there is neither *a priori* theoretical reason nor empirical evidence to suggest that these controls have any uni-directional effect, one way or the other, on the likelihood of crises.

To return, then, to Marx's basic formulations, it would seem that the determination of crises — their occurrence, duration and severity — lies in the changing relative strengths of the tendencies and counter-tendencies toward crisis intrinsic to capitalist accumulation. And although monetary and fiscal policies and monopoly power influence both tendency and counter-tendency, their impact is, I believe, increasingly overshadowed by developments in the international economy, by what can be called "foreign trade." I have developed elsewhere Marx's analysis of the causes and consequences of foreign trade. To summarize for the purposes of the present argument, the causes of foreign trade reduce in the last analysis to capitalist accumulation in the modern world. That is, foreign trade patterns depend on uneven development within each trading partner which in turn depends on the nature and pace of accumulation in each partner. Further, the consequences of foreign exchanges depend on their impact on domestic accumulation.

Marx's analysis then begins with capital accumulation and goes on to generate therefrom tendencies toward crisis, counteracting tendencies and foreign trade. The last reacts back upon both tendencies and counteracting tendencies thereby influencing the history of crises punctuating accumulation. World War II and its thirty-year aftermath presents a picture of rather extreme unevenness of development in comparing the quantitative level, quality and pace of accumulation in the United States, on the one hand, and the rest of the world, on the other. In essence, the United States experienced an extended accumulation upswing. The unevenness which had developed during the previous century, was suddenly intensified and exaggerated by two world wars, most particularly by the Second. This suggests that the most fundamental explanation of the mildness of capitalist "dissonances" in the United States from 1939 to the late 1960s lies in the special conditions of uneven development characterizing the world economy at that time. It further suggests that the severity of the crisis of the 1970s derives in large part from the elimination of most of those special conditions, themselves the result of uneven development — the end of an extended accumulation upswing in the United States with the re-emergence of crisis mechanisms.

The post-World War II decades offered oligopolists in the United States particularly unique opportunities for manufactured exports, primary goods imports, and capital exports. These opportunities produced yet further opportunities by making the U.S. dollar the indisputably dominant world currency. By cultivating these opportunities, U.S. capitalism could and did achieve a rather smooth if not rapid trajectory

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of capital accumulation, a relatively stable price history, a relatively exemplary social stability.[18] While fearful of the consequences of absorbing the United States' export of its business cycles, of being the means for U.S. cycles to be so mild, the other major capitalist economies saw their long-term interests best served by at least temporarily adjusting their economic development to United States predominance. According to John Kenneth Galbraith, "We did not coordinate our policies with other countries', but our policies were predictable, and smaller and more manageable countries could coordinate their policies with ours." (1974, p. 242).

However, the manner in which the United States oligopolies exploited the advantages presented by uneven development before 1945, itself served to engender a kind of uneven development since which has eliminated most of those advantages. The long-term interests of European and Japanese capitalism seem less and less to include further absorption of United States exports and of its business cycles. As a result, the relative stability of the United States economy is called into question as foreign economic transactions lose their force in sustaining and bolstering U.S. accumulation over against its own crisis mechanisms.

The symptoms of global adjustment to these consequences of uneven development from 1945 to the late 1960s are the international monetary crises of the 1970s and the world-wide recession provoked by the severest crisis in the United States economy since the 1930s. The evident inadequacy of Keynesian monetary and fiscal policy prescriptions to cope with the United States crisis or the closely intertwined world monetary confusion suggests that an even capitalist development is basically beyond the reach of those policies. Similarly, as argued above, the basic dynamic of capital accumulation and its crises is likewise beyond their reach. The interaction between capital accumulation, crisis, and uneven development offers a useful framework for an explanation of capitalist crises in the twentieth century. This, at least, is one implication of the Marxian approach to the theory of capitalist crisis.

Appendix I

Reduced to simplest terms, the super-profit notion of Marx can be presented as follows:

A. Consider any three firms in Industry K (which has n firms):

Firm No. 1; $c_1^k + v_1^k + s_1^k = w_1^k = 50x$

Firm No. 2; $c_2^k + c_2^k + s_2^k = w_{2!}^k = 100x$

Firm No. 3; $c_3^k + v_3^k + s'^k_3 = w_{3!}^k = 150x$

Where

c_1^k = constant capital used up in production of x in Firm No. 1 during time period t, and so on.

v_1^k = variable capital used up in production of x in Firm No. 1 during time period t, and so on.

s_1^k = surplus value produced in production of x in Firm No. 1 during time period t, and so on.

w_1^k = total *value* produced in Firm No. 1 during time period t, and so on.

x = unit of use-value (physical output) produced in Industry K.

B. Let $w_1 / 50 > w_2 / 100 > w_3 / 150$

C. Let $w_2 / 100$ be the average socially necessary labor time to produce one unit of x.

D. Then we can say that

$w_1 / 50 - j = w_2 / 100 = w_3 / 150 + g$

E. Therefore, Firm No. 3, by selling its output at a value corresponding to average socially necessary labor time will not only realize the surplus value which it produced, s_3^k, but also a super-profit equal to 150g.

By identical reasoning, Firm No. 1, by selling its output at a value corresponding to average socially necessary labor time will only realize an amount equal to s_1^k *minus* 50j.

Thus, the earning of super profit for Marx must always involve a shift of produced surplus value from less to more efficient (in terms of labor time needed for production) firms.

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Appendix II

The simplest exposition of the core of this argument is found in Sweezy's (1942, pp. 162 ff.) discussion of Tugan-Baranowsky. Sweezy developed his critique of Tugan-Baranowsky toward what might be termed a Keynes-Harrod-Domar type of notion in which the tendency to produce consumer goods for which there would be insufficient effective demand led either to crisis as the goods proved unsaleable or to stagnation as production was curtailed to avoid the crisis (p. 180). Given this paper's focus on crisis, the central logical argument is the following:

A. Given competition there follows accumulation and rising organic composition. At this point, nothing need be specified about the impact of these phenomena on an average profit rate.

B. Assuming that both producers and consumers goods sectors experience these phenomena equally, both sectors' total outputs in both use-value (physical) and exchange-value terms will increase.

C. However, given the rising organic composition, at least a relatively slower growth of workers' demand for consumer goods is also directly implied.

D. Supplies of consumer goods outrunning demand produce a price/value dissonance.

E. This dissonance, experienced as a profit squeeze by consumers goods industries, will disappear only if it leads to a precise quantitative shift of workers and capital from the consumers to the producers goods sector or some tertiary sector.

F. If the dissonance does not disappear, a crisis may likely ensue.

We are, then, brought back to the question: What links dissonance to crisis? That question can only be answered by Marx via an analysis of capitalist expectations as offered in this paper.

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NOTES

1. Thus, the presentation here must be distinguished from several other Marxian orientations: the writings linking economic crisis to capitalism's breakdown (discussed in Sweezy, 1942); the writings debating whether "underconsumption" or "the law of the tendency for the rate of profit to fall" is the key crisis mechanism (Sweezy, 1942; David Yaffe; Sweezy, 1973; Mario Cogoy, and a general review by Wright); the writings that make crisis a direct result of class struggle within a Piero Sraffa context (Geoff Hodgson); and, finally, the writings attributing crisis to a notion of a "drying up" of investment funds (Roger Alcaly, David Gordon). The Marxian interpretation that links crisis to a falling rate of profit via state action is treated directly below.

2. Makoto Itoh shows that Marx's thoughts on crisis demonstrate a clear line of development to their final form in *Capital*. Michael A. Lebowitz shows how the clear plan of *Capital*'s three volumes prescribes a specific integration of Marx's scattered comments on crisis in the sphere of production and in the sphere of circulation (money, credit, etc.). Such an integration leads to the general theory developed here.

3. Marx's conceptualization, at the most general, abstract level, of the possibility of crises under capitalism is most succinctly presented in *Theories of Surplus Value* (1968, pp. 492-535). In Marx's own words, his analysis in these pages offers "*the framework* for a crisis" (p. 509).

4. 1973, p. 148. Capitalist crises for Marx are directly manifest in price-value disproportions. Hence they receive direct and detailed examination in his treatment of money as strikingly exemplified in *The Grundrisse*, Notebook I.

5. "In a crisis, the antithesis between commodities and their value-form, money, becomes heightened into an absolute contradiction" (1967, I, p. 138; also 1967, II, p. 76). The value-price-of-production relation is not, of course, relevant here.

6. See Appendix I.

7. Much of the same logic is developed in the context of a 2-sector model (consumption/investment) by Joan Robinson (1956, pp. 97-100). It is just this assumption which will cease to hold so soon as accumulation produces some realization problems as developed below.

8. Compare, for example, Paolo Sylos-Labini, pp. 136-142.

9. If the rate of profit, R, is defined as $s/c + v$, then by simple manipulation it follows that $R = s/v\ (1\text{-}c/c + v)$. A rise in $c/c + v$ will then reduce the average rate of profit unless offset by a rising s/v. Disputes over why and how such an offset may occur are beside the point being developed here.

10. See Appendix II.

11. I speak of "inefficient firms" going under only for expository simplicity's sake. Marx himself has a more complex analysis on this point, noting that when accumulation reaches the stage where capital can neither purchase more labor power nor extract more surplus value from employed labor power, the resulting fall in the profit rate sharply intensifies competition. Such competition will likely further depress the profit rate, and the firms that are eliminated would then not necessarily be only those that are least efficient in terms of socially necessary labor input per unit of use-value output (1967, III, p. 252).

12. The still occasionally encountered quotations from Marx alleged to support an argument that insufficient consumer purchasing

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power finally accounts for crisis in capitalism do not coincide with the preponderance of his views (1968, pp. 492 ff.). Thus Marx's irony:

> It is a pretty conception that — in order to reason away the contradictions of capitalist production — abstracts from its very basis and depicts it as a production aiming at the direct satisfaction of the consumption of the producers. (1968, p. 495).

13. In this connection it is interesting to note Keynes' very strong commitment to the importance of expectations (pp. 46-47). But even more interesting is the fact that, in Axel Leijonhufvud's words, he "proceeded to fudge," i.e., not clearly develop or integrate the earlier strong commitment into his crisis theory (pp. 73 ff.).

14. My position is thus sharply distinguished from one which similarly investigates chain-reaction demand insufficiency but in a manner disregarding all expectational aspects, as in Shinzaburo Koshimura.

15. See the critical discussion in Miroslav Toms.

16. The transformation of values into prices of production does not effect Marx's argument on economic crisis.

17. Kalecki's idea appears in Robinson, 1976, and in the works of Raford Boddy and James Crotty, to indicate but a few of many possible examples.

18. Of course, international economic opportunities do not by themselves explain the social stability, although they are integral to it. Stuart Ewen demonstrates the equal importance of the maturation of a consumerist culture assiduously fostered by United States capitalism at least since the 1920s. In one sense, the successful reproduction of the capitalist system requires maintaining the proper market conditions, foreign and domestic. For most of the period since 1945, imperialism and consumerism played vital roles in this maintenance function.

In any case, United States accumulation under the special conditions after 1945 produced only those mild price-value dissonances for which Keynesian policies can serve as antidotes with some success. With those conditions weakened, crisis situations could and did emerge beyond the reach of at least the conventional magnitudes of Keynesian policies.

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