THE MARXIAN THEORY OF CAPITALIST BREAKDOWN

by Bernice Shoul

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PREFACE

To generations of economists schooled in classical orthodoxy, the idea of a necessary breakdown of the capitalist economy has generally appeared to be a delusion. Capitalist progress and economic theory alike pointed to the same conclusion: there was an inherent tendency to equilibrium at progressively higher levels, although this tendency might be temporarily interrupted by the recurrent business cycle. Periodic disturbances, even partial breakdowns, were viewed mainly as hangovers due to business "excesses" during prosperity periods, and these excesses were viewed, in turn, as the result of greed and/or error in the banking and business communities. Even those who viewed the business cycle as inherent in capitalist development denied the economic necessity of ultimate breakdown.

Marx, on the contrary, develops a theory which is specifically a theory of capitalist breakdown. The concept of breakdown does not refer to a spectacular collapse of the physical shell of capitalist production, the crumbling of bank walls, nor to the complete cessation of production. Nor does it imply a specific, historical date when capitalism will be overnight transformed into a planned economy. Rather it means that the growing unprofitability of a system whose very goal is profit, must lead that system into inevitable economic stagnation. The historical transformation from one economic system to another is a process of social revolution, which can occur only when these economic conditions are fully ripened. We designate economic stagnation, or inability to expand further as the point of breakdown of the capitalist system because a stagnant capitalism is a contradiction in terms.

Marx's theory of breakdown is only one of several breakdown theories of which the most important are the Ricardo-Mill theory of the stationary state, and the Keynes-Hansen theory of secular stagnation. The common feature of these three theories, the fact that all attribute the stagnation of the capitalist economy to the decline in profits, is likely to conceal their fundamental differences.

The distinguishing feature of the Marxian theory as compared with the others is that it is deduced from the theory which explains the economic laws specific to the capitalist economy, the theory of value. The Ricardo-Mill stagnation thesis, on the other hand, explains the cause of stagnation, the falling rate of profit, by natural, rather than by economic laws, namely the laws of population and of physical productivity of land. The Keynes-Hansen stagnation thesis, in contrast to the others, explains the cause of stagnation, the declining marginal efficiency of capital, mainly by psychological, rather than by either natural or economic laws, namely, the psychological propensities to consume, save and invest.

A valid theory of [illegible] breakdown must be based on economic laws. If there were natural laws or psychological laws independent of the specific economic system, these laws alone would be unable to determine why at a <u>given point</u> of its development, this economic system must break down. We admit the existence of natural laws, such as of diminishing returns to land, laws which it must be noted, can be counteracted by economic action; but we deny the existence of psychological propensities, such as those noted by Keynes, which are independent of a given stage of economic development of a specific economic system. Rather are these propensities themselves determined by the given stage of development. Similarly, the historical facts which are combined with the psychological propensities to produce the thesis of secular stagnation[1] must be explained. The decline in the rate of population growth, the alleged capital saturation of the mature economy, the passing of the geographical frontier cannot be adduced as "causes" of stagnation. They are, in fact, the visible phenomena of capitalist development, which for reasons inherent in its own logic, undermines the profitability of the system so as to produce these characteristic features of the mature economy.

The breakdown indicated in the Marxian system is determined by the logic of the economic process, a logic which is revealed by the basic tool of economic analysis, the theory of value. In this thesis we attempt to show how the Marxian theory of breakdown is derived from the theory of value, to systematize the theoretical argument by which the breakdown of the system is deduced from the economic laws governing this system.

Our first chapters lay the foundation for this analysis by discussing the nature of value theory as such, the Marxian labor

1. For a concise statement of this theory, cf. Alvin Hansen, Full Recovery or Stagnation? (N. Y., 1938), Ch. XIX.

theory of value as distinguished from that of the classical economists, and the Marxian method of using the theory of value as a tool of analysis. This method, the method of successive approximation, is a step by step approach to reality, a logical analysis which proceeds from abstract to concrete, from generalization to description.

We use Marx's method of successive approximation in developing the theory of breakdown. This theory of breakdown explains both the business cycle and the secular trend of capitalist development produced by the cycles. On the highest level of abstraction, as a first approximation, we deduce the tendency to breakdown from the operation of the law of value. This tendency expresses the contradiction between the goal of capitalist production, the creation of profit, and the means to this end, the increase in productivity, which, in the long run, annihilates the very basis of profitability. On a lower level of abstraction, as a second approximation, we introduce the countertendencies to breakdown which prevent the capitalist system from collapsing entirely after the first crisis in the accumulation process, but instead allow it to proceed in cyclical waves. On the lowest level of abstraction, as a third approximation, we conclude that with the full development of the tendencies inherent in the accumulation process, and with the exhaustion of the countertendencies, the capitalist economy reaches the stage of economic breakdown.

This analysis requires that we examine in some detail (1) the logical steps in Marx's general theory of capitalist evolution; (2) the elements in Marx's clearly formulated theory of crises (his answer to Say's Law), which is on a different level of abstraction from his undeveloped theory of cycles; (3) various important interpretations of Marx's theory of cycles and breakdown.

In examining these various interpretations, we assume at the outset from Marx's explicit, if unsystematic, remarks on capitalist evolution, and on the business cycle, that he has a definite theory of breakdown, that this breakdown is the inexorable result of the developmental tendencies of an inherently cyclical economy. We examine in some detail the three main theories of breakdown and of the business cycle; the theory of underconsumption, the theory of disproportionality, and the theory of falling profits. We conclude that while some versions of the two former theories are logically consistent theories, given their own premises, only the third theory, on the basis of what we interpret to be Marx's assumptions, fully explains both the business cycle and the secular trend to breakdown.

A work of this kind, which is essentially immanent criticism, is open to the objection that because it takes for granted the assumptions underlying the theoretical system which is its subject matter, it is unable to furnish any real evidence that this theoretical system offers a valid interpretation of economic reality. We try to obviate this objection by comparing the foundation of the Marxian theoretical system, the labor theory of value, with its only possible alternative, the marginal utility theory of value. We conclude that only the former is competent to explain the basis of exchange relations in capitalism as a specific historical form of production, and to explain the evolution of this economic system. Our work with this analytic tool, by the method of successive approximation leads, we believe inescapably, to the conclusion that a "free" capitalist economy could end only in collapse by stagnation. The fact that it has already been necessary to rescue capitalism from the disastrous effects of its own freedom is itself a confirmation of the Marxian theory of capitalist breakdown.

SUMMARY OF A THESIS

on THE MARXIAN THEORY OF CAPITALIST BREAKDOWN

Karl Marx's economic theory is essentially a theory of evolution; his express purpose, in fact, was "to lay bare the law of motion of modern society..."[1] This thesis is an attempt to reconstruct this theory of evolution from an unsystematic treatment in an unfinished work.

Marx's complete theory of capitalist evolution includes three elements: 1) the materialist conception of history, which explains the transition from any given economy to its successor as the climax of an inevitable conflict between the productive forces and the property relations of society; 2) the theory of the objective, evolutionary tendencies of capitalism as a specific, historical form of production; 3) the theory of the class struggle, the subjective vehicle of change.

Our investigation is confined to the second element, the theory of capitalist evolution, which is, in fact, the theory of capitalist breakdown. The concept of breakdown refers neither to a dramatic physical collapse of the technological bases of capitalist society, nor to the historical date at which capitalism is overnight replaced by socialism. Rather it refers to the stage of capitalist development where the accumulation process, whose very goal is profit, can no longer be maintained

1. Karl Marx, Author's Preface to the 1st Edition, Capital (Chicago, 1906) I, 14

because its own inherent tendencies destroy the basis of its profitability. Capitalist breakdown refers to the inevitable stagnation of the accumulation process.

We start from the proposition, based on numerous passages in Marx, that Marx does have a definite theory of breakdown, however undeveloped the steps in his argument may be, and we then attempt to show how this theory of breakdown is derived from Marx's theory of value. We take Marx's position that a theory of endogenous economic change must be based on economic laws alone, laws which are explained by a theory of value. However similar the conclusions may appear, the Marxian theory of capitalist breakdown differs from the Ricardo-Mill theory of the stationary state, which is based on alleged natural laws of population and of physical productivity of land, and from the Keynes-Hansen theory of secular stagnation, which is based on historical facts and the psychological propensities to consume, save, and invest.

Since the labor theory of value is the cornerstone of Marx's theory of breakdown, our first chapter compares the labor theory of value and its alternative, the marginal utility theory of value, with reference to the three functions of value theory: 1) the explanation of the phenomenon of exchange value; 2) the determination of equilibrium; 3) the determination of evolution. The conclusion reached is that the labor theory offers a more valid explanation of the phenomenon of exchange value, and alone is competent to explain capitalist evolution.

The second chapter compares the labor theory of value developed by Marx with the theory of classical political economy. It presents Marx's solutions, derived from his theory of value, of the four basic problems in the post-Ricardian controversy. These solutions are provided by Marx's 1) theory of wages; 2) theory of capital; 3) theory of competition; 4) theory of rent.

The third chapter discusses Marx's method. This discussion follows logically upon the analysis of the fundamental content of the Marxian theory of value, because discussion of methodology can be most fruitful when the elements in the theoretical foundation are themselves clarified. Marx's method of using the labor theory of value as a tool of analysis with which to explain the laws of capitalist evolution, is most succinctly described as the method of successive approximation.[2] Marx's method is to proceed from abstract to concrete, from generalization to description. The most obvious use of this method is in Marx's successive approximation from abstract labor values to concrete market prices.

In the following chapters of the thesis we use this method of successive approximation in developing Marx's theory of breakdown. The complete theory of breakdown must explain both what Marx indicates to be the specific form of capitalist development, the business cycle, and the secular trend traced out by the cycles. Cyclical development is explained by the tendency to breakdown

2. Henryk Grossman, Das Akkumulations-und Zusammenbruchsgesetz (Leipzig, 1932) vi-viii, and "Die Wert-Preis Transformation bei Marx und das Krisenproblem" Zeitschrift für Sozialforchung, Jhrg I, (1932) 57-61.

which limits the accumulation process, and by the countertendencies which limit the breakdown, and allow the accumulation process to proceed in cyclical waves. The secular trend is made up of the cycles and proceeds to the stage of economic breakdown as with the strengthening of the breakdown tendency and the weakening of the countertendencies in the course of capitalist evolution cyclical development itself peters out into stagnation.

The first step in the development of this complete theory of breakdown is taken in Chapter Four where we present Marx's argument by which the breakdown tendency is deduced from the law of value. The most important step in this argument demonstrates that the accumulation process proceeds on the basis of an ever higher organic composition of capital, or ratio of constant capital (machinery and raw materials) to variable capital (wages) and that as a consequence of the fact that only variable capital produces value, and therefore surplus value, the ratio of surplus value to the total capital (the rate of profit) must fall. The stage of breakdown, or the point of overaccumulation of capital, is reached as soon as a given magnitude of capital plus an increment of capital yields no more surplus value than that yielded by the original magnitude of capital.

After deducing the breakdown tendency our next task logically should be to develop Marx's theory of cycles. However, in Chapter Five we proceed with an analysis of Marx's theory of crises, even though the actual crisis is but one phase of the complete cycle and, therefore, of subordinate importance. The reason for dealing with the crisis first is that most participants in the neo-Marxian controversy on Marx's cycle theory fall into the very confusion against which Marx warns repeatedly, the confusion between the <u>form</u> of the crisis and the <u>cause</u> of the cycle. Marx's discussion of crises, as distinct from his undeveloped theory of cycles, gives merely the formal possibilities of crises, possibilities which arise from 1) the separation of purchase and sale and 2) the fact that money serves as means of payment. Marx's argument is that contrary to the theorems of Say's Law, which latter doctrine we also examine in this chapter, crises are normal results of the accumulation process. General overproduction, however, is not the cause, but the consequence, of the crisis.

Having made Marx's distinction between the form of the crisis and the cause of the cycle, we then in Chapter Six turn to two of the leading interpretations of Marx's cycle and breakdown theory. These are the theory of underconsumption and the theory of disproportionality. The former theory has two variants: 1) that of Rosa Luxemburg, which turns on an alleged inability of the capitalist economy itself to realize the surplus value to be accumulated; 2) that which explains underconsumption as the consequence of a disproportion between the production of producers' and of consumers' goods. We find both variants of the theory to be unsatisfactory explanations either of cycles or breakdown within the Marxian system, the former because it neglects the increasing demand incident to the very process of accumulation, and the latter because the alleged tendency to underconsumption is merely a disproportion which does not necessarily follow from the logic of the capitalist process.

Similarly we reject the strict theory of disproportionality which differs from the second variant of the theory of underconsumption in that the disproportionality is not between producers' and consumers' goods, but among individual industries, due to the "anarchy of capitalist production." This theory, most closely associated with the name of Tugan-Baranowsky, but also adopted by other Marxian critics, denies a secular tendency to breakdown only by ignoring or denying the fundamental tendency of capitalist development, the falling rate of profit.

In Chapter Seven we present our own interpretation of Marx's breakdown theory, which is an extension of the argument developed by Henryk Grossman. The essence of the theory, which can explain both cycles and the secular tendency to breakdown, is that the obvious cause of breakdown is the declining profitability of the capitalist system. We find the theory of cycles and breakdown based on the falling rate of profit alone to be inadequate, because this theory depends on the value concept of a "normal minimum" rate of profit. Instead we develop the breakdown theory within a model whose key variable is the mass of profits. As a first approximation we show that, given the rising organic composition of capital, the mass of profit, which increases at a decreasing rate, eventually becomes inadequate to maintain given rates of increase of both constant and variable capital. Then, having demonstrated a tendency to breakdown, as a second approximation we introduce the various countertendencies, which turn the initial breakdown into a renewal of the accumulation process. Having deduced the cyclical development of the accumulation process from both the breakdown tendency and the countertendencies, we follow it with a more complete picture of the cycle. Finally, as a third approximation, we show that over time the breakdown tendency is strengthened, and the countertendencies weakened, so the cyclical development itself reaches a necessary limit. The final breakdown of the capitalist economy as pictured in our model, therefore, is the point at which the capitalist economy can no longer expand. The capitalist system by its own drive for profit is thus responsible for its own economic self-destruction.

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