

# Consumption Demand in Marx and in the Current Crisis

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The value of the old industry is preserved by the creation of a fund for a new [capitalist] one in which the relation of capital and labour posits itself in a *new* form. Hence exploration of all of nature in order to discover new, useful qualities in things; universal exchange of the products of all alien climates and lands; new (artificial) preparation of natural objects, by which they are given new use values; the exploration of the earth in all directions, to discover new things of use as well as new useful qualities of the old; such as new qualities of them as raw materials etc; the development, hence of the natural sciences to their highest point; likewise the discovery, creation and satisfaction of new needs arising from society itself; *the cultivation of all the qualities of the social human being as the most total and universal possible social product*, for, in order to take gratification in a many-sided way, he must be capable of many pleasures [*genussfähig*], hence cultured to a high degree – is likewise a *condition of production founded on capital*.

- Marx, *Grundrisse*, p. 409.  
[Emphases added]

This paper seeks to challenge the deep-seated and powerful tendency in contemporary Marxist economic thinking to deny the role of consumption demand in capitalist reproduction, and its paucity in crises.<sup>1</sup> Ideas about inadequate consumption demand, bulk of which is workers' demand, in capitalism were practically contemporaneous with the rise of industrial capitalism (Bleaney 1976: 22-101). By the late 19<sup>th</sup> century they constituted a clearly identifiable strand of 'underconsumption' theories and Marx had criticised their characteristic remedy, increasing wages, in *Capital I*. But a specifically Marxist debate on the role consumption demand in capitalism seems not to have arisen until Russian populists, *Narodniks*, took the view that capitalism could not develop in Russia. Not only was the home market limited, they reasoned, so was the possibility of acquiring other markets through imperialism because, as a late-comer, Russia faced a world already divided up among major powers. It was in contesting the populist argument that Russian Legal Marxists denied

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consumption demand a role in capitalist reproduction. Rosa Luxemburg strenuously contested this denial as excessive, surplus to the requirements of refuting the *Narodnik* case. However, her views were inexplicably, and certainly inexcusably, sidelined in the further development of Marxist thinking on capitalist reproduction and crisis (Zarembka 2002). Things remained more or less stuck there over the next century. Today few argue overtly about the role of consumption demand. The case is closed. But the verdict is wrong and supports a cluster of widely- and deeply-held convictions which prevents cognizance of consumption's role in capitalist reproduction. It also permanently consigns the wrongfully convicted parties – pre-eminently Luxemburg – to an entirely undeserved intellectual disdain, while consumption's importance in the ideas of others – Marx, Keynes or Kalecki – is denied or underemphasised.

Accounts that give consumption demand a role in capitalist reproduction and crises are dismissed as 'underconsumptionist' – empirically and logically inadequate if well-meaning moral condemnations of capitalism that, 'as we all know,' Marx rejected. Worse, they are held to lead to the dead-end of reformism, as with the 19<sup>th</sup> century underconsumptionists Marx criticised, and, according to some, with Keynes. Such accounts are also faulted for focusing on the sphere of circulation when the 'real' contradictions of capitalism lie in the sphere of production which, moreover, increases in importance as capitalism develops. This 'productionism' originated in the denial of the role of consumption by Russian Legal Marxist, Michael von Tugan Baranowski.

Technical progress is manifested in the increasing importance that the instruments of labor, and machines even more, acquire in relation to living labor, to the worker himself. The means of production play an ever-growing role in the process of production and on the commodity market. Facing the machine, the worker steps to a second place and, accordingly, the demand based on workers' consumption is relegated to a minor position in comparison to that originated from productive consumption. The whole activity of the capitalist economy assumes the character of a mechanism existing by itself, so to speak, in which human consumption appears to be a simple factor in the process of capital reproduction and circulation. (Tugan Baranowski 2000a: 73)

Since famously paraphrased as the 'factories that produce factories that produce factories', productionism not only sees capitalism as unconstrained by consumption demand, it has gone along with a tendency to identify a single, 'fundamental' cause of capitalist crisis located in the sphere of production alone. For Tugan Baranowski, the favoured cause was disproportion between sectors of capitalist production while contemporary Marxists favour the Tendency of the Rate of Profit to Fall (TRPF), in so far as they subscribe to any Marxist account of crises at all (on this more below). If members of this productionist tendency admit the possibility of crises also arising outside production, in circulation, they refer to the paucity of investment demand being a factor in crises. However, that would, in any case, be part of the sphere of production, strictly speaking.

This article does not seek to deny the relevance of either disproportion or TRPF. Indeed, it agrees, in opposition to many Marxist economists who hold that Marx was mistaken on this count, that the latter, in particular, was one of Marx's most important discoveries about capitalist accumulation and its contradictions. And it goes a step further than some defenders of Marx on the TRPF by pointing out that in Marx's account of capitalist accumulation production and consumption or circulation are inseparable moments

of a single process. It does, however, seek to reinstate the role of consumption demand as a major factor in capitalist reproduction.

In what follows, I begin with a discussion of the stakes in contesting productionism's sway in Marxist economic thinking: including, most importantly, an escape from the monomania that surrounds thinking about capitalist production and crises to comprehend the sheer variety of sources, forms and mechanisms of crises in capitalism, of which the paucity of consumption demand is one. I go on to show that in the *Grundrisse* and the three volumes of *Capital* Marx takes the view that consumption demand has a critical role in capitalist reproduction and its paucity is a major cause of crisis. I then present my critique, discussing the main misconceptions that lie at the root of the rejection of the role of consumption demand and the two main ways in which it has been rejected – by Tugan Baranowski and by contemporary Marxists as evinced in a key and widely-cited article by Anwar Shaikh (1978). As the work of a widely-respected and sophisticated Marxist economist, it is as good a representative of this view as one can get. Following this we will be in a position to appreciate the full extent of the folly of denying consumption demand a role in capitalist reproduction as I show how central a role it has played in post-war capitalism using Robert Brenner's influential, and in my view largely correct, historical account of the pattern of world capitalist development of the last many decades and of the current crisis (1998, 2002, 2006, 2009).

While I hope these arguments will be independently persuasive, insofar as much of the animus behind the productionist case comes from the idea that affirming the role of demand might lead to 'reformist' conclusions, the paper ends with a plea not to see reforms and revolution as mutually exclusive. In a properly historical view, they emerge as having a 'dialectical relationship' (Patnaik 2009). While the underconsumptionism that Marx criticised did indeed assume, incorrectly, that increasing wages would overcome capitalism's problems, there is no iron necessity for an insistence on the role of consumption demand to lead to such 'reformism', i.e. an assumption that capitalism's problems can be solved through measures falling far short of a fundamental change in the social order, of revolution. Such an insistence did not lead to 'reformism' in Marx's case, or in Luxemburg's or Kalecki's. (And Keynes, the only other writer to affirm the importance of the paucity of consumption demand on a radical understanding of capitalism's fundamental problems, was led to propose changes to the capitalist order that amounted to such a radical transformation that it became moot whether, if Keynes' prescription were applied, capitalism could be said to exist. He may have continued to call it capitalism but, the meaning he invested in the term concerned individual freedom not private ownership of the means of production. While it is true that he was loath to align himself openly and consistently with Marxism, socialism or the working class, and while there is no need to excuse his statements to this effect, his intellectual and even political affinities were considerably more complex than most Marxists and Keynesians have been willing to allow. On this see Desai 2009; Desai and Freeman 2009, Dostaler 2007 and Sardoni 1997).

## **1: Beyond Monomania: The Stakes and the Gains**

Denying the role of consumption demand in capitalist reproduction and crisis seems incredible when we consider that the most fundamental contradiction of capitalism according to Marx is that between social labour and private appropriation. This was also caught in wider

understandings such as Janos Kornai's. He distinguished 'pure' socialist and capitalist systems as 'supply constrained' and 'demand constrained' respectively. In capitalism

the effective constraint on production increase is the buyer's demand. Demand constraints are narrower than physical resource constraints. The available quantity of resources would allow a further increase of production. Yet producer firms do not avail themselves of this possibility, since they do not see the excess as saleable. Capitalism is, in its "classical" form, a demand-constrained system. This is the economy Marx treats in "Das Kapital" when he writes about the contradiction between the tendency of unlimited expansion of production and the limited purchasing potential of the market.' (Kornai 1979: 804).

Reinstating the role of consumption demand can be expected to open a wide breach in the fortifications that protect contemporary Marxism's monomania about the causes of capitalist crises. It is an important reason why Marxists find themselves on the intellectual back foot in the midst of the greatest crisis of capitalism since the Great Depression, one that may yet turn out to be its greatest ever.

How much this monomania has blinkered our vision can be appreciated by stepping back from it to consider the sheer range of crisis mechanisms that are routinely seen at work on capitalism and which are anticipated in Marx's analysis, some more fully than others because that work remained tragically uncompleted. Many Marxist scholars have pointed to the plurality of mechanisms of crises. Mandel believed that overproduction (or underconsumption: the two are, as we see below, hard to separate entirely), disproportionality and the TRPF accounts of crises were all valid at different times and could be seen at play in different phases of the development of a particular crisis. Paul Sweezy (1970: 145-6), for his part, classified Marxist accounts of crisis into two: those associated with falling rates of profit and those associated with realization. However, an even wider and more systematic view is possible. While both these views recognised that crises are possible in production as well as circulation, there are at least two other indispensable spheres of capitalist accumulation and reproduction – finance and the nation-state. Crises would then also be seen to arise from the financial structures without which capitalism cannot function and from the necessarily international geopolitical order that emerged from the imperial as capitalism developed, creating a world of national capitalisms rather than a single, unified, world capitalism (Desai 2009).

Further, the wider and more systematic approach to crises might also take into account the fact that crises arising each of these spheres of capitalism can take one of two forms – an intra-class, i.e. intra-capitalist class, form arising from the mechanisms of competition and an inter-class form, pitting capitalists and workers against each other, arising from the mechanisms of class struggle. Provisionally these four sources of crises and the two forms that crises originating in each of these sources may take give us at least 8 different mechanisms of crises. Whether any of these are more fundamental than the others is not immediately clear and, as we shall see, accumulation and realization, at least, are intimately connected. Nor can 'value' exist without money or capital without finance, and therefore credit is inevitably involved. Finally, geopolitical competition, which under capitalism necessarily involves a plurality of nation-states – whether a small number of these in imperial competition as in the late 19<sup>th</sup> and early 20<sup>th</sup> century or in the increasingly 'geoeconomic' competition of today – is also endemic to capitalism.

So we may have the following eight mechanisms of crises: The first two – those of accumulation – would involve increasing organic composition of capital reducing the profit rate and rising wages reducing the rate of exploitation and having the same effect, the TRPF and profit-squeeze respectively. Considering that so many today consider the TRPF to be the quintessentially Marxist crisis it is noteworthy that until Henryk Grossman’s work in the 1930s, no major Marxist linked the TRPF to crises and Marxists tended to neglect *Capital III* where this analysis is developed (Howard and King 1989: 316). While the phenomenon was generally accepted, it was not considered important in explaining crises.

Inter-capitalist crises of realization would be the crises of ‘disproportionality’ between sectors of production that Tugan Baranowski identified and which most Marxist refer to when they accept the possibility of shortfalls in investment demand. Crises of realization of the inter-class sort would be based on the recognition of the paucity of consumption demand. Intra-capitalist mechanisms of financial crises would be manifest as credit crunches – with banks unwilling to lend to each other or to businesses – of the sort that currently plagues so many advanced capitalist economies. The chief inter-class financial mechanism of crisis would be the ‘mortgage crisis’ – with high default rates in forms of credit extended for consumption, of which the recent ‘sub-prime crisis’ in the US was such an important instance. Geopolitical crises, finally, of the intra-capitalist sort could arise out of imperial competition between organised national or imperial bourgeoisies of the sort that culminated in the First World War and which the first Marxist theorists of imperialism such as Bukharin, Hilferding, Lenin and Luxemburg attempted to comprehend. Finally, there could be geopolitical crises emerging from Luxemburgian processes involving the role of the periphery in contributing to the stability of core capitalism – such as oil price increases of the 1970s or contemporary surges in commodity prices (on this see also Patnaik 1997 and 2009).

**Crises in Capitalism: By Source and Form**

Source \ Form	Accumulation	Realization	Credit	Geopolitical
Intra-Class	TRPF	Disproportionality	Credit Crunch	Imperial or International Geopolitical Competition
Inter-Class	Profit-Squeeze	Overproduction/Underconsumption	Mortgage Crises	Centre-Periphery Exploitation and Resistance.

One can safely say that all mechanisms involve fundamental processes of capitalist reproduction and malfunction of each has the capacity to culminate in crises. Every major crisis is a complex amalgam of more than one of these and they can also be seen successively in the development of any given crisis. If the argument of this paper is accepted, it will have not only reinstated the role of consumption demand as a factor in capitalist reproduction and crises, it will also release Marxists from their blinkered productionism so that the open vistas of the full complexity and difficulty of capitalist reproduction and the variety of its mechanisms of crises come into full view.

This wider vista will not be the only gain from reinstating the role of consumption demand. Where one stands on that question also has implications for two other questions. First, it has never made any sense to lift Marx out of the context of the intellectual tradition in which he is so centrally located – breaking his relationship with the predecessors whose contradictions he resolved with such élan and the successors – not just Marxists – who dealt with his powerful legacy, with more or less grace and more or less fairness. To be sure, this isolating operation was and remains a bourgeois and Cold War one. However, there is no reason why Marxists should cooperate in it. Rather we should question it, overturn it and restore to Marx his rightful place at the core of our intellectual traditions. He stands at the culmination of the social and economic thought that preceded him and is the fount of most of the important developments that followed, whether they supported or opposed him. While Marx's relation to his predecessors is better-studied, the links between him and later developments in understanding capitalism, particularly Keynes's, are rarely explored.

Secondly, I am critical of the view, closely associated with the dismissal of the consumption demand problem as the hobby horse of 'reformist underconsumption' and the critique of Luxemburg that goes with it, that capitalism can be viewed either as a 'pure' system or a self-contained one. Thinking of capitalism as a 'pure' system forgets that Marx's representation of 'pure' capitalism in *Capital* was a heuristic device, not to be equated with Actually Existing Capitalism anywhere. Not only did the capitalism of *Capital* never refer to any real system, 'pure' capitalism existed nowhere, as Engels pointed out, confidently predicting also that it would not be allowed to since revolutionaries would not 'let it come to that' (Mandel 1978: 68). Notwithstanding Marx's strictures to German comrades – *de te fabula narratur* and all that – it especially did not exist in England (Perry Anderson, 1987).

Capitalism is everywhere born amidst non-capitalist productive relations which it only slowly, and, until today at least, never completely, transforms. AEC is everywhere is 'contaminated' not only with legacies of the pre-capitalist past – say patriarchy, slavery or caste – which capitalism everywhere puts to good use, but also by modern systems which modify its workings – chiefly regulatory and welfare states which, Polanyi (1944/1985) insisted, were unavoidable. If the spread of market relations prompted a countervailing effort of social protection, it needs to be taken into account. Kornai clarified his account of capitalism as a demand-constrained system, 'Modern capitalism – mainly owing to the effect of active state interventions often undertaken *in the name of Keynes* – can no longer be qualified a "pure" demand-constrained system.' (Kornai 1979: 804. Emphasis added). The limitations of such 'Keynesian reformism' – effectively expanding the home market by raising workers' purchasing power – are clear but it is all too often forgotten that it was based not on any 'reformist' essence of Keynes' but, as Joan Robinson so well put it, on 'bastard Keynesianism'. While hardly revolutionising capitalism, it was sufficiently effective to play a key role both the Long Boom of the 1950s and 1960s and the Long Downturn that beset world capitalism in the 1970s, as Brenner terms these eras.

Analyses of 'pure' capitalist dynamics de-contextualised from the social, political and cultural integuments in which they everywhere operate also tends to go with a never-fully-stated view that the only capitalisms that deserve the name, that worth examining in order to understand capitalist dynamics, are those of the advanced industrial world. They are also, for all practical purposes, treated as the same. In reality, not only do first and third world capitalisms both feature inherited non-capitalist social forms interacting with the mechanisms which Marx identified in *Capital*, first world countries feature modern modifying welfare and regulatory forms that are considerably more powerful than their counterparts from the third

world. The AECs of the advanced industrial world are, moreover, each distinct historical formations with distinct historical inheritances and modern regulatory and welfare structures as the literature on ‘varieties of capitalism’ and ‘worlds of welfare’ (Coates 2005; Esping-Anderson 1990) testifies.

Thinking of capitalism as a ‘self-contained’ system usually involves focusing on the centres of advanced capitalism alone, leaving the rest of the world out of account. It takes us back to the question the relationship between imperialism and capitalism. Is it inevitable as, from their different perspectives, Hobson (1902/1965) and Luxemburg (1913/2003) saw it when they identified the search for markets to compensate for low demand within a capitalist country as the imperialism’s chief motor? Or is it merely contingent, if also reprehensible, as so many Marxists aver today? Is capitalism in the advanced world subject to no contradictions that spill over, on the one hand onto the non-commodified or de-commodified realms of the developed world itself, say the family and the welfare states, and on the other on the developing world? As Prabhat Patnaik put it, that capitalism is ‘a mode of production *that never exists in isolation*, that is necessarily linked with the surrounding pre-capitalist modes [and, one might add, non-capitalist contexts], and that continuously keeps itself viable by encroaching on [them] (Patnaik 2008: 5). What is certainly clear in this paper is that Luxemburg’s arguments on this score were unfairly rejected while Hobson’s vision of social reform as an alternative to imperialism, though rejected by Marxists as ‘reformism’ was ironically vindicated in the deepening of national markets of the capitalist core’s welfare capitalisms in the postwar period of decolonization. And, as our discussion of Brenner analysis of the ‘Long Boom’ and the ‘Long Downturn’ shows, this deepening was a major factor in understanding the history of capitalism since.

## **2: Marx on Consumption Demand**

The importance of consumption demand in capitalist reproduction and its paucity as a factor in capitalist crisis can be traced throughout *Capital* and in it the preparatory thinking for it as revealed in the *Grundrisse* even though the attention of the completed and published parts of this work was focused away from this issue. What we have of *Capital* concentrates on the productive and bourgeois aspects of capitalism. *Capital I*, the only one finished by Marx and published in his lifetime, famously concentrates on the process of production where surplus value originates and workers appear in this volume as producers, not consumers. When, in the posthumously published *Capital II*, the focus does shift to circulation, the emphasis is on attempting to show that capitalist reproduction on an expanded scale is possible, not on emphasising its potential for crises. When we finally turn, in *Capital III*, to the totality of capitalist production, *and its potential for crises*, we find that precisely the elements of circulation, of ‘the world market, competition, the industrial cycle and the state’ (Mandel 1981: 10) remained to be written.

### **2.1: Grundrisse**

In the *Grundrisse*, the clearest statement of the importance of workers’ consumption is relegated to a footnote in which the matter is flagged for detailed treatment later. Marx notes clearly how, although capitalism imposed ‘a relative restriction on the sphere of workers’ consumption (which is only quantitative not qualitative, or rather, only qualitative

as posited through the quantitative)', workers have 'as consumers (in the further development of capital the relation between consumption and production must, in general, be more closely examined) an entirely different importance as agents of production from that which they possessed e.g. in antiquity or in the Middle Ages, or now possess in Asia' (Marx 1973: 283). For Marx, then, a key respect in which capitalism was distinct from pre-capitalist societies was in the economic importance of workers' consumption. This phenomenon, historically specific to capitalism, was the chief anchor of the idea that capitalism laid the basis for the transition to socialism in part by increasing productive powers so as to enable humanity to transcend the realm of necessity, of scarcity, and enter that of freedom and plenty. This was also the meaning of the epigraph of this paper: capitalism would prepare the groundwork, albeit in a contradictory manner, for the many-sided person to emerge.

One might discount these ideas, particularly the last, as well-meaning but mistaken philosophical flourishes, especially at a time when the many-sided consumption of the few rests, often fairly directly, on the all-sided deprivation of most. And they would be, were it not for the fact that, in critical ways, the reliance of capitalism on popular consumption, on (at least some) workers' consumption, is underlined in Marx's critique of political economy, from the *Grundrisse* onwards. Levels of workers' consumption higher than hitherto known in the history of class society are, as we have seen, the other side of the coin of increasing accumulation, increases in the means of production and productive capacity, creating the 'more massive and more colossal productive forces than have all preceding generations together' such that no 'earlier century had even a presentiment that such productive forces slumbered in the lap of social labour' (Marx and Engels: 1848). It is precisely because workers' consumption demand, the bulk of consumption demand in capitalist society, looms large that it can act, when it is insufficient, as a limit and constraint in capitalist production in a way that was inconceivable in pre-capitalist class societies.

## 2.2: *Capital I*

Although *Capital I* shows clearly that the sphere of circulation cannot create value, and thus surplus-value, that these can only arise in production, the importance of realization and consumption is underscored in the very foundation for the analysis of *Capital* that is laid in its opening pages – the contradictory unity of use value and value which is the commodity. This contradictory unity is the basis of Marx's critique of Say's Law – the idea that 'every seller brings his own buyer to market with him and that, therefore, there can never be gluts' – i.e. crises arising out of paucity of demand in relation to production.

Nothing could be more foolish than the dogma that because every sale is a purchase, and every purchase a sale, the circulation of commodities necessarily implies an equilibrium between sales and purchases. ... its real intention is to show that very seller brings his own buyer to market with him ... No one can sell unless someone else purchases. But no one directly needs to purchase just because he has just sold. Circulation bursts through all the temporal, spatial and personal barriers imposed by the direct exchange of products, and it does this by splitting up the direct identity present in this case between the exchange of one's own product and the acquisition of someone else's into two antithetical segments of sale and purchase.... The two processes lack internal independence because they complement each other. Hence, if the assertion of their external independence [*äusserliche Verselbständigung*] proceeds to a certain critical point, their unity violently makes itself felt by producing – a crisis.



There is an antithesis, immanent in the commodity, between use-value and value, between private labour which must simultaneously manifest itself as directly social labour, and a particular concrete kind of labour which simultaneously counts as merely abstract universal labour, between the conversion of things into persons and the conversion of persons into things; the antithetical phases of the metamorphosis of the commodity are the developed forms of motion of this immanent contradiction. These forms therefore imply the possibility of crises.... (Marx 1867/1977: 208-9)

Not only was Say's Law a dogma, which assumed 'that overproduction is not possible or at least that no general glut of the market is possible' (Marx 1867/1977: 210n), the market was critical factor in the core process of capitalism – in the creation of value. Value could be determined *only* when commodities were sold, i.e. socially validated. Only then did the labour embodied in them become abstract and thus the basis of value. The multitude of private and concrete labours could only be validated as social and abstract value through the mediation of the market, by commodities finding buyers who wanted them for their use value. And value is what competition, including competitive cost-cutting, determines is the 'socially necessary' amount of labour needed to produce any given product. It was the market, therefore, that determined whether, and to what extent, the various concrete labours successfully realised themselves as abstract labour. It translated the private into the social, the concrete into the abstract. And only because use value and exchange value, concrete labour and abstract labour were not immediately identical that they required the mediation of the market which, in turn, 'implied the possibility of crises'. Capital or surplus value did not arise in circulation, nevertheless 'it is equally impossible for it to arise apart from circulation. It must have its origin both in circulation and not in circulation' (Marx 1867/1977: 268).

In distinguishing use value and value in the first pages of *Capital*, Marx had meant neither to discount the first, nor to imply that the latter could be self-sustaining as in accounts which one-sidedly view capitalism as merely 'production for production's sake': 'nothing can be a value without being an object of utility' (Marx 1867/1977: 131). His point was rather more complex: Value was condemned to seek fulfilment as the satisfaction of individual and concrete human needs, to become a use-value, however real or fan/phan-tastical, in order to realise itself as abstract and social. And, as for the heroes of yore faced with similar 'missions', so for the ever-growing mass of commodities let loose on the market by the grotesque-Promethean productive powers of capital, there might be numerous detours in the fulfilment of their mission of realisation as a use value, including becoming producers' goods, but the ultimate test of human utility could never be foregone. In order to be sold, commodities had to have use value – whether directly as an object of consumption or indirectly as objects which were used to produce objects of consumption. If in the process of valorisation capital appears to be 'value which can perform its own valorisation process, an animated monster which begins to 'work', 'as if its body were by love possessed', the animus that drives it is the search for realization as use value (Marx 1867.1977: 302).

### **2.3: *Capital II***

In Volume II, Marx treats of the circulation of capital and its realization specifically, although his main focus is on demonstrating its possibility, rather than its difficulty, he nevertheless registers the difficulties of realization.

The maximum limit of the capitalist's demand is  $C = c+v$ , but his supply is  $c+v+s$ ; ... the greater the percentage of  $s$  produced (the rate of profit), the smaller his demand in relation to his supply. Although, as production advances, the capitalist's demand for labour power, and hence indirectly for necessary means of subsistence, becomes progressively smaller than his demand for means of production, it should not be forgotten that his demand for  $mp$  is always smaller than his capital, considering this day by day. (Marx 1978/1884: 197-8)

And he goes on to add, 'That many capitalists are involved here, and not just one, in no way affects the matter' (Marx 1978/1884: 198), clearly dismissing arguments that capitalist buying producers' goods from each other was the solution. Nor does he dismiss the role of foreign trade in alleviating overproduction in both Department I and Department II, remarking that it 'only shifts the contradictions to a broader sphere, and gives them a wider orbit' (Marx 1978/1884: 544). However, the problems created by the limits on workers' demand are noted only in a footnote, and postponed, once again, for proper discussion to a later volume:

The workers are important for the market as buyers of commodities. But, as sellers of their commodity – labour-power – capitalist society has the tendency to restrict them to their minimum price. ... the periods in which capitalist production exerts all its forces regularly show themselves to be periods of over-production; because the limit to the application of the productive powers is not simply the production of value, but also its realization. However, the sale of commodities, the realization of commodity capital, and thus of surplus-value as well, is restricted not by the consumer needs of society in general, but by the consumer needs of a society in which the great majority are always poor and must always remain poor. (Marx: 1978: 391n)

## 2.4: *Capital III*

In Volume III, while Marx notes that 'Capitalist production ...is not... production whose immediate purpose is consumption, or the production of means of enjoyment for the capitalist' (Marx 1894/1981: 352), he goes on to clarify that the 'production of surplus-value is only the first act in the capitalist production process, and its completion only brings to an end the immediate production process itself. .... [In] ... the second act ... The total mass of commodities, the total product, must be sold, both that portion which replaces constant and variable capital and that which represents surplus-value.'

The conditions for immediate exploitation and for the realization of that exploitation are not identical. Not only are they separate in time and space, they are also separate in theory. The former is restricted only by the society's productive forces, the latter by the proportionality between the different branches of production and *by society's power of consumption*. And this is determined ... by the power of consumption within a given framework of antagonistic conditions of distribution, which reduce the consumption of the vast majority of society to a minimum level, only capable of varying within more or less narrow limits ... *The more productivity develops, the more it comes into conflict with the narrow basis on which the relations of consumption must rest.* (Marx 1981: 352-3. Emphasis added).

This is how ‘excess capital coexists with a growing surplus population’ (Marx 1981: 353). Marx concludes that section by saying:

The *true barrier* to capitalist production is *capital itself*. It is that capital and its self-valorisation appear as the starting and finishing point, as the motive and purpose of production; production is production only for *capital*, and not the reverse, i.e. the means of production are not simply means for a steadily expanding pattern of life for the *society* of producers. The barriers within which the maintenance and valorisation of the capital-value has necessarily to move – and this in turn depends on the dispossession and impoverishment of the great mass of the producers – therefore come constantly into contradiction with the methods of production that capital must apply to its purpose and which set its course towards an unlimited expansion of production, to production as an end in itself, to an unrestricted development of the social productive power of labour. (Marx 1981: 358)

And he repeats later on, ‘The ultimate reason for all real crises remains the poverty and restricted consumption of the masses’ (Marx 1981: 615), challenging frontally any idea that the ‘fundamental’ cause of capitalist crises lay in some separate sphere of production. That Marx’s views directly contradict productionist views is hardly surprising, given the constitutive nature of Marx’s distinction between the use value and value *sans phrase* which lies at the root of the commodity, the primary unit of capital. Production and circulation are equally necessary – ‘The circulation of commodities is the starting point of capital’ – to the reproduction of capital and therefore equally problematic in its reproduction and productive of crises.

### **3: How to Deny the Obvious: Let us count the Ways**

Underconsumption, as Anwar Shaikh’s influential 1978 ‘Introduction to the History of Crisis Theories’ put it, is the view that ‘if left to itself, capitalism is incapable of generating sufficient effective [consumption] demand to support accumulation’ (Shaikh 1978: 222). Two distinct arguments are made in rejecting this view (a rejection which is all the more relished because the view is so intuitive for so many). One is that it is a sort of moralistic argument about human needs left unfulfilled by capitalism which takes no cognizance of Marx’s clear recognition that ‘effective demand’, backed by the ability to pay, is the only sort of demand that matters in capitalist society. We deal with this in section 3.1. The second argument is productionist. It takes the view that capitalism is a system of ‘production for production’s sake’, that for Marx only investment demand matters in capitalism, not consumption demand. Productionism comes in two variants according to the particular mechanism of crisis each deems the fundamental one. In Tugan Baranowski’s original version the favoured mechanism of crisis was disproportional production between sectors while in productionism’s more modern versions it is the TRPF which is the fundamental crisis mechanism. While the first dismisses consumption problems on the basis of an outright adherence to Say’s Law, the second argues that only investment demand matters in capitalist reproduction and crisis or that consumption demand is merely a part of investment demand in that it is the variable capital set in motion in any period (Shaikh: 227). Both variations on this view too are, as we shall see, remarkably like ‘every seller bringing his own buyers to market’, like Say’s Law. Section 3.2, deals with four general problems of productionism before Sections 3.3 and 3.4 deal with each of its chief forms.

### 3.1: What's Really Wrong with Underconsumptionism?

The dismissal of underconsumption as a problem claims to derive from Marx's own discussion of underconsumptionism in which he famously said that

It is a pure tautology to say that crises are provoked by a lack of effective demand or effective consumption. The capitalist system does not recognise any forms of consumer other than those who can pay, if we exclude the consumption of paupers and swindlers. The fact that commodities are unsalable means no more than that that no effective buyers can be found for them, i.e. no consumers (no matter whether the commodities are ultimately sold to meet the needs of productive or individual consumption). (Marx 1978: 486-7).

However, those who take this to be Marx's refutation of underconsumptionism miss an important point. What is wrong with tautologies is merely that they go no further than themselves, that they have no further implication. Statements only become tautologies when there is an attempt to draw implications which cannot be drawn. But they are not, thereby, wrong. As we have already seen, Marx emphasised repeatedly how the difficulties of realisation thanks to the restriction of workers' consumption.

The real problem was, as Marx pointed out, that the classic underconsumptionist remedy – increasing wages – would not avoid crises.

[W]e need only note that crises are always prepared by a period in which wages generally rise, and the working class actually does receive a greater share in the part of the annual product destined for consumption. From the standpoint of these advocates of sound and 'simple' (!) common sense, such periods should rather avert the crisis. (Marx 1978: 486-7)

Two things cry out for notice. First, while underconsumptionists were certainly wrong in thinking that crises could be avoided through increases in workers' incomes, this did not mean that rising wages would make no material difference to patterns of accumulation and reproduction. Section 4 elaborates on how they did during the 'Long Boom' and how the stagnant wages played out in the 'Long Downturn'. Secondly, on the one hand increasing wages could contribute to stabilizing capitalism by increasing demand, not to mention improving the lives of workers and their families, but that could be at the cost of a squeeze on profits and another kind of crisis, as Marx pointed out in the passage quoted above and Kalecki (1943) also recognised. On the other, on their own, rising wages would not solve the fundamental problem that the workers receive only a portion of their product under capitalism, only postponing the problem at the price of making it greater in the future. While increasing wages can, under certain circumstances, squeeze profits, leading to crises of profitability, rising wages do not have this effect when productivity is rising faster than wages are and wage increases constitute a less than proportional share of the rising product. In this scenario, however, they can, despite creating greater consumption demand than before the productivity-led wage increases, lead to a still-greater disproportion between consumption and production thanks to the increases in productivity and therefore, eventually, to an even greater paucity of demand.

One may note in concluding this part of our argument that Bleaney's well-known Marxist study of underconsumption theories, widely cited though it is by those wishing to dismiss the role of consumption demand, does nothing of the sort. He only dismisses as underconsumptionist theories which, unlike Marx and Keynes, consider only the role of consumption demand, leaving out investment demand. However, he does not dismiss the role of consumption demand and nor does he argue that Marx and Keynes do. Moreover, Bleaney is sufficiently careful to note that while most underconsumption theories hitherto were deeply flawed, they did not have to be:

Underconsumption theories can be constructed free of elementary mistakes, and therefore the whole tradition of thought cannot be rejected on these grounds alone. In skeletal form they can be presented as follows: the consumption of the working class always falls substantially short of the total productive capacity of the community, while capitalists will always only absorb a limited portion of the surplus value in personal consumption. On average, there is a tendency for capitalists not to plan to invest sufficiently to fill this gap between production and consumption, so that the economy is being pressed down towards stagnation because of inadequate effective demand. (Bleaney 1976: 237)

This is no more than a summary of Marx's views, and, one might add, Luxemburg's, Keynes' and Kalecki's.

## **3.2 Productionism and its Problems**

There are four distinct general problems with productionism which need to be understood before we can go on to discuss the two specific arguments against consumption demand.

### **3.2.1: *Non-Sequitur***

First, productionists infer a *non-sequitur*. Engels had counted the discovery of surplus value to be one of Marx's two key discoveries, the other being the historical materialist interpretation of history (Engels 1883). It is true that the most critical departure on the way to this discovery was going from the sphere of circulation, where labour power is merely bought and sold, into the hitherto-neglected sphere of production, where it is (productively) consumed, going, as Marx picturesquely put it, from 'the noisy sphere [of the market], where everything takes place on the surface and in full view of everyone ... into the hidden abode of production on whose threshold there hangs the notice "No admittance except on business"'. Here we ... see, not only how capital produces, but how capital is itself produced.' (Marx 1977/1867: 279-80).

It is also true that in doing this Marx corrected the 'astounding' error in political economy hitherto – including Smith's and Ricardo's – of presenting 'accumulation as nothing more than the consumption of the surplus product by productive workers' (1977/1867: 736), nothing more than the wages of productive workers alone (a doctrine that 'political economy has not failed to exploit in the interests of the capitalist class' Marx 1977/1867: 738)). Accumulation may be resolved into wages alone in some infinite regression, Marx argued. And indeed this must be so if labour power was the source of value. But that did not help us understand the instabilities that drove capitalism. The real issue was to understand the

accumulation process within a reasonable time-frame, say a year (perhaps this was Marx's version of 'In the long run we are all dead'!). And within such a time-frame, without the infinite regression that permitted Smith and Ricardo to dissolve all capital outlay into workers' wages, were simply wrong because, in fact, any outlay of capital consisted, in addition to variable capital which purchased living labour, of constant capital which purchased dead labour. This was, in turn, composed of circulating and fixed capitals.

It is further true that this is where Marx's analysis finally got on the path to demonstrating the TRPF. With only part of constant capital's value being transferred to the product in any given year, a necessary gap emerged between the outlay of capital and the portion of it which was transferred to the value of the product of any given year. On this gap rested the critical distinction between the rate of surplus value and that of profit: the former was the ratio between the surplus and variable capital (wages) while the latter was that between the surplus and constant capital (with significant increases being possible in the outlay on fixed constant capital) as well as variable capital. If the value of fixed capital rose sufficiently relative to other components, rates of profit could decline even as rates of surplus value rose. It was the tendency of constant capital, particularly of its fixed portion, to go up that accounted for the TRPF, a phenomenon widely lamented but unexplained until Marx's *Capital*.

All of this is true but the non-sequitur lies in assuming that any of it implies that circulation does not matter, that demand, particularly consumption demand, particularly still workers' consumption demand, is not a factor in capitalist reproduction and its paucity, a cause of crisis. None of the above means that capitalism, as generalised *commodity* production, was, in Marx's view, anything other than the *contradictory unity* of its production and circulation processes. Both words are important. On the one hand, the contradiction that was the TRPF could not operate, could not manifest itself, without the intervention of circulation. Profits could only be had upon realization, upon sale, and only through sales of any product could the level of the 'socially necessary labour' required to produce it be determined. This was necessary before the higher-cost, lower-profit production firms could be separated from the lower-cost, higher-profit firms. And it constituted the benchmark which more dynamic firms attempted to undershoot in order to gain cost advantages, thereby setting off the processes that typically brought down the rate of profit across any sector. Finally, a critical determinant of this process is the level of demand: without demand constraints limiting the market, the whole process would be quite unnecessary. This is clearly reflected in Brenner's account, as we shall see, where the level of demand is among the parameters which determines the behaviour of the rate of profit. Brenner's own rejection of the TRPF (whose problems are discussed in the third section) notwithstanding, there is no reason to believe that this is incompatible with Marx's understanding of the operation of the capitalist economy.

### 3.2. 2: Leaving Out Dialectics

If the first problem is in one sense an unwarranted inference, the second is undialectical reading. Marx may have insisted that accumulation was capital's one and only commandment – 'Accumulate, accumulate, that is Moses and the Prophets! ... Accumulation for the sake of accumulation, production for the sake of production' (Marx 1867/1977: 742). However, he regarded this as a *contradiction* – both imperative and (near) impossible – indeed the fundamental one within which capitalism lived out its tortured existence, not an

accomplished and self-perpetuating fact as it appeared in the flatly one-sided understandings of all-too-many, including its probable originator, Tugan Baranowski:

Not consumption, but production is the determining factor in capitalism. The capitalist entrepreneur seeks to realize the largest feasible profit, but not to create the largest possible amount of means of consumption. In fact, the laws of capitalist competition enforce the capitalization of an important part of profit, its transformation, to a greater or lesser extent, into means of production, not apt for human consumption at all. Hence, one could say that the aim of capitalist production is not consumption but the growth of capital itself. (Tugan Baranowski 1901/2000: 72)

Such separation of production and consumption is simply alien to Marx's reasoning in *Capital*, as we have already seen. What is particularly ironic about this flat reading is that the enforcement of the 'capitalization of an important part of profit, its transformation, to a greater or lesser extent into means of production' was precisely what Marx held responsible, as is clear from the passage from the *Grundrisse* which forms the epigraph for this article, for the historical peculiarity of capitalism as a class society – that, unlike all others, and without intending it, it was capable of, and rested on, advancing (at least some) ordinary workers' consumption to previously unheard-of levels.

### 3.2.3 How Many Key Discoveries?

A third remarkable aspect of the rejection of the role of consumption demand is a partial understanding of how Marx advanced our understanding of capitalism. While Engels may have deemed the discovery of the source of surplus value the key discovery of Marx's economic analysis of capitalism, it is far from clear that there were not other equally weighty aspects to his understanding of capitalism. If the TRPF was based on Marx's understanding of the role of fixed capital in accumulation which was built, in turn, on the foundation of his discovery of the origin of surplus value in production, Marx's understanding of the paucity of consumption demand as a source of crisis also rested equally on his discovery of the source of surplus value. It was the difference between the value of labour power and the value of what it was capable of producing that accounted for the gap between the goods produced and the goods demanded, a gap which could not always be filled by capitalist consumption demand, however gluttonous, or investment demand, however prodigious. Along with his clear understanding that in a monetary economy such as capitalism must be, money could also be hoarded, the paucity of consumption demand was also the basis of his unprecedented critique of Say's law. (Marx 1867/1977: 210)

This insight links Marx, who died in March 1883 to Keynes, who was born three months later. Exploration of this nexus has been blocked by the majority of Marxists who are only interested in rejecting Keynes as a 'mere reformist' and the majority of Keynesians who never read Marx. Contrary of the image of mutual repulsion between a rigidly productionist Marx and an anti-Marxist, anti-socialist, anti-working class Keynes, Keynes' oft-quoted expressions of disdain for Marx, socialism and the working class were part of a more complex set of attitudes which included the rarely-noted strong, and acknowledged, intellectual affinities with Marx (Desai 2009, Desai and Freeman 2009, and Dostaler 2007 and, esp., Sardoni, 1997). In particular, Keynes' distinction between the neoclassical 'real exchange economy' and his own conception of a 'monetary economy' on which he built his

whole approach in the *General Theory* is derived from Marx's foundational distinction between the circuit of commodities – C-M-C – and the circuit of capital – M-C-M' which opens *Capital*.

The distinction between a co-operative economy and an entrepreneur economy bears some relation to a pregnant observation made by Karl Marx, - though the subsequent use to which he put was highly illogical. He pointed out that the nature of production in the actual world is not, as economists seem often to suppose, a case of *C-M-C'*, i. e., of exchanging commodity (or effort). That may be the standpoint of the private consumer. But it is not the attitude of *business*, which is the case of *M-C-M'*, i. e., of parting with money for commodity (or effort) in order to obtain more money. (Keynes 1979: 81)

These foundational similarities are hardly surprising: both needed to reject Say's Law before they could proceed with their respective critiques of capitalism and the classical tradition of legitimising it that each inherited.

While Keynes misunderstood Marx in many ways, partly because he seemed to take his Marx second-hand from unreliable accounts, he understood enough to see that he stood with Marx and against the classical tradition on some fundamental issues. (Keynes 1979: 81-2n). And, as Claudio Sardonì has shown, an early draft of the *General Theory* was formulated in terms close to, and derived from, Marx's. Keynes only

abandoned his 1933 approach and, in *The General Theory*, ... formulated the critique of orthodox economics in a different way from Marx ... [because] ... the economic theory criticised by Keynes was significantly different from the Ricardian theory to which Marx referred. In particular, a satisfactory criticism of the marginalist version of Say's Law and its implications required the development of some theoretical issues that Marx was not compelled to take into consideration. (Sardonì 1997: 261).

Marx had criticised Say's Law in its classical Ricardian version but it remained for Keynes to take it on in the form it took in the wake of Marx. The legitimation of capitalism now required that its central category – value – be shifted from the objective basis it had in classical political economy onto an entirely subjective basis. This move broke, and was meant to break, the contradictory unity of value and use value on whose foundation Marx exposed the limitations of classical political economy and its understanding of value. Marx's critique of Say's Law and his understanding of the workings of a monetary economy may not have received the fuller treatment that the source of surplus value or the TRPF did in the incomplete work that was *Capital*. Whether this makes them less important discoveries is, in my view at least, moot.

#### **3.2.4: Productionism's Neo-classical, Marginalist and anti-Marxist Origins**

This brings us to the final general feature of the rejection of consumption demand as a factor in capitalist reproduction and crisis. It not only antedates Marx, lying in the Russian Legal Marxists', particularly Tugan Baranowski's, overzealous rejection of the populists' arguments, the theoretical foundation of these arguments are noteworthy. While Shaikh rightly traces the rejection of the role of consumption demand to Tugan-Baranowski and



points out that the target of Tugan Baranowski's critique was the Narodnik idea that capitalism could not develop in Russia, there are four critical things he does not mention.

First, the paucity of consumption as a source of reproduction problems and crisis was not merely the product of Narodnik misunderstanding of Marx's theories, but was a widely held understanding among Europe's social democratic leaders. Kautsky, for instance, had been a target of Tugan Baranowski's original critique and, in turn, the former pointed out in a 1902 review of Tugan Baranowski's work that while markets would indeed grow with the development of capitalism, thanks to the commodification it relentlessly wreaked, they could only grow

less rapidly than the accumulation of capital and the rise in the productivity of labor. Capitalist industry must, therefore, seek an additional market outside of its domain in non-capitalist nations and strata of the population. Such a market it finds and expands more and more, but not fast enough' (Kautsky cited in Zarembka 2000: 217).

Secondly, Shaikh elides important differences between Lenin and Tugan Baranowski and simply assimilates the two positions as anti-populist. However, Lenin concentrated on processes of commodification in the rural economy while Tugan Baranowski focused on the industrial economy (Howard and King 1989/I: 168-76). While Lenin's *The Development of Capitalism in Russia* (1899/1967) had refuted the Narodnik argument by showing how the commodification that came with capitalism would expand markets and that, in that sense, the development of capitalism in Russia was not impossible, he nowhere assumed that the market would be sufficient, or that consumption demand did not matter and that capitalism would not suffer from problems and contradictions on this front. Indeed, when later confronted by Tugan Baranowski's argument to this effect, Lenin gave it an interpretation which 'subsumed consumption conditions under proportionalities' (Zarembka 2003: 290), i.e. considered the paucity of consumption demand to be an instance of disproportionality. Confusingly, Tugan Baranowski seems to have at least partially accepted this subsumption (Zarembka 2003: 291) raising questions the seriousness of his commitment to the view that capitalist contradictions were to be located in the sphere of production alone and that realization problems could be solved by the infinite production of producers' goods.

Thirdly, Shaikh does not inform us that, as a marginalist, Tugan Baranowski operated with a conceptual apparatus considerably at variance from Marxism. Most seriously, it differed on the central idea of value, rejecting classical political economy's objective value in favour of a subjective idea of value, based on utility and individual preferences (Clarke 1991). The resulting chasm between the two ways of thinking can be illustrated with a brief passage in which Tugan reflects on profit, price and value.

... the problem of profit has nothing in common with the problem of value. It is clear that, from the point of view of the individual firm, profit is a phenomenon of trade and can only be clarified through the laws of the formation of price and, consequently, of value. In a society in which the division of labor prevails, a good produced by a particular entrepreneur, considered as a thing, as a use-value, has nothing in common with the goods which make up its production costs. For example, a piece of cloth as a thing, as a use-value, is something completely different from the machines, the factory buildings, the workers' means of consumption, the raw material, the fuel and the other things which were needed to produce it. Only in its characteristic as exchange value is the produced good – the piece of cloth – greater than the goods that

were necessary for its production. ....[S]ocial wealth is independent of prices. This wealth can only be expressed in terms of use-values. (Tugan Baranowski 1901/2000b: 98-99)

Not only is profit no longer a function of the extraction of surplus value, but a ‘phenomenon of trade’, not only does price exhaust the meaning of value, not only is social wealth thought of only in terms of use-value, Tugan Baranowski has no use for the complex social alchemy of objective value through which alone concrete labour becomes abstract and socially necessary labour the basis of value. Tugan Baranowski’s Marxism, if such it be called at all, is drained of all Marx’s critical and analytical power. It is hardly surprising then that, in line with most marginalists, Tugan Baranowski also considered himself an adherent of Say’s law whose rejection lay at the heart of Marx’s understanding of capitalism as a contradictory system.

Tugan considers himself a supporter of the doctrine he ascribes to Say, James Mill, John Stuart Mill, and Ricardo that ‘given a proportional distribution of social production, supply and demand must coincide’.... For Tugan, therefore, ‘when Marx opposes the lack of proportionality to the efficiency of social consumption as two independent causes of stagnation, he acknowledges being a follower of Sismondi’s underconsumptionist theory. (Zarembka 2003: 291)

Tugan Baranowski’s ‘disproportionality’ theory of crises arises precisely from this rejection on of Marx’s value analysis and his fundamental assumption of Say’s Law. Since there can be no general ‘excess of social product’ (Tugan Baranowski 2000a: 78), and since value is only price – a matter of supply and demand – there can only be disproportions arising from the unplanned nature of capitalist production. These can give rise to crises, must do, for in Tugan Baranowski’s view, they can have no other origin.

We have seen that capitalist production itself creates its own market – consumption being only one of the elements of capitalist production. If social production were planned, if the directors of production had a perfect *knowledge* of demand, and the *power* for transferring labor and capital from one branch of production into another, then, commodity supply could not exceed demand, however low social consumption might be. Yet, given the complete lack of planning of social production and the anarchy that reigns over the market, the accumulation of capital leads inexorably to crises. (Tugan Baranowski 1901/2000a: 77)

### **3.3: Productionism Against Populism**

In insisting that capitalism was not a system of production for need or consumption, productionists forget that this was only one side of a contradiction whose other side was value’s existential imperative to realise itself as a use value. While becoming a use-value in the production of further value was a detour, and indeed an increasingly frequent one as capitalism developed, the ultimate prize for all values produced was to be realised in the consumption as final use values. However, productionist arguments, which Mandel labels ‘neo-harmonicist’, locate the problems of capitalism in the sphere of production alone, and assume, like J.B. Say, that ‘there is no specific problem of value realization, only one of surplus-value production.’ (Mandel 1989:40). Both versions of productionism assume an expansion of the production of producers’ goods to an extent and in a way that would obviate

any potential for paucity of workers consumption to cause crisis. While it is certainly true that the production of producers' goods can be expected to become a growing portion of any capitalist economy as it develops, these two arguments envisage a phantasmagorically one-sided 'production for production's sake' which was neither envisaged by Marx nor experienced in any capitalist society.

As we have seen Tugan Baranowski, productionism's originator, saw crises as originating in the anarchy of capitalist production. More specifically, disproportions arise between the production of Department I, producing investment goods and Department II, producing consumption goods. These could be averted by organizing investment through cartels or the state. In Tugan-Baranowski's view, which he illustrated mathematically, 'department I could develop completely independently from department II, to the point where the output of consumer goods would tend to fall towards zero, without such a development causing any crisis whatsoever.' (Mandel 1981: 43-4). Thus discounted, consumption played no independent role: shortfalls in consumption demand could be made up by increases in investment demand, provided 'disproportionality' between sectors could be avoided.

Tugan Baranowski's resulting conception of capitalism as an endless production of producers' goods is easily contradicted. As Mandel rightly points out, 'unlimited growth of department I leads to an ever faster growth of the productive capacity of department II (although not necessarily in the same proportion); in other words, that under capitalist *commodity relations* production can never fully emancipate itself from sales to the final consumer' (Mandel 1978: 72). What needs accounting, however, is the enduring attraction of this view.

As mentioned earlier, Tugan Baranowski and other Russian Legal Marxists developed this view in the course of their debates with the Russian Populists. As Rosa Luxemburg points out in her critique of their views, the result was overkill.

There can be no doubt that the 'legalist' Russian Marxists achieved a victory over their opponents, the 'populists', but that victory was rather too thorough. In the heat of battle, all three – Struve, Bulgakov and Tugan Baranowski – overstated their case. 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 without limits, one has obviously proved the unlimited capacity of capitalism to survive! (Luxemburg 1913/2003: 304)

Tugan Baranowski developed this view of capitalism on the basis of his reading of Marx's reproduction schemas at the end of Volume II of *Capital*, schemas whose relation to the rest of *Capital* was problematic, going, as Rosa Luxemburg showed, directly against its grain. They particularly contradicted 'the conception of the capitalist total social process and its course as laid down by Marx in *Capital*, volume III ... based on the inherent contradiction between the unlimited expansive capacity of the productive forces and the limited expansive capacity of social consumption under conditions of capitalist distribution' (Luxemburg 1913/2003: 323).

As we have also noted, the insufficiency of consumption demand, and its centrality to capitalist reproduction, is a theme that runs through all the volumes of capital, including volume II. It is only the incompleteness of *Capital* that prevents this theme from being

developed more fully in its own right. Against this, in the reproduction schemas at the end of volume II, Marx sought to show merely the *possibility* of capitalist reproduction, simple or expanded, abstracting from capital's contradictions, and the possibilities for crises, whether they may arise from accumulation or from realization. Indeed, as Rosa Luxemburg showed, in these schemas Marx also abstracted from technical progress and increasing labour productivity and the account of crisis most associated with this, the TRPF, is not developed until volume III. Moreover, the abstraction of the schemas was reinforced, in Tugan Baranowski's case at least, with by his marginalism and adherence to Say's Law. And what is interesting is that this adherence was not unconnected with his rejection of the TRPF in terms similar to those which would be invoked by Okishio many decades later. Tugan Baranowski argued Marx ignored the fact that increased investment, increased organic composition of capital, also increased productivity.

The error of the whole argument lies, however, in that we cannot suppose that all the rest remains constant. Marx himself has noted that the elevation of the composition of capital is only a capitalist expression of an increase in labor productivity. As variable capital is a smaller proportion of total capital, the productivity of labor rises. The effect of both factors on the rate of profit - and Marx ignored this - is balanced out, and the profit rate cannot fall, in spite of the modification of capital composition. (Tugan Baranowski 1901/2000b: 91)

Having first shown that it could offset increases in the organic composition of capital, leading to no fall in the rate of profit, he then went on to show that actually, increased investment would increase productivity to such an extent that

The total mass of product undergoes a strong increase. So, the rise in the productivity of labor is much higher than we have supposed. Hence, this implies a modification in our conclusions: We have concluded that the replacement of manual labor by mechanical work does not reduce the rate of profit. This would be correct under the supposition that the introduction of machines does not imply an increase in the mass of goods. But, since actually the mechanical work generates a greater amount of product than the manual labor, the rate of profit must increase as a consequence of the relative rise in the constant capital. This is, exactly the opposite of Marx's theory. *On the basis of the theory of labor-value, we reach the conclusion that the replacement of workers by machines, in itself and for itself, not only does not imply a tendency for the rate of profit to fall; rather, it implies a rising tendency of this rate.* (Tugan Baranowski 1901/2000b: 95-6)

We take up the matter of this 'disproof' of the TRPF in the next section. What is relevant in explaining the endurance of productionism is that though Rosa Luxemburg brilliantly exposed this position and insisted on the reality of the problem of consumption demand in *The Accumulation of Capital*, this work remains unjustifiably dismissed. In that work, which is regularly dismissed as flawed with the appellation 'brilliant' attached, one suspects, as a consolation prize, she had posed a very simple question: for successful accumulation to take place

... the desire to accumulate plus the technical prerequisites of accumulation is not enough in a capitalist economy of commodity production. A further condition is required to ensure that accumulation can in fact proceed and production expand: the

effective demand for commodities must also increase. Where is this continually increasing demand to come from which in Marx's diagram forms the basis of reproduction on an ever rising scale? (Luxemburg 1913/2003: 104)

Luxemburg comes, via a process of elimination, to the answer that in the 'pure' capitalist economy consisting of only workers and capitalist, the sources of demand inevitably remained inadequate and therefore capitalism had to either reach beyond itself to non-capitalist formations or seek in other ways to deepen and broaden the home market. This was in line with Marx's emphases all along and only corrected the smoothing out of contradictions in the schemas of reproduction.

But, as Paul Zarembka shows, Luxemburg's work has been subject to the some of the most irresponsible critiques in the history of Marxism. Among the most important critiques of *The Accumulation of Capital*

... made after her 1919 murder, Nikolai Bukharin's [was] the most well-known and most instrumental in putting her down. These critiques carry differing political agenda – some pro-Soviet, some anti-Soviet, some "independent", some Hegelian-based, some not so – but are not more cogent for their diversity. Typically they choose a secondary issue, raise it to front-line status, and criticize that. The result is often either an error or a distortion. But confronting Luxemburg's theory in its full integrity is a rarity. (Zarembka 2002: 4-5).

Diverse as these critiques were, one point emerges, perhaps, as a very widely shared criticism of Luxemburg: that the penetration by capitalism of non-capitalist formations 'can and does happen and it does aid capitalist accumulation when it does happen, but it is not *required* by the logic of capitalism.' (Zarembka 2003: 8). However, it is only by dismissing the necessity of consumption demand falling short that this can be asserted.

The impact of these unjustified dismissals of Luxemburg's arguments by Marxists can be seen, ironically, in Mandel's defence of Luxemburg. Mandel is, of course, not among those who dismiss consumption demand. But even he ends up conceding something to the dismissal of Luxemburg. Luxemburg had indeed erred, he avers, in thinking of capital in general rather than of capitalism as the competition of many capitals in which 'capitalists can indeed grow richer by buying one another's surplus product' (Mandel 1978: 64) and where 'the surplus-value created at one point requires the creation of surplus-value at another point, for which it may be exchanged' (Grundrisse: 407). Her working out of the 'inter-related variables of the reproduction schemas' (Mandel 1978: 67) did not make her case fully, at the level of the actual historical process of capital accumulation. Nevertheless,

Luxemburg seems fundamentally correct. Capitalism was born essentially in a non-capitalist milieu; it has immensely enriched itself by plundering that milieu, and the same value transferring metabolism has continued to this very day. 'Pure' capitalism has never existed in real life and, as Engels rightly predicted, it never will exist, because 'we shall not let it come to that'. (Mandel 1978: 68)

But does Mandel really need to put Luxemburg in the position of being theoretically wrong but historically correct, as though she was, though logically deficient, at least that lesser thing, a better observer? Surely not, given his agreement with her on the relevance of consumption demand.

Luxemburg is one of the few Marxists of her generation, and for that matter, of all Marxists since Marx, to refer to the critical link between paucity of demand and crisis on which Marx's understanding clearly rested even if he did not have the time to develop it. Among commentators on Luxemburg it was left to Joan Robinson, by no means immune from the general condescension towards, and tendentious reading of, Luxemburg, to note this. And perhaps it had to be Robinson. For this theme also links Marx and Luxemburg to Keynes and Robinson was one of the few scholars to know Marx and Luxemburg to Keynes. Luxemburg, Robinson says, 'appears to be concerned with the inducement to invest. What motive have the capitalists for enlarging their stock of real capital? How do they know that there will be demand for the increased output of goods which the new capital will produce, so that they can 'capitalize' their surplus in a profitable form?' (Robinson 1951/2003: xxix). Robinson believed Luxemburg to be incognizant of the 'savings and investment problem, for she takes it for granted that each individual act of saving out of surplus is accompanied by a corresponding amount of real investment, and that every piece of investment is financed out of surplus of the same capitalist who makes it'. Thus, Robinson held, Luxemburg had greater affinities to Hobson than to Keynes. But the passages to which she refers us merely state the assumption Luxemburg believes Marx makes in his reproduction schemas and are not a statement of her belief about capitalism in general nor, considering that Luxemburg regarded these schemas as out of joint with the rest of the analysis of *Capital*, are they a statement about Marx's beliefs. In any case, any assumption of an identity of saving and real investment flies in the face of Robinson's own understanding of Luxemburg as being concerned about the inducement to invest – what else might a lack of inducement refer to but a difference between surplus and investment, a hoard?

As Prabhat Patnaik notes, Marx always insisted that in any monetary economy there was always the possibility of a 'hoard' (Marx 1867/1977: 736), an un-invested portion of the profit which implies that Say's Law cannot possibly hold and which, therefore, implies the possibility of generalized overproduction.

But neither Marx nor his followers pursued this fundamental contribution of Marx any further; they preferred instead to follow exclusively the other major theoretical discovery of Marx, namely, the one relating to his theory of surplus value. This is why three quarters of a century had to elapse before the same themes surfaced again during the Keynesian revolution through the writings *inter alia* of Kalecki and Keynes...(Patnaik 2008: 3-4)

Part of this difficulty here is, of course, the mutual ignorance and antagonism between the partisans of Keynes and of Marx, not to mention the systematic distortion of the work of each by their own followers. And this link points to another implication of the role of consumption demand in capitalist reproduction and crises. As we have seen Rosa Luxemburg had already noted how the paucity of consumption demand required either that capitalism reach beyond itself to non-capitalist formations to find markets, in short engage in imperialism, or it must seek ways to deepen and broaden the home market. This link was also underscored by Hobson in his case against imperialism.

In Hobson's view since it was the paucity of home demand that was a major driver of imperialism, government action could overcome the problem of over production and underconsumption in better, universally beneficial, ways through social reforms and the redistribution of income. As he put it,

If the consuming public in this country raises its standard of consumption to keep pace with every rise of productive powers, there could not be no excess of goods or capital clamorous to use Imperialism in order to find markets: foreign trade would indeed exist, but there would be no difficulty in exchanging a small surplus of our manufactures for the food and raw material we annually absorbed, and all the savings we made could find employment, if we choose, in home industries. (Hobson 1965: 81)

One might say here that Hobson was subject to the same criticism that Marx made of the underconsumptionists of his time. Or one might recognise that the non-imperialist national social order envisaged by Hobson, which was essentially no different from the one envisaged by Keynes (1933, 1936/1967), required not reform but a change in the nature and dynamics of capitalism, in particular in its class structure, that amounted to a revolution. Marxist critics of imperialism of the time were simply more conscious of the political implications of their critique.

### **3.4: Investment Against Consumption**

The contemporary Marxist productionism views not disproportion but the TRPF as the chief cause of crisis, that is, provided they agree that the TRPF is a valid theory. Many Marxist economists do not. It is well-known that Marxist economists in the post-war period believed they could demonstrate a rise in the rate of profit (e.g. Sweezy 1942/1970). While assessing this argument, and the issues of data and the suitability of the statistical measures used, would take us too far away from the main concerns of this paper, one may safely say that this demonstration did not amount to a rejection of the TRPF. The TRPF is just that, a tendency, which can be, and often has been, counteracted by other tendencies – including that held responsible for the post-war rise in the rate of profit – the cheapening, reduction in value, of capital equipment. However, some Marxist economists reject Marx's account of the TRPF on stronger, theoretical, grounds. They believe, first, that Marx could not solve the 'transformation problem' of how values were transformed into prices (Steedman 1981) and second that, as the famous 'Okishio Theorem' had 'proved' that Marx has been wrong about the TRPF and that instead of falling, the rate of profit should rise.

In the wake of these arguments Marxist economists who interest themselves in these issues broadly divided into those who seek to give, like Shaikh, what they consider is better account of capitalist reproduction in which they have solved the 'transformation problem' and the rate of profit does fall, logically and empirically, and those who reject Marxist accounts of reproduction and crises entirely. However, scholars adhering to what they call the Temporal Single System Interpretation (TSSI) (Kliman 2008, Freeman in Freeman and Carchedi 1996) have recently shown, correctly in my view, that the transformation problem exists only for those who attempt to fit Marx's economic analysis in a neoclassical equilibrium format and assume that prices and values are determined by two independent systems and refuse to see that input and output prices are not determined simultaneously but in circumstances that change with the time that elapses between the moment of input and the moment of output.

As for the Okishio Theorem, we have already seen that Tugan Baranowski dismissed the TRPF by simply assuming that because increased investment leads to increased

productivity, the rate of profit must rise. Part of the problem here is the necessitarian assumption: the rate of profit in Marx's account *tends* to fall, though it can be counteracted by opposing tendencies. However, at least some contemporary Marxists seem to attempt a refutation of the TRPF by assuming that the rate of profit should rise because capitalists would not 'adopt new techniques that *decrease their own rate of profit* – and ... end up reducing overall profitability' (Brenner 1998: 12n, citing Okishio 1961 and Roemer 1978). This seems to imply a relation between capitalists' intentions and the effects of their actions that flies in the face of Marx's careful explication of the operation of the TRPF.

No capitalist voluntarily applies a new method of production, no matter how much more productive it may be or how much it might raise the rate of surplus value, if it reduces the rate of profit. But every new method of production of this kind makes commodities cheaper. At first, therefore, he can sell them above their price of production, perhaps above their value. He pockets the difference between their costs of production and the market price of the other commodities, which are produced at higher production costs. This is possible because the average socially necessary labour-time required to produce these latter commodities is greater than the labour-time required with the new method of production. This production procedure is ahead of the social average. But competition makes the new procedure universal and subjects it to the general law. A fall in the profit rate then ensues – firstly perhaps in this sphere of production, and subsequently equalised with the others – *a fall that is completely independent of the capitalists' will*. (Marx 1981/1894: 373-4)

What the TSSI contributes is an explanation of this otherwise astoundingly inexplicable misreading. The problem, as Andrew Kliman notes, is the simultaneous valuation of inputs and outputs, equalizing them in a way that 'spirits away the disinflationary or deflationary effect of technological change' (Kliman 2007: 117). It is not merely that they are, like Tugan Baranowski, mesmerized by the increase in the volume of output which results from productivity increasing, cost-diminishing investment. Rather, they are theoretically constrained from taking into account the price declines which also ensue in the process of equalization because they value inputs and outputs simultaneously:

That physical output rises in relation to physical input as a result of increasing productivity is undeniable, as is the fact that this tends to boost profitability. Yet these same increases in productivity also tend to reduce the rate of increase in the *price* of the output relative to the price of the input. (Kliman 2007: 114)

Marx version of the TRPF can only be rejected on the basis of erroneous neoclassical equilibrium methods, a trend of which Tugan Baranowski was a pioneer, as we have seen, in which prices and values are determined by separate systems and time plays no role, and by the most tendentious readings of his careful explanations.

While Shaikh does believe there is a 'transformation problem', he is not a partisan of Okishio. The detail of his reconstruction of the TRPF that most concerns us here is that Shaikh assimilates workers' consumption demand, i.e. the bulk of consumption demand in any society, into investment since it consists of constant capital (fixed and circulating capital) and variable capital, i.e. wages. Having done that he merely seeks to 'prove' that it was *possible* that consumption demand would pose no problem. As he sees it,



...if capitalists did undertake the appropriate amount of investment, then they would indeed be able to sell their produce and make the anticipated profits. If this success spurs them to reinvest once again in anticipation of yet more profits, they would be rewarded once again, and so on. All the while, consumption would expand due to the growing employment of workers and the growing wealth of capitalists. (Shaikh 1978: 229)

In such a reading, paucity of demand can only be a symptom of a deeper, more fundamental, problem – the decline in the rate of profit which reduces the willingness of capitalists to invest. However, there are at least two reasons why this argument is not successful in relegating consumption demand to the margins as a cause of crisis. First, both Marx's own analysis and the historical experience of capitalism over recent decades show that while investment demand, when it is robust, can and does often offset the paucity of consumption demand by increasing employment and therefore consumption demand (as in the classic 'Keynesian' prescription), the conditions of existence of capitalism ensure that it can never keep pace with the ever-increasing scale of production. Secondly, capitalists' desire to invest is negatively affected by perceptible shortfalls in demand, as both Marx and Keynes recognised.

In Shaikh's scenario, investment demand, defined as including constant and variable capital, could keep growing in a way such that the expansion in each period produced adequate demand for the value, including surplus value, produced in the previous period. Such 'balanced growth'

implies that productive power and effective demand *can* grow at roughly the same rate. Taken by itself, however, it does not necessarily imply that capitalism achieves anything remotely like that. Nor does it tell us anything about the way the causation might run if such growth was indeed possible on the average. *Nonetheless*, the fact that expanding reproduction is possible poses a distinct threat to underconsumption theories. (Shaikh 227 Emphasis added – RD))

Shaikh spends no time on whether such 'balanced growth', now proved theoretically possible, can be actually realised, or why capitalism does not 'achieve anything remotely like that'. Instead he moves swiftly on to talking as though this mere *possibility* is enough to dismiss 'underconsumption'. The problems with this manoeuvre should be obvious to anyone. First, if the possibility of 'balanced growth' is to serve as the refutation of the relevance of consumption demand, Shaikh would have to demonstrate that the conditions of expanded accumulation he stipulates would be normally, or at least fairly regularly, exist to the extent necessary to undo the effects of the extraction of surplus value on the income, and therefore consumption capacity, of workers. Though by his own admission, they don't, Shaikh is not thereby led to wonder what effect such imbalances might have on capitalists' inclination to hoard, rather than invest. Second, deriving workers' consumption from investment as 'variable capital' overlooks the fact, continuously emphasised by Marx, that the laws of competition tend, over time, to *reduce* the labour necessary for capitalist production and therefore the amount of variable capital. Can constant capital take up the slack?

Here there are two scenarios. One is where the increased production of Department I goods is realised in sales to Department II firms. In that case,

The only thing this analysis proves is the fact that consumption ... grows as long as accumulation grows. But it does not prove that consumption grows in the same proportion as does the productive capacity of Department II. Indeed, the combined operation of the increasing organic composition of capital in department II and the increase in the rate of surplus-value in the overall economy makes it rather probable that (at least periodically) consumption, while growing, will grow less than productive capacity in department II. In which case, a glut of consumer goods can indeed occur before accumulation has slowed down in the economy taken as a whole (Mandel 1981: 47)

However, some raise a second Tuganesque possibility: that the increased production of Department I is realised through sales to other Department I firms, and not to Department II firms. This would indeed be the ultimate phantasy of non-contradictory, self-perpetuating capitalist accumulation, production for productions's sake gone bonkers. However, the conditions under which it would take place would have to be specified – what would the relevant demand conditions have to look like? Where would demand for more and more producer goods which did not produce consumer goods come from? Why would it occur? Has it ever occurred? Certainly no historical examples can be mustered for this (the Chinese economy of recent years, where investment has accounted for nearly a third of total annual product, and the Soviet economy of the 1930s might be the closest examples. But given the degree of state involvement in the first and the non-capitalist nature of the second, they do not apply since the argument in question concerns a competitive private capitalist economy explicitly).

Contrary to the reproduction schemas of volume II, where we begin with the production of goods in Department I, with the production of producers' goods, the analysis of the rest of capital clearly demonstrates that capitalism developed originally by taking over existing pre-capitalist production for need, subsuming workers only formally. It triumphed over these pre-capitalist producers, *manufacturers*, by the efficiency of its production which it continually increased by producing producers' goods. However complex and sophisticated this production of producers' goods has got over the decades and centuries, it does not seem to me to have broken its *ultimate* link to human need (albeit expressed through *effective* demand alone). If a case is to be made that this link was indeed broken, the point in the historical development of capitalism where it was broken would need to be clearly specified. It is hardly surprising that no one has done this. On the other hand, the career of capitalism in the latter 20<sup>th</sup> century shows that the link between capitalist production and consumption remains alive and well.

#### **4: The Demand Problem in the Current Crisis**

Robert Brenner's account of the political economy of postwar capitalism, in particular its Long Boom and Long Downturn (1998, 2003, 2006, 2009) foresaw the present crisis and is, to my mind, the only properly historical Marxist account of capitalism in the latter part of the 20<sup>th</sup> century. It has elicited considerable critique. Debate revolves around his focus on manufacturing to the exclusion of other sectors of the economy, his use of the triad of US, Germany and Japan as a stand-in for the world capitalism, as well as other issues (HM 1999; Arrighi 2003). From our point of view, however, the work's most germane aspect is its view of capitalist crises: his theoretical dismissal of the TRPF and his subsequent historical reconstruction of the same. The matter is complex.

On the one hand, Brenner misunderstands, or at least misrepresents, the TRPF. In criticising what he calls ‘Fundamentalist Marxist theory’ he says that ‘The rate of profit falls, from this perspective, because with the real wage assumed constant, investment in mechanization cannot but result in an increase in labour productivity (output-labour ratio) that is more than cancelled out by a decrease in capital productivity (real output-capital ratio)’ (Brenner 1998: 11n). Here Brenner, like other critics of the TRPF forgets that the proposition in question is a tendency not an iron law and gives his own counter-proposition the form of such a law. He seems, further, to assume that the paradox that ‘capitalists adopt new techniques that *decrease their own rate of profit*’ (Brenner 1998: 12n) simply cannot obtain. We have already seen, on the contrary, that this is precisely the paradox that underlies the TRPF. Marx would hardly deny either that the increases in the organic composition of capital on the part of individual capitalist is motivated by a desire to increase his rate of profit, an increase which would last until the new technology became generalised in the sector, or that when certain technologies raise productivity particularly high, and other circumstances prevent wage increases in line with productivity increases and price decreases in line with lower costs, conditions for continuing high profit rates may exist even after a given technology is generalised.

On the other hand, Brenner’s dismissal of the TRPF is, in any case, rather gratuitous – it is not necessary for his essentially historical argument. If that were not enough, he re-establishes the same tendency out of the facts he encounters! His explanation of the ‘Long Downturn’ turns on falling profitability in manufacturing and it is hard to distinguish from Marx’s account of the TRPF as outlined in this paper. Indeed, one might say, having rightly dismissed his own wrong understanding of Marx’s TRPF, Brenner is more or less forced to re-create a TRPF in historical form in the course of his explanation which is essentially the same as Marx’s original and correct understanding. Brenner’s recreation of the TRPF vindicates the TSSI view that only assuming away the product price declines that follow the generalization of a technology across a sector allows the critics of the TRPF to make their case that profit rates necessarily rise. It also reveals the profound link between demand and the mechanisms of the falling rate of profit. Brenner’s

account of the long downturn ... finds its source of the profitability decline ... in the tendency of producers to develop the productive forces and increase economic productiveness by means of the installation of increasingly cheap and effective methods of production, *without regard for existing investments and their requirements for realization*, with the result that aggregate profitability is *squeezed by reduced prices in the face of downwardly inflexible costs*. (Brenner 1998: 23-4)  
[Emphases added]

In Brenner’s empirical account, then, not only do profit rates fall, not only do they fall because price decreases follow on from increasing productivity, the rise and fall of profit rates is inextricably tied up with the problem of realization, of demand, including, as will become clear, consumption demand.

Brenner’s explanation of the Long Boom and Long Downturn has two further virtues which, however, have not hitherto been pointed out. First, it puts the political economy of our time in its historical context, seeing capitalism not as an unchanging and self-contained system but one which has evolved over time – whether through the critical role of national economic management or the post-war recovery of Europe and Japan and the entry of new

industrial competitors. Second, it is an essentially geopolitical account of capitalism, putting the economic role of states – both domestically and in their geoeconomic competition – within a wider perspective on capitalism’s uneven and combined development. Thus formulated, his account features demand centrally.

How so? First, the ordinary processes of capitalist competition – investment to increase productivity, cost-cutting and later price-cutting to expand market share – lead to a situation in which ‘the cost-cutters’ rate of profit remains the same as before and ... the higher cost firms’ rates of profit are reduced, the outcome is an aggregate reduction in the rate of profit in the line’. This constitutes ‘over-capacity and over-production’ ‘in the sense that – *there is insufficient demand* to allow the higher cost forms to maintain their former rates of profit; they have been obliged to cease using some of their means of production and can make use of the rest only by lowering their price and thus their profitability.’ (Brenner 1998: 25-26. Emphasis added). Moreover, over-capacity and over-production further exacerbate the problem of demand: ‘the slowed growth of demand that is the unavoidable expression of the reduced growth of investment and of wages that inevitably result from falling profit rates makes it increasingly difficult to reallocate to new lines. (Brenner 1998: 33).

Demand is also central to the geopolitical aspect of the story. It was important in the Long Boom, though in ways distinct from the usual ‘Keynesian’ understandings. On the one hand, while the Long Boom was not, according to Brenner, rooted in favourable demand conditions created by Keynesian welfare states, they ‘must have helped endow these economies with greater stability than in the past’ (Brenner 1999: 91). On the other, though all major capitalist states featured Keynesian demand management, the bulk of the Long Boom’s growth took place in the recovering economies, while the US stagnated relative to the other fast-growing centres of capitalist accumulation in the 1950s and enjoyed only a brief and highly inflationary boom in the 1960s. This pattern of growth could only be attributed to supply-side factors. However,

*Where the autonomous growth of demand did operate powerfully to augment investment and growth, it appears to have done so, paradoxically, less within national boundaries than across them.* German and Japanese manufacturers derived much of their dynamism by means of appropriating large segments of the fast-growing world market from the US and the UK. This redistribution of market share ... gave a powerful boost to their investment and output, while detracting somewhat from the growth prospects of the US and the UK. The resulting pattern of development was extremely uneven, but it made for a boom of historic proportions. (Brenner 1998: 91. Emphasis added).

Moreover, demand and demand management were critical to Brenner’s account of why, once it had set in, the downturn was so prolonged. The ‘insufficient exit’ of firms which prolonged the downturn was partly because of their ‘intangible assets’ (Brenner 1998: 147) and partly because of ‘barriers against their entering new lines’ But it was also because, critically, ‘With the growth of profits – and thus of investment and wages – suppressed, *aggregate demand grew more slowly.*’ (Brenner 1998: 148. Emphasis added). Demand management – taking the perverse form of tax-cuts and a credit boom in the neoliberal decades that followed – was also critical to easing the series of recessions that nevertheless occurred. And they prolonged the Downturn.

In 1974-5, 1979-82, and in the early 1990s, the advanced capitalist world did indeed sustain a series of recessions more severe than any since the 1930s, after each of which the level of unemployment was generally higher and the rate of growth of output lower than following the previous ones. Had it not been for the *unprecedented expansion of both public and private debt in response to these recessions*, the world economy could not easily have avoided a depression. Yet, the same expansion of credit which ensured a modicum of stability also held back recovery. For, by cutting recessions short – and more generally making possible the survival of those high-cost, low-profit firms which perpetuated over-capacity and over-production, and prevented the average rate of profit from recovering – the subsidy to demand through Keynesian debt creation prolonged the downturn. Keynesianism made the downturn both milder and longer. (Brenner 1998: 150-1)

Of course though Brenner calls the stimuli to demand ‘Keynesian’, they were so only in a perverse sense. In the anti-Keynesian neoliberal times, demand was stimulated first by expansion of government military spending (military Keynesianism) rather than an expansion social and working class consumption. Later, when working class consumption did expand, it took the form of unsustainable forms of consumption credit, and was skewed towards higher income groups (‘credit Keynesianism’). Nevertheless, Brenner’s analysis captures the central irony of neoliberalism: its attempt to restrict working class wages and consumption forced it into perverse forms of demand expansion which soon came up against their own limitations, most spectacularly in the present crisis. But perversely produced or not, expanded private and public consumption via debt, particularly in the US, sustained both investment and consumption demand in the US and in the parts of the world economy reliant on the US market. The extent of the stimulus the US thus provided was so great that consumption came to account for about 70% of US GDP and, as the US emerged as the world’s ‘consumer of last resort’, it produced approximately 6% less than it consumed (i.e. the US trade deficit was about 6 per cent of its GDP). And, one might add, the prospect of the US ceasing to be able to perform the ‘consumer-of-last resort’ function thanks to the current economic and financial crisis is expected by some to result in a major reorientation of growth patterns in the emerging economies which have, in recent decades, been particularly reliant on it – with domestic or inter-emerging economy demand playing a greater role and by others into more brutal interruption of growth world-wide.

Marxists who discount the role of consumption demand in capitalist reproduction and crisis would have to deny all this: the role, so clearly brought out by Brenner, of demand in the Long Boom, the Long Downturn; the role of fiscal and monetary measures in mitigating the potential severity of recessions by putting a floor under demand, including consumption demand; and neoliberalism’s own perverse ways of generating demand. They would also have to deny that the severity of the present crisis, the most severe since the Great Depression of the 1930s, has been mitigated by government stimulus policies, however inadequate these stimuli might be in overcoming them. And they would be unable to understand how the search for new sources of demand by the emerging economies in the current crisis, and its success or failure, will shape the outcome of the present crisis in a fundamental way.

## **5: Reforms and Revolution**

Part of the unpopularity of underconsumptionism arises from the taint of ‘reformism’. However, reformism – the belief that capitalism’s problems are limited and can be resolved without questioning its fundamental basis in private property in the means of production – is one thing, and reforms quite another. A reform may not be attached to any wider idea of whether capitalism needs to be transformed, or it may be attached to a quite opposite belief that it would require the overthrow of capitalism. The same demand – say for a radical form of income equality – would be called a reform in one case and a revolutionary demand in another. Calling does not make things so. What *makes* a given demand a reform and another a revolutionary demand is not the labels this or that band of self-styled revolutionaries deem to apply to them but the wider political situation which determines the historical outcome of any struggle whether it be styled reforming or revolutionary. The most modest demand – say for cheap bread – might turn out to be revolutionary if the ruling order is unable or unwilling to fulfil it and the political energy and organization exist behind it to inspire people to believe that if it is not going to be fulfilled it is time for people to remove the ruling order and fulfil it for themselves. ‘Merely reformist’ demands for higher wages may become revolutionary and apparently more radical demands may become ‘granted’ reforms. Labels can also be misleading in another sense. As has been pointed out above, there may be some writers who, like Keynes or Hobson, for whatever reason, alight on critiques of capitalism that are pretty thoroughgoing and whose implications for ‘reform’, modestly though they may be couched, are such as to require a fundamental transformation of capitalism.

Moreover, if the ruling class does concede a given demand it is likely to increase the ability of working people to advance further demands. This is why reforms and welfare measures are opposed by capitalists, as should surely be clear after three decades of neoliberal attacks on welfare states. They are, for all the complexity of their history – Bismarck and all – direct or indirect achievements working class struggle. Attacks on them have only been possible in an era of historic working class retreat. As Prabhat Patnaik notes, the capitalist classes oppose the welfare states for several reasons: because ‘it militates against the basic ethics of the bourgeois system ... that the distribution of rewards by the spontaneous working of the capitalist system is “fair”’; because, therefore, ‘the acceptance of welfarism amounted to “no confidence” in the bourgeois system’ and, most importantly, because

Welfare State measures improve the bargaining strength of the proletariat and other segments of the working people. The maintenance of near-full employment conditions improves the bargaining strength of the trade unions; the provision of unemployment assistance likewise stiffens the resistance of the workers. The “sack” which is the weapon dangled by the “bosses” over the heads of the workers loses its effectiveness in an economy which is both close to full employment and has a system of reasonable unemployment allowances and other forms of social security. (Patnaik 2009).

In this sense, as Patnaik notes socialism and welfarism, revolution and reform, are ‘dialectically linked’. ‘Socialists must support Welfare State measures, not just because such measures are humane, not just because such measures benefit the working people, but above all because such measures stiffen the will of the people to resist, help the process of changing them from objects to subjects, and hence contribute to the process of sharpening of class struggle.’ (Patnaik 2009). Kalecki had identified much the same logic in his analysis of the political implication of full employment.

How dialectically linked reforms and revolution can be was illustrated in the case of Sweden where a long history of working class gains led, at its culmination, in ‘reforms’ which entailed the gradual transfer of the ownership of the means of production to workers (Korpi 1983). If this failed it had more to do with the political conditions – of ruling class capacity to fight back and of fissures within working class solidarity – and less to do with any ‘inherently’ reformist or revolutionary character of the demand.

This complex relationship between reform and revolution is especially important to understand because no one, not even the citizens of the most advanced capitalist country, lives in a ‘pure’ capitalism. Actually existing capitalism everywhere necessarily (and not least because they are not abstract capitalisms but national ones) rely on a number of political, social and cultural structures and practices – both traditional and modern – to intensify oppression and exploitation. But other structures of the same sort also furnish the second aspect of Karl Polanyi’s ‘double movement’ – the movement of social protection. These measures constitute, especially in the advanced capitalist world, a dense network of structures and practices – from city zoning restrictions to national regulatory and welfare structures – that modify the dynamics of capitalism quite thoroughly (Elson 2000). The further extension of such modifications in ways that favour the working people and strengthen their organizations would be reforms worthy of achievement in their own right. If undertaken with sufficient organization, seriousness of purpose and political will to take on the inevitable opposition to them, there is no telling at what point in the struggle for their extension capitalism might be modified beyond recognition. The problems will certainly not be the reforms themselves but how ambitious we are in conceiving them and how seriously we mean to achieve them.

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