



[The Causes of Capitalist Crisis; Reply to Andrew Kliman](#)*

Peter Taaffe and Lynn Walsh 20 September 2013

A discussion on [Marx](#)'s economic ideas and their relevance today, particularly of the Law of the Tendency of the Rate of Profit to Fall (LTRPF), has been initiated by some comrades in Scotland and England and Wales. They have drawn heavily on the latest book by Andrew Kliman - 'The Failure of Capitalist Production' - to seek to make the case that the LTRPF is *the* key to understanding the current devastating world capitalist crisis. In the process, they have subjected the economic analysis of the sections in Britain and the CWI internationally to severe criticism. We will explain in this document that we believe they are profoundly mistaken. We make the point right from the outset that a discussion on this issue does not merely involve bald 'economic issues' but involves 'political economy', as Marx and Engels explained on many occasions.

The questions that have been raised in this discussion go to the heart of what constitutes a correct [Marxist](#) method and approach to economic analysis but also on programmatic issues which flow from this. We do not analyse for the sake of it but for the political conclusions which we draw from this for the working class and for our organisation. Theory is a guide to action. At the same time, Kliman and, particularly, Bruce Wallace lack all sense of proportion, when the latter claims that this is a 'life and death' question for the Socialist Party or the CWI.

Rosa Luxemburg disagreed with Marx's position on this issue - as we explain later - yet that did not prevent her from acting as a consistent and courageous revolutionary Marxist, sacrificing her life in the German revolution of 1918-19. This is nevertheless an important issue and incorrect theory can lead to wrong and even absurd political conclusions. In the case of Kliman and Bruce Wallace, it definitely does. Because these comrades - Bruce Wallace in particular, who attacks almost daily the Socialist Party, its leadership and the CWI, not through the structures of the CWI but in the public arena - echo the central ideas of Kliman, of necessity therefore a large part of this document will take up Kliman's ideas as well as those of Wallace and others, who have hailed him as an 'unsung hero'.

Kliman's political method

Before dealing with Kliman's economic ideas, it is necessary to draw out the political implications of what he writes. He unapologetically shares a 'state capitalist' analysis with the Socialist Workers Party (SWP) in Britain, although he is not a member of their 'international', the International Socialist Tendency (IST). In fact, he dedicates his book to one of the SWP's theoreticians, the late Chris Harman, who shared his approach to the rate of profit issue.

Bruce Wallace may try to pretend that this has no bearing on his economic analysis. But it is the experience of ourselves and many workers in Britain with the SWP and others who adhere to a state capitalist analysis of the former Soviet Union - it was a state capitalist regime not a degenerated workers' state, they argue - that it leads them to a mistaken approach on virtually all political questions both of an historical and contemporary character. (See our book ['Socialism and Left Unity'](#).) In his book, Kliman, when it comes to politics - as well as his economic analysis that we will deal with later - commits one blunder after another, particularly in the concluding chapters. There is a very simple aphorism in judging individuals and political groupings: "Show me who your friends are and I'll show you who you are."

* This document is on the causes of capitalist crisis, replying to the ideas of Andrew Kliman; written by Peter Taaffe and Lynn Walsh and endorsed by the Executive Committee of the Socialist Party (England and Wales).

The fact that Bruce Wallace can swallow so easily the ideas of Kliman, somebody who rejects Trotskyist methods and programme, speaks volumes about his present position. Kliman scathingly dismisses the idea of a fighting transitional programme for workers, which is clearly spelt out in the last chapter of his book entitled 'What is to be Undone'. He writes: "The notion that [socialism](#) will come about by means of a party that captures state power and nationalizes the means of production is fundamentally misguided". [The Failure of Capitalist Production (TFoCP), p204] Bruce Wallace is at present a member of a party and an international organisation which defends the notion that the working class through its own party will need to fight for the idea of taking power through the nationalisation of the big monopolies - the means of production - on a national and an international scale. This is a precondition for taking economic and state power out of the hands of capitalism and putting it into the hands of the working class, laying the basis for the democratic socialist planning of society.

What is Kliman's alternative to this? : "We can have a modern society that operates without the laws of capitalist production being in control". [TFoCP, p206] Just how this can be achieved, remains a mystery. Kliman merely suggests: "There needs to be a new relation of theory to practice, so that regular people are not just the muscle that brings down the old power, but become fully equipped, theoretically and intellectually, to govern society themselves. "Nothing short of this can prevent power from being handed over to an elite." This is followed by the sentence: "It seems very utopian". [TFoCP, p206] You can say that again! This is not a fighting programme and perspectives in the Marxist sense but is akin to astronomy where events will develop almost automatically. 'Educate' the working class in the 'fundamentals' and, like rotten fruit, capitalism will collapse of its own accord and socialism will be born! Insofar that this means anything, it is that the working class must be 'theoretically' educated - presumably by Kliman and Bruce Wallace - to prepare them for socialism.

This sounds familiar. It echoes the arguments of the Socialist Party of Great Britain (SPGB) - not our party, the Socialist Party of England and Wales, but the tiny organisation - that seeks the road to socialism, which by definition must be long and protracted, through abstractly 'educating' working people on the realities of money and demanding its immediate abolition, and the same with classes, the law of value, etc. Lest it be thought that we are distorting the arguments of Kliman, that he has no answer to the burning problems of the working classes today let us quote his own words, "I am painfully aware that these reflections are not yet an answer to the 'Like what, exactly?' question...

"I suspect that we do not yet have credible answers largely because people have looked for answers in the wrong places. "I do think that the above reflections help us to look for answers in the right places." [TFoCP, p206] This tosh is offered up by Kliman's apologists - like Bruce Wallace - as a credible alternative! Like many isolated radical intellectuals before him and no doubt in the future as well, Kliman seeks to reinvent the wheel.

The experiences of the working class historically - the Russian revolutions, the Paris Commune, the great general strikes such as France 1968, the Spanish revolution, the Chinese revolution, etc., are a closed book, sealed with seven seals for Kliman. Rather than building on the successes of the working class, as well as learning from the defeats and examining clearly why they failed, we must await the musings of Kliman - and a new book (!) - to put the working-class movement on the right path. This would be worthwhile waiting for if it promised something new and concrete, charting a clear path in the fight against capitalism and laying the basis for socialism. But it is likely to contain the same empty abstractions that mark out his current political perspective, which we repeat is 'organically' linked to his economic analysis, as we will show.

Throwing back of consciousness

The very fact that someone like Kliman can find an audience for his political ideas - we will come to his economic analysis later - is in itself a reflection of the way that consciousness has been thrown back in the aftermath of the collapse of Stalinism. This is expressed in a particularly sharp fashion by left and 'Marxist' intellectuals like Kliman and now, unfortunately, Bruce Wallace.

We have explained on many occasions that the collapse of Stalinism not only ended the rule of the monstrous bureaucracy that dominated these societies; it also led to the collapse of the planned economy, which in the past was relatively progressive compared to capitalism. However, in the decades immediately before its collapse, the bureaucracy had virtually vitiated most of the advantages of a plan, summed up in the 'years of stagnation' under the Brezhnev regime. What followed was an orgy of bourgeois triumphalism worldwide, which was only partly cut across by the growth of the anti-capitalist movement at the turn of the century and, since then, with the onset of the 2007-08 world [economic crisis](#).

For Kliman, like his SWP cousins, the collapse of Stalinism did not represent an historic defeat for the working class. The Stalinist countries were, in his words, merely "despotic" state-capitalist regimes. Their collapse was, according to the main theoretician of the SWP, the late Tony Cliff, merely a "sideways move", the replacement of one capitalism by another! Kliman no doubt shares this standpoint. The fact that the world labour movement was profoundly affected by a pronounced shift towards the right, signified by the collapse of the social democratic and most of the communist parties, is immaterial to the state capitalist school.

Indeed, they seemed for a time to defy the laws of political gravity and gained for a while on the basis of frenetic activity and completely utopian perspectives until they came up against reality, as we predicted, at the end of the 1990s and afterwards. (See *Socialism and Left Unity*). A period of disintegration has followed which has resulted in significant splits and the weakening of the SWP - although they have not disappeared - and their international organisation, the IST.

On the transition from capitalism to socialism

The theoretical confusion of this trend is also fully on display by Kliman when he delves into history, particularly when commenting about the alleged ideas of Karl Marx on the transition from capitalism to socialism. In passing, he criticises the transitional method and programme elaborated by the Bolsheviks and developed by Trotsky. In the American online journal marxisthumanistinitiative.org, he attacks various political opponents, who "ignore the fact that the Critique of the Gotha Programme [by Marx] states - twice - that the first phase of communist society emerges from capitalist society - one is transformed into the other, directly.

"There is nothing in between, not in Marx's statement. The basis of the myth is Marx's comment... that 'Between capitalist and communist society lies the period of the revolutionary transformation of the one into the other. "There corresponds to this also a political transition period in which the state can be nothing but the revolutionary dictatorship of the proletariat.'" Kliman goes on: "There's no mention here of a transitional society. There is the revolutionary transformation of capitalist society into communist society, and a corresponding political transition period. "But if you conflate 'transformation' and 'transition', you turn Marx into a proponent of a transitional society. "This reading of the Critique goes back to Lenin, who conflated the transformation and transition in *The State and Revolution*, writing that 'the transition from capitalist society ... to communist society is impossible without a "political transition period""

Confusion worse confounded, as Milton would say! Issues that were understood and seemingly settled long ago have, in this period of political reaction - certainly amongst some 'Marxist' intellectuals - been dredged up, warmed over and served up as new truths. Marx, in the lines quoted by Kliman, conceived that the revolution would first take place in the advanced industrial countries - France had already given notice of this in the Paris Commune, with its outline of what a workers' state would look like. If France had begun the revolution and Germany and Britain had followed it was assumed by Marx that the rest of the world would follow in their wake and the world socialist revolution would take place and be secure. Marx wrote: "A development of the productive forces is an absolutely necessary precondition [of communism] because without it want is generalised, and with want the struggle for necessities begins again, and that means all the old crap will revive." [The German Ideology] The starting point then for socialism would have been a higher level of production and technique than

even the most advanced industrial country, Britain then, the US today. With socialism, the lowest stage of communism, firmly entrenched, a massive increase in production would have taken place. This in turn would lead over time to the dissolution of all the elements of capitalism, inherited from the past, including the state, 'value', etc., until society reached communism and the establishment of a self-governing world commune.

But the revolution did not break out or consolidate in an advanced industrial country, but took place first in underdeveloped Russia and was initially enthusiastically supported by the workers in Europe, the US, etc. In other words, the revolution did not break out in a country with the highest level of technique and production, a higher productivity of labour, etc. Inevitably there were some illusions in the first period after the Russian revolution, even amongst the Bolsheviks, that it would prove possible to move rapidly towards the beginning of socialism, particularly if the revolution succeeded in spreading.

But once it became clear that things would not work out in this way, the great theoreticians of the working class, including Trotsky, the Bolsheviks and Lenin - who Kliman clearly disparages - concluded that a fairly lengthy period of transition from capitalism to socialism would therefore be required in order to establish the basis for socialism on a world scale and then move towards communism. Even if just a number of advanced capitalist countries broke with capitalism and then there was a pause, this would not be the beginning of socialism. Only if the revolution spread to the whole world would it be possible to begin to construct socialism. These states would be in transition from capitalism to socialism.

Lenin and Trotsky again and again emphasised that the beginning of socialism would have to start with a higher level of economic development than even the highest level reached by capitalism - even higher than the level of the US today. It is in this context that Lenin wrote 'State and Revolution', drawing on all of Marx's writings as well as the experience of the Paris Commune and the revolutions in Russia. He was talking about the transition from capitalism to socialism. The demands made for workers' democracy shine a light on what the working class will embrace after it overthrows capitalism.

Kliman is completely muddleheaded, reflecting a black-and-white approach - 'undialectical' - to political as well as economic phenomena. His perception seems to be that you build up the working class - again just how is unexplained by Kliman - and then place a thermometer under the tongue of 'Lady History'. When it is at the 'right temperature' then bingo! We are ready for socialism! He writes: "I have come to suspect that the very idea of 'transitional society' is incoherent, and seems to stand in the way of thinking things through clearly." The idea of a transitional society, but also transitional demands in the struggle against capitalism is beyond his understanding. We will see later that his economic analysis will put him in opposition to the workers' movement on concrete burning issues of the day.

Kliman's economic analysis

His broad economic perspective, insofar as he has one, is that if [Keynesian](#) ideas are adopted by the bourgeois - which, to some extent they have already done as an immediate reaction to the present crisis - then we could have a repeat of history. His reasoning goes as follows: Keynesian policies were adopted by Roosevelt before the Second World War in the US and in general in the post-1945 world economic upswing. This was retrogressive because of its effects, particularly on the leaders of the labour movement and socialist intellectuals like Paul Sweezy and Leo Huberman in the US who adopted a kind of left Keynesianism. (That is not to say that they did not make some telling points about the nature of modern capitalism.) With the failure of Keynesian policies in the 1970s, the bourgeois then turned towards monetarism and neoliberal policies, signified by the triumph of Thatcher and Reagan.

If such Keynesian policies were adopted today then the reaction this time would be much worse, reasons Kliman, leading to the same kind of right-wing economic policies as the 1980s. This in turn would prepare the way this time for a much more extreme political reaction in the form of fascism.

This is a completely one-sided conclusion of Kliman on the possibility of fascism coming to power, particularly at this stage. The relationship of class forces does not allow such a pessimistic conclusion to be drawn. In the long run, of course, if the working class fails to change society, political reaction in the form of extreme right-wing Bonapartism could be on the agenda. However, before this becomes a real possibility the working class will probably have not just one but a number of opportunities to take power. Moreover, the bourgeois itself will be very wary to hand over political power again to fascists after the catastrophe they suffered following the collapse of Mussolini, Hitler, etc., which ushered in a period of revolution. For this reason the far-right parties, even those with openly fascist features like Golden Dawn in Greece, are more likely to act as auxiliaries to a dictatorship of the generals who are usually drawn from the ranks of the ruling class itself. But the triumph of fascism or even extreme right-wing Bonapartist regimes is not immediately on the agenda. Moreover the working class and the labour movement in general have no real direct say in what policies the bourgeois will or will not adopt.

The New Deal in the US in the 1930s was a bourgeois reaction to the depths of the crisis and the dangers that the ruling class perceived came from the working class unless some action was taken in the economic sphere. Only the US with its 'plump savings' from the past could introduce measures like the New Deal, whose achievements were more fictional than real, as Trotsky pointed out. Yet some, even in the labour movement, harboured mistaken illusions in the effectiveness of such policies and they were answered by Trotsky and the Trotskyists, and would be today. Put simply, Keynesian policies mean boosting public expenditure to mop up unemployment, create demand, etc. But in order to pay for this, the government can raise income from two sources: from taxes on the capitalists or the working class.

If the capitalists are taxed, they will go on an investment strike, which will lead to unemployment and cancel out the effects of increased government expenditure. If the working class is taxed, that will cut the market with the same result of cancelling out the effects of boosting 'demand'. On the other hand, if the government resorted to the printing press to print money, not backed up by extra goods and services, this would lead to inflation, which will cancel out any increased demand. We have gone through this argument many times.

And yet Bruce Wallace with a serious mien seeks to warn us that, unless we accept their economic analysis on the rate of profit, we are doomed to fall prey to Keynesianism. Our record, which can easily be checked, disproves this ridiculous contention. We opposed Keynesian ideas theoretically as well as the right-wing reaction to the use of these ideas. Then not only did we warn about the dangers of Thatcher and Reagan's policies, we actively fought them, quite successfully, as the battle against the poll tax demonstrated. The tax was defeated - with our party in the leadership - and Thatcher herself was consigned to history.

If the labour movement had built upon this huge success a new glorious chapter would have opened up. Instead, Neil Kinnock hounded those who led this movement. He was only able to succeed because of the shift towards the right within the labour movement in the late 1980s, which was further strengthened by the collapse of Stalinism. The rest is history with the destruction of the Labour Party as a specifically workers' party at bottom and the throwing back of consciousness.

There is a wide category of people who are often called 'underconsumptionists' because they believe that the economic troubles of society are caused by a failure in the consumptive power of society. Their remedy is to boost spending - particularly in a crisis - by increasing government expenditure and/or boosting wages. Kliman's obsession with defeating anything to do with 'underconsumption' is a prejudice and will not stand up to any serious examination. The claim that 'underconsumption' can play no part in a Marxist analysis of the crisis is rooted in a misreading of Marx, as well as the current evidence that is to hand. He seems to be suggesting 'Keynesian ideas' will automatically lead to reaction, as in the past, if they are adopted by the bourgeois.

The fact that the Socialist Party through its journals - Militant in the past and now The Socialist and Socialism Today - has consistently argued against Keynesian ideas as a long-term solution to the problems of capitalism counts for nothing as far as Kliman and Wallace are concerned. Bruce Wallace in particular 'conflates' any alternative explanation of the crisis with Keynesianism as a solution to the crisis of capitalism. We have argued in a transitional manner for an increase in government expenditure in order to boost housing, education, workers' share of income, etc. We have also demanded nationalisation of the banks and the finance sector. Yet Kliman opposes this. He writes: "Some leftist economists called for state control or nationalization of the financial system, rather than just regulation, of the financial system... But there cannot be socialism in one country. What results when you try to have socialism in one country is state-capitalism, a state-run system that is still embedded in the global capitalist economy, and which is still locked into a competitive battle with capitals elsewhere in the world. A state-run bank is still a bank." [TFoCP, pp194-5] Well, yes, but does a state-run bank hold out the potential at least for the working class to advance? If Kliman answers in the negative, as he does, then his perception of how to achieve socialism, as we have argued above, involves an overnight transformation from capitalism to socialism.

How would our comrades in Greece view such a suggestion? They would be completely disarmed in the face of today's situation if Kliman's approach was adopted. In answer to the debt crisis, the demands of the troika for further cuts, etc., our answer has been to call for cancellation of the debt, the nationalisation of the banks under workers' control and management and the state monopoly of foreign trade. Kliman quite clearly believes transitional measures of this kind are not possible and would come up against the resistance of capitalism. We answer yes they would, and in and of themselves are not sufficient, which is the conclusion that the working class would also come to with our help over time. It would therefore be necessary to go further and take over the commanding heights of the economy. Kliman has no perception of how the process of political awakening will take place amongst working-class people. Nationalisation of the banks is just a first measure. It would or should lead to the public ownership of the commanding heights of the economy.

It is true that unless a revolution in Greece spread initially to Spain, Portugal, Italy, etc., it could not survive. That is why we raise the idea of a Socialist Confederation of Europe. Even then, this is not sufficient. A socialist Europe would come up against threats from a capitalist USA. Therefore, the revolution, in order to guarantee success, must of necessity be a world event - a socialist world - if it is to be guaranteed success. This indicates that revolution will be a process - there will be a transition not one act - from capitalism to socialism and will not be carried out overnight, as Kliman seems to imagine.

Kliman writes: "I believe that [underconsumptionist theory] induces false hope that capitalism can be made more equitable and relatively crisis-free." The CWI does not foster "false hope" in the prospects for capitalism. We argued, even before the onset of the current crisis, of the inevitability of a crash. Proof of this is seen in the consistent analysis of Socialism Today and The Socialist. For example, in Socialism Today 161 (September 2012), we wrote: "[Keynesian] policies will be a temporary expedient. They will not be a return to the long-term, sustained Keynesian policies of the post-war upswing, when the state increased its intervention in the economy and developed an extensive social welfare infrastructure. Keynesian policies may buy time for the ruling class but they cannot resolve the crisis of capitalism... A programme to provide jobs and stimulate growth would require the mobilisation of the working class. Moreover, increased taxation in itself will not be sufficient to develop the economy... The banks and finance houses would have to be nationalised (not bailed out and propped up at public expense), and run under democratic workers' control and management." It would be interesting to compare what the perspective of Kliman himself was prior to the crisis of 2007-08. Moreover, there is absolutely nothing in this book about perspectives on the economy, never mind political developments for the next period dealing with either short-term or long-term perspectives.

Transitional method

We fully concede that by demanding partial measures - nationalisation of one or a number of industries - or reforms that improve the living standards of the working class that it is possible to foster some illusions that such measures will change the lives of workers. The problem, however, is that these illusions already exist amongst the mass of the workers and even amongst sections of the more advanced layer. They already believe that limited measures may improve the overall economic situation and improve their position. That can only be changed, not by propaganda alone or assertion, but through the experience of the working class, with socialists and Marxists engaging with them as they pass through this.

At all stages we raise the need for a general overall socialist solution, one that goes beyond the framework of capitalism, laying the basis for a socialist planned economy. But we also understand and seek to counter the illusions that working people still have in capitalism. We understand but do not share this illusion and we seek to answer this, through our transitional demands and programme.

When transitional demands are put forward and particularly when they are adopted by a mass movement - of which we have some experience in the poll tax struggle and in the mighty battle in Liverpool between 1983 and 1987 - they can act as a bridge from the present level of consciousness and lead, hopefully, to a socialist consciousness.

Kliman, with the support of Bruce Wallace, has absolutely no perception of this kind of approach; he is sealed off from the experiences of working people in his academic cell. Despite his seeming adherence to dialectics, his book and the political ideas that flow from it show that he thinks in Kantian fixed categories - here is capitalism and there is socialism - with no idea of getting from one to the other apart from empty abstractions. His policies are for the university seminar and not for the real workers' movement.

Marx's method of analysis

Marx's attitude was entirely different. Although he made some mistakes in his biography of Marx, Franz Mehring made the point: "In these circumstances we must not look to the last two volumes of Capital to provide us with a final and completed solution of all economic problems. "In some cases these problems are merely formulated, together with an indication here and there as to the direction in which one must work to arrive at a solution. "In accordance with Marx's whole attitude, his Capital is not a Bible containing final and unalterable truths, but rather an inexhaustible source of stimulation for further study, further scientific investigations and further struggles for truth." [Franz Mehring, Karl Marx p371]

Kliman and Bruce Wallace adopt a monocausal explanation of the crisis, unlike Marx: the law of the tendency of the rate of profit to decline. We defend Marx's analysis on this issue, made in the third volume of Capital. In [Marxism](#) in Today's World, we wrote: "We think that Marx was correct about the tendency of the rate of profit to decline. "Historically, there has been a colossal growth of constant capital, dead labour if you like, to use Marx's terminology, compared to living labour, variable capital."

In other words, there has been a rise in the 'organic composition' of capital, which refers to the relationship between constant capital (investment in means of production, partially used up in the production process) and variable capital (investment in wages or the labour power of workers which alone creates new value in the production process). A rise in organic composition (an increase in dead capital in relation to living labour) gives rise to a tendency of the rate of profit to decline (though there are counteracting factors).

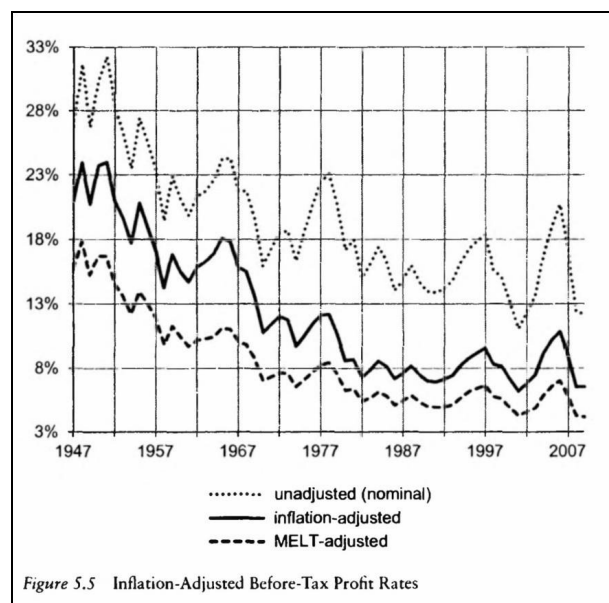
It is generally accepted even by pre-Marxist economists as an empirical fact that, as capitalism grew, the rate of profit declined. Marx described it as a 'tendency' and analysed this wonderfully in detail in part three of the third volume of Capital. We continued in [Marxism in Today's World](#): "What immediately concerns the capitalists is not the tendency of the rate of profit to decline or even the rate of profit.

"It is the amount of profit which they can accumulate. The 'counteracting causes' are things like the depression of wages below their value, which is what we have seen to some extent in the 1990s with neoliberal measures. "Profits for the capitalists are at an unprecedented level, the highest they have been for 70 years in the case of the US. "But it is also a general phenomenon throughout the advanced industrial countries. There are a number of other counteracting factors which can have an effect but again, to use Marx's terminology, there are certain 'impassable limits' beyond which the capitalists cannot go." [Marxism in Today's World, p24]

Kliman's figures

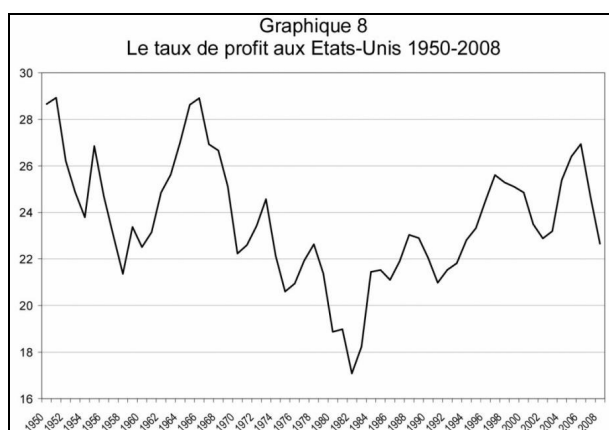
A new discussion on the tendency of the rate of profit to decline must be shown to be related to the present crisis and its effects on the developments of the workers' movement. There is no evidence of this either in Kliman's approach or that of Bruce Wallace. Kliman himself emphasises that his book is not "theoretical" - it does not add anything new to the general theoretical issues made by Marx on this question - but "empirical"(his words) concentrating in the main on him trying to prove a consistent fall in the rate of profit since 1947! We are therefore bombarded with graphs and figures - they are the 'graphic tendency' - which, it is claimed, in and of themselves prove their point.

But their 'conclusive' figures and graphs, when subjected to serious examination, are found to be anything but, as we will show below. Kliman's charts, based on his calculations for the rate of profit in the US, show an inexorable, continuous downward trend from 1947 (at the beginning of the post-war upswing) until 2007 (the beginning of the 'Great Recession'). [TFoCP p84 Figure 5.5.]



Kliman's statistical trend appears to have no connection with real trends in the US (or world) capitalism. The trend does not register the cycle of boom and recession which actually occurred. In particular, it does not indicate any recovery of profitability after the turn by the capitalist class to neo-liberal policies in the early 1980s, linked to financialisation, globalisation, an assault on workers' incomes and rights, etc.

The trend in the rate of profit (for the US) presented by other economists, however, is quite different. For instance, Michel Husson, in a French online article, 'La hausse tendancielle du taux de profit' ('The Tendency of the Rate of Profit to Rise', January 2010), presents a graph in which the trend in the rate of profit reflects trends in the real US economy:



Rate of profit in the United States 1950 - 2008

The graph shows a peak in profitability 1966-67 at the height of the post-war upswing and then an uneven decline (reflecting the business cycle) to a trough in 1983 (following the sharp rise in US interest rates and the slump of 1980-81). However, there was a partial, but steep recovery of profitability in the 1980s (the period of neo-liberal policies). With dips in profitability around the 1990-92 recession and the bursting of the dot-com bubble, profitability rose further during the housing bubble, which collapsed in 2007. Husson presents charts (Graphics 9 and 10) which show the estimates, compared to his own, of half-a-dozen other economists. There are variations in the magnitudes and timing of the peaks and troughs, but the graphs all follow a very similar trajectory. Husson's rate of profit peaks of 1998 (26%) and 2006 (27%) fell short of the 1950 (29%) and 1957 (29%) peaks.

On this basis, some have claimed that these figures demonstrate a secular (long-term) decline in the rate of profit. However, a smoothed-out average for the whole period takes no account of the cycle of economic and political developments - the sequence of conjunctures - that the working class had to contend with. A correlation between trends in the rate of profit and trends in the real economy does not in itself reveal the complex process of cause and effect between profitability, investment, consumption, etc. But Marxists should start from analysis of trends in the real world rather than abstract statistical constructions.

Not even Michael Roberts, a great admirer of Kliman, fully agrees with him. He is a former member of ours, who made serious mistakes along with Ted Grant at the time of the 1987 stock market crash when he predicted the virtual certainty of another 1929-type crisis. We opposed this and we were right. Yet now, he and others believe that there was a sharp rise in the rate of profit from 1982 to 1997 in the US. The reason for this, Michael Roberts states, is because "when counteracting factors come into play, the rate can rise either because the organic composition falls or the rate of surplus value rises significantly, or both." This is correct and is what we have argued consistently. He also emphasises that "profitability has recovered from the trough of 2009 in the major capitalist economies, but remains below the last peak of 2007".

We have emphasised this has been a factor in the huge accumulation of the mass of profits - which cannot be profitably invested. Moreover, this is confirmed at every stage by the newspapers and journals of capitalism itself. This is flatly contradicted by Wallace and Kliman who have argued that the decline in the rate of profit is the only explanation for this crisis. Bruce Wallace has tried to argue that there is a "growing consensus" amongst Marxist economists supporting their point of view, a monocausal assertion that the fall in the rate of profit is the only explanation of the crisis. Both in the USA and in the three main European countries, we can clearly distinguish two periods: a fall in the rate of profit until the early 1980s, then a rise. It can be noted that the fluctuations are most marked in the USA where the rate of profit falls from 2007 onwards

We have basic agreement on the validity of Marxist analysis on the LTRPF. However, Kliman's approach is one-dimensional, rigid and wooden, with him concentrating in the main on trying to prove

a consistent fall in the rate of profit since 1947! The figures for UK companies from the Office for National Statistics bear out our arguments not those of Wallace that the rate of profit is volatile and not a linear decrease. The annual gross operating surplus (mass of profits) for all Private Non-Financial Corporations (PNFCs) excluding UK Continental Shelf companies (UKCS - oil and gas exploitation) rose between 1997 and 2011 from £163 billion to £236bn. These figures represent a falling gross rate of return from 12.7% to 11.3%, having fallen as low as 10.8% in 2001 (the year of the dotcom bubble bursting) before rising to 13.3%, in 2007, the last full year before the crash in the financial system, and falling back as low as 11% in 2009, only recovering to 11.3% in 2011.

The figures for UK manufacturing are dire with, over the same period, a fall in gross surpluses from £45.6bn to £38bn and a rate of return that has fallen fairly consistently... This reflects the declining share of manufacturing in the UK economy. Service sector PNFCs amassed surpluses rising from £99bn in 1997 to £170bn in 2011, which only represents a change in gross rates of return from 15.7% to 15.4%. However, within this period the figures have been much more volatile, the highest rate of return was reached in 1998 at 17.3% and has fluctuated significantly; the lowest figure was 14% in 2009. Moreover, even if there is evidence of a falling rate of profit now, then that would not preclude a rise in previous periods and also a corresponding rise in the amount of profit. Therefore the points we made on the cash hoards in the vaults of the banks are valid.

Also, a dispute has raged on the internet over Kliman's figures. He himself states: "Although these results are consistent with Marx's law; I would not wish to claim they confirmed the law. "A single country, not the world's total social capital, has been analysed here..." However, he argues that the figures he provides are 'proxies' for the arguments of Marx on LTRPF.

Causes of the current crisis

The issue of the LTRPF is important but is not a full explanation for the current world economic crisis, nor does it explain by itself the main features of this crisis. Marxists are not 'one-club golfers'. There can be any number of main factors - other than the LTRPF - which can be the immediate cause of a crisis. Kliman confirms what we have argued that "the fall in the rate of profit leads to crises only indirectly and in a delayed manner." He also correctly states the "LTRPF therefore does not and cannot predict that the rate of profit will actually display a falling trend throughout the history of capitalism"! He then specifically refers to the "counteracting influences at work in checking *and cancelling* the effect of the general law".

However, Bruce Wallace seems to - and Kliman definitely does - dismiss the "shortage of demand" argument as an unimportant factor in leading up to this crisis and perpetuating it. And this has been a factor for quite a long period, which was disguised by the credit bubble. We have agreed that this arises from the unprecedented extension of credit and - as a consequence - of equally unprecedented bubbles, which burst in 2007-08.

This left in its wake a massive debt overhang which has helped to perpetuate the crisis for five years already and probably longer. In seeking to refute this, Kliman is guilty in his book of the very same accusation which he levels at others of 'cherry picking' quotes from Marx when they serve his purpose but rubbishing other quotes from Marx when they do not. For instance, when he is taking up the arguments of the 'underconsumptionists' - which he does very inadequately - he then attacks them for using the famous following quote from Marx: "The ultimate cause of all real crises always remains the poverty and restricted consumption of the masses as compared to the tendency of capitalist production to develop the productive forces in such a way, that only the absolute power of consumption of society would be their limit." Marx is not justifying here the arguments of the 'underconsumptionists'.

He is merely stating a fact that the 'ultimate cause' is the restricted purchasing power of the masses, because they cannot buy back the full product of their labour. However, the machine of capitalism continues because of the investment of part of the surplus back into production. But that, in turn, at a certain stage, with other factors, creates the basis of a future 'glut', of overproduction, etc.

Kliman has none of this, seeking to dismiss the above words, when he states that the "underconsumptionists are fond of taking out of context a sentence in which Marx writes, 'The ultimate reason for all real crises always remains the poverty and restricted consumption of the masses'." [TFoCP, p166]. Yet he never puts them in a 'context' which refutes Marx on this issue. Instead, he comes very close to the arguments deployed against Marx's economic arguments advanced by the right-wing guru of the 'Austrian school', Hayek. Kliman, it seems, explicitly states that capitalism can always find a way out by investing the surplus in the means of production. We also accept that capitalism can do this in the short term but there are limits, as explained above. Let us quote the section where Kliman deals with these arguments: "Underconsumptionists claim, however, that investment demand cannot grow faster than personal consumption demand in the long term.

"Why not? Well, they say, if businesses invest in new factories and machines and so on, and use them to produce more stuff, they have to sell the stuff. "This is obviously correct but then comes the underconsumption intuition: the businesses ultimately have to sell the stuff to people." He answers this by saying "Why can't businesses ultimately sell to each other, instead of to people?" Hayek and now, it seems, Kliman argue that this can go on forever without limit, with a smaller and smaller proportion involved in the production of consumer goods.

Kliman states: "Growth can occur indefinitely, despite a relative decline in consumption demand, by means of an increase in the demand for machines to produce new machines and a relative expansion of machine production. "They simply dismiss the reproduction schemes in favour of what they believe to be reality, namely the dogma that all production, even under capitalism, is production for the sake of consumption." [p164] The working class will never be able to buy the consumer goods that the increased means of production generates but the system goes on with increased means of production stretching out to infinity, accompanied by permanent impoverishment of the working class.

These conclusions of Hayek are insane - a reduction ad absurdum of capitalism - and were recognised as such by Marxist economists at the time who answered him. It is implied by Hayek that capitalism is reduced to a system which must endlessly increase the means of production but which can never include increased production - consumer goods - to be bought by consumers, if it is to avoid a crisis.

How can the working class - and humanity as a whole, for that matter - support such a system? Indeed, if it ever was structured on this basis it would produce a much bigger economic crisis than we have now, one that would provoke revolution worldwide. Is not the production of consumer goods rationally the aim of production, though from a capitalist point of view this is not the case? Hence, the insoluble contradictions of the system; capitalism is a system based upon production for profit and not for social need. And because of this, as Marx points out: "Capitalist production is continually engaged in the attempt to overcome these imminent barriers, but it overcomes them only by means which again place the same barriers in its way in a more formidable size." [Capital, Vol III, Part 1, Chapter XV.]

In answer to this point that we had made in the debate, Bruce Wallace incredibly wrote: "No I think production of consumer goods is not the rational aim under capitalism in any respect whatsoever but is purely an incidental offshoot of the system." !! Marx himself answers this, when he wrote: "The production of constant capital never takes place for its own sake, but solely because more of this capital is needed in those spheres of production whose products go into individual consumption." [Capital, Vol 3, Part IV, Chapter 18.]

Kliman approaches things in a completely undialectical fashion, clinging to just one explanation - the effects of the fall in the rate of profit - which is extremely important, we agree, but there are other factors that enter in to our analysis. To recognise this fact does not in any way support the underconsumptionists, both of the Keynesian and 'socialist' kind. Because if there is an attempt to solve this problem by boosting wages, you will get a crisis coming from a drop in profits and the consequent cessation of production. Increased wages, as we have pointed out, in relation to the arguments of Keynesianism, will have to be paid for by cutting the profits of the capitalists, by imposing taxes on the working class or by increased government expenditure - not backed up by the

extra production of goods, etc. - which in time will lead to inflation. Moreover, one of the manifestations of a crisis, a harbinger at the end of a boom period, is a bidding up of the price of labour power, wages, which in itself, by cutting the rate of surplus value, cuts overall profitability and therefore becomes another factor leading to crises.

This is not to fall into the trap of supplying theoretical arguments against a rise in wages. We would still demand wage increases but at the same time point to the inherent contradictions which can be created by this on the basis of capitalism. This, in turn, would lay the basis for the arguments for a new socialist society, etc., not reasons for justifying no increase in wages, wage cuts, etc.

Have workers' wages risen?

Another mistake is in his estimation of the effects of neo-liberalism. Undoubtedly, there was a redistribution of the surplus value - wealth - within the ranks of the capitalists, with the managers/CEOs skimming off the cream. But there was also an increase in the share of the capitalist class as a whole. It is inconceivable that neo-liberalism did not have the effect of redistributing income - the share of the national wealth - from the 99% in the working and middle classes to the 1%, now more like the 0.1%, the capitalists.

Recent statistics indicate that the wages of the working class today in the US are back to the level of the 1950s. US workers' wages have stagnated for over thirty years. Average inflation-adjusted hourly earnings (in private industry) were \$16 in 1979 and rose to \$17 in 2012. [St Louis Federal Reserve Bank] Adjusted for inflation, the median household income was \$47,527 in 1979 and rose to \$50,054 in 2011. [US Census Bureau]. This stagnation has taken place despite an increase in women working and longer working hours generally. Workers have increasingly taken on debt to maintain their living standards.

We have never argued that neo-liberalism was a fundamentally different phase of capitalism. Kliman erects straw men and knocks them down. But it was unique in the scale of its injection of unprecedented levels of credit. Combined with the political effects of the collapse of Stalinism, neo-liberalism did allow capitalism to pursue, virtually without the previous checks, restraints or pressure from the working class through the organisations of the labour movement, a counter-revolution against the rights and conditions of the working class.

This helped to fuel an unprecedented credit surge, through the massive injection of fictitious capital. This gave enormously favourable benefits which accrued to the capitalist class. Kliman seriously implies that this period had no effect in cutting the share of the working class and boosting profitability, albeit temporarily? The state, as both Marx and Engels pointed out, is an economic force.

The bourgeoisie used this to change the relationship of forces in their favour with big economic benefits to themselves. Kliman disputes this and seeks to marshal statistics to prove his contentions. We do not accept his figures. (We should add that it is very difficult to work out a completely accurate rate of profit even for the US as we explain below.) It is absurd to think that the benefits that went to the capitalists as a result of the neo-liberal measures were not substantial.

This was not a fundamentally new phase of capitalism. But it was not just a 'normal' form of credit expansion. It was a huge credit injection on a monumental scale. The ending of this phase has left in its wake a colossal debt overhang which presently cripples capitalism. It did not result, as we explained, in massive growth in the productive side of capitalism. Growth rates were low, real economic stagnation occurred in Europe, Japan and the US - China and some other Asian economies being the international exceptions - and there were low rates of accumulation, etc. This was because of the enormous expansion of fictitious capital through 'financialisation'.

Kliman argues that the real share of income going to the working class has not dropped, because of the 'social wage' - health, pension and other benefits granted in the post-war economic upswing by individual companies in the US rather than the state - must be included in the workers' share.

Some of the monopolies in the US are actually going to the lengths of completely closing down - bankrupting firms and whole industries - as a means of getting rid of workers' 'benefits' such as pensions and health care for the workforce. They then open up again as new companies but without the burden of 'social' benefits to the workforce.

Kliman and those who support his contention that the working class's 'compensation' or share has actually increased draw on very dubious sources. In order to prove that the working class's share has not fallen - contrary to what most workers instinctively believe and feel - Kliman invokes the evidence of Martin Feldstein, then president of the National Bureau of Economic Research, who wrote that it is a "measurement mistake" to "focus on wages rather than total compensation," and that it "leads to a mistaken view of how the shares of national income have evolved."

What Kliman does not say is precisely who Feldstein is. He is, in fact, an extreme reactionary economist who has dedicated his life to defending and prettifying US capitalism. He is no different to the British Chamber of Commerce (BCC) representative who argued in a debate with Peter Taaffe at the Oxford Union that working-class living standards had not declined but exactly the opposite - they had increased! The rather privileged audience did not agree and carried the motion "Capitalism has let down the poor". Kliman and Bruce Wallace are arguing fundamentally the same case as the BCC!

Marxists, it is true, often quote bourgeois economists when these economists' research exposes some of the truths about capitalism and its exploitation of the workers. But it is another thing entirely for a Marxist to quote reactionary economists when they use statistical data in a way that actually strengthens their defence of capitalism. Kliman's conclusion is strongly in line with Feldstein's natural ideological bias. [This and a number of other telling points are made by [Sam Williams](#) on his [blog](#).

Even if it were true that 'non-wage compensation' - such as health insurance, for example - has increased so much since 1972 that real income - hourly wages plus non-wage compensation - has risen for each hour of labour power that US workers sold to the capitalists between 1972 and 2006, this does not mean that US workers are receiving more value for each hour of labour they perform.

As long as the productivity of labour is growing it is quite possible for the standard of living of workers to rise while they are more exploited than ever. This is Marx's concept of relative surplus value. Kliman's claim that the rate of surplus value extracted from US workers did not rise in the decades preceding the current Great Recession is undermined by the fact that the last 40 years have seen a tremendous weakening of the U.S. union movement, membership in the private sector in 2010 estimated to have fallen under 7%. These levels have not been seen since 1932, the days of Herbert Hoover when union membership was greatly depressed during the 'super-crisis' phase of the Great Depression.

It would indeed be remarkable if the rate of surplus value extracted from American workers had actually declined despite this huge weakening of the union movement, combined with the increase in real unemployment, only partially reflected in the official jobless numbers, that has occurred since the post-war economic prosperity ended 40 years ago.

Kliman leaves out, as he himself acknowledges - pleading lack of reliable statistics - the effects of the shift of capitalist production from the United States and other imperialist countries, where wages are relatively high, to countries like China, India, Bangladesh and so on, where wages are dramatically lower. Unlike 1972, the bulk of the profits accrued by U.S.-based corporations is increasingly produced by extremely low-paid workers, mostly in Asia but also in Latin America, the Caribbean and Africa. The graphs produced in evidence to support the idea of a growth in the workers' share of gross domestic product underestimate how they are compiled to include the salaries, expenses, etc. of 'non-workers' - company directors, etc.

Overall figures for wages and salaries include the salaries of top executives who have been taking an increasing share of total wages. Most of the salaries of this layer (many belonging to the top 1%) should not really be regarded as wages but as a share of profits. Completely contradicting the assertions of

Bruce Wallace and Kliman, trade union leaders through the TUC, have pointed out that British workers have had their biggest pay cut of modern times; annual pay has shrunk by £52bn since the start of the financial crisis. If we accepted Kliman and Wallace's arguments, we would be in the absurd situation of asserting that the bosses have not gained but lost, and that the working class had actually gained in the past period!

A lack of profits?

As far as profits are concerned, there has lately been an avalanche of reports from the bourgeois press to the effect that 'big corporations' have 'never had it so good'.

They are drowning in profits with nowhere to go in the form of profitable investments. Alexander Friedman in the Financial Times wrote [2 May 2013]: "The first-quarter earnings season is well under way and the S&P 500 has hit a record high.

"US companies are earning more per dollar of sales than at any time in history, and total corporate profits stand at around 13 per cent of GDP, the highest on record." The Wall Street Journal, after remarking that US firms are making "stellar profits", reported: "Nonfinancial US corporations are sitting on more than \$1.8 trillion in cash and liquid assets, up 30% from 2008, according to Federal Reserve estimates." [WSJ, 28 June 2013] And the FT again on 16 July 2013 in a column entitled "Wall Street wrestles with a problem of too much profit" wrote that the biggest US banks "are on the verge of making too much money. JPMorgan Chase is on track to make \$25bn or more this year - as much as the gross domestic product of Paraguay - with at least a 17 per cent return on common equity that takes the bank back to the heady levels of 2007." And on corporate investment, the FT commented (25 July 2013): "Profits in the US are at an all-time high but, perversely, investment is stagnant."

Financialisation

In relation to neo-liberalism, Kliman states: "The political implications of this controversy are profound. "If the long-term causes of the crisis and recession are irreducibly financial we can prevent the recurrence of such crises by doing away with neo-liberalism and 'financialisation of capitalism'." All that will be required, he argues, is for the capitalist state to nationalise the banks. By the way, this is not always an 'easy' thing for them to do. Look at the reluctance of the ConDem government today to fully nationalise RBS despite its obvious failings. We deal with this in *Socialism Today*.

These conclusions in no way flow from a recognition of the phase of 'financialisation'. The crisis is both financial and also in the 'real economy', which raises the question of the nationalisation of the commanding heights of the economy. Kliman suggests that, by emphasising features such as financialisation, this in some way means that you don't challenge the system as a whole but merely put forward partial measures which could actually preserve the system through 'state capitalism'. This is a completely arid approach. He displays here, as he does throughout the book, little understanding of the transitional method.

'Criticism' of our analysis

Bruce Wallace also calls into question our general approach in the past in the criticism of an article in the first issue of *Socialism Today* in September 1995. He quoted only one sentence of the article, which did not mention the LTRPF, which reads as follows: "The profits of big business and especially the big capitalist speculators have been restored to the high levels of the post-war upswing period (1950-73)." However, he failed to mention what follows, which continues: "This has been achieved, however, mainly through intensified exploitation of the working class - lower pay levels, lower welfare spending, and harsher management regimes in the workplace. "Outside the advanced, high-tech sectors of the economy (micro-electronics, communications technology, biotechnology, pharmaceuticals, etc.) the growth of production and productivity has been lower than during the upswing period. "In the major industrial economies, notably the US and Japan, there has been a 'hollowing out' of industry, with the accelerated displacement of manufacturing industry by the service sector. "Far from a period of renaissance, capitalism has entered a period of chronic depression. The cycle of booms and slumps will

continue (as we have already seen since 1990), but successive recovery periods will not eradicate the underlying causes of long-term decline - on the contrary, they will be accentuated all the more.

"The boom of the 1980s in the advanced capitalist countries, the wave of speculative investment in certain Third World countries, and the rather weak recovery of the major economies in the last two or three years, have not in any way halted the erosion of the conditions of long-term growth which were established in the post-war period. "Within the advanced capitalist countries the capitalists have restored profitability by clawing back the concessions which they were obliged to make to the working class during the post-war upswing: full employment, relatively high wage levels, the welfare state etc. "Faced with a decline in profitability after the late 1960s, the capitalist class began to draw the conclusion that it could no longer afford the overheads of the 'welfare state'.

"In the 1980s, Thatcherism or Reaganomics became the order of the day, with the privatisation of state industries, cutbacks in state welfare spending, and an assault on established trade union strength. "The result, however, has been a drastic undermining of the market, which had underpinned the high investment and sustained profitability of the upswing period. The capitalists are caught in a contradiction." What is wrong with this? It is a good explanation of our position. It is true that we did not mention here or on all occasions the LTRPF.

But then neither did Lenin or Trotsky who never or hardly ever mentioned this either in all their voluminous writings! This was not because they did not accept the LTRPF. It was a 'given'. Rosa Luxemburg, it is true, did not accept this aspect of Marx's economic writings. As important as the LTRPF is, we should not emphasise it to the exclusion of all else. We have to approach each situation, by restating fundamentals where necessary, but also by closely studying the specific features of each crisis - as far as that is possible - and drawing the necessary political conclusions.

Looking back on the writings of the organisation, particularly over the last 20 years, we have done this. Our analysis has been remarkable in tracing out at each stage in the economic cycle the important issues and, in the teeth of great scepticism, warning about the inevitability of a crash. There are a number of reasons - barriers to further development in the words of Marx - why a crisis can develop, not just a drop in the rate of profit as Kliman and Wallace endlessly repeat. Moreover, there can be instances where the drop in profits can arise from the strength of the working class. There can be a 'scarcity of labour' in capitalist terms arising from the strength of the workers' organisations resisting the drive for maximisation of profits. Indeed, Marx himself explained that at the end of a growth cycle the working class can temporarily extract a greater share which bears down on profitability of the capitalists.

Andrew Glyn was theoretically wrong in rejecting Marx's explanation of the long-term trend in the rate of profit. But he was correct, as against his uninformed critics both then, and now, in arguing that profits had been 'squeezed' by shortages of new exploitable labour in the late 1970s. This exacerbated the long-term decline in the rate of profit that had occurred in the post-war boom. This situation dramatically changed through the combination of the entry of hundreds of millions of workers onto the world market following the collapse of Stalinism in Eastern Europe and the Soviet Union together with the opening up of China. This gave a colossal economic boost to world capitalism and to the rate of profit, contrary to what Kliman argues.

Underconsumptionism

The charge of 'underconsumptionism' is held up like a scarecrow by Kliman and Bruce Wallace to deter anybody even exploring this idea. We explained earlier that there are economists - some lefts as well as bourgeois - who have put forward the simple idea that crises can be overcome by boosting 'demand' through increased public spending or wage increases. It is possible to do this but only in the short term and at the same time creating the contradictions that we outline earlier. It is not a long-term solution to the crisis of capitalism.

Marx provided us with indispensable theoretical tools for analysing contemporary capitalism. But it would be a mistake to believe that Marx's theory offers ready-made explanations of the post-war upswing or the current depression phase of international capitalism. Marxist theory cannot provide elucidation in advance of careful analysis of concrete contemporary trends. In *Capital* and other writings, Marx elaborated a theoretical analysis of the inner logic and contradictions of the capitalist system, which he abstracted from the reality of 19th century capitalism. Even on an abstract theoretical level, however, Marx did not assume a single path for the accumulation of capital and certainly did not advance a simple model for capitalist crisis.

While showing the inevitability of crisis, Marx's writings suggest a number of possible routes to crisis. Marx shows that capitalist breakdown can develop through an excess of capital, either through the tendency of the rate of profit to fall or through over-accumulation of capital in relation to the employed population. An excess of capital (which may give rise to overproduction) leads to a fall in profitability [*Capital* III, p350, pp360-68]. Though giving more weight to excess capital causes, Marx also shows that breakdown can develop, under certain conditions, through an excess of commodities. This can either be through imbalances between various branches of production or because of the restricted purchasing power of the majority of society. [*Capital* III, p352 and p615] Marx also points to the possibility of external shocks which can push the system into crisis before the inner mechanisms fully work themselves out.

In order to understand the contemporary capitalist crisis we have to apply these theoretical tools not merely to the question of the immediate causes of crisis, but to the whole capitalist cycle: stagnation, recovery, upswing, crash, depression, etc. (which was largely outside the scope of *Capital*). Analysis cannot be limited to the cycle of manufacturing industry within a national economy, but has to include production, trade, and the money system on an international scale. Today's capitalism is a far more complex international system than it was in Marx's time (when British capitalism dominated the world market), and Marxist economic theory has to be applied in a skilful, all-sided way.

Who's an underconsumptionist?

The claim has been made that we are adopting "the classic underconsumptionist view". But what does "underconsumptionist" mean? Marx certainly never accepted the arguments of theorists like Malthus, Sismondi, Chalmers and Rodbertus, who in a simplistic way saw deficiencies of the market as a chronic contradiction of capitalism. Those who accept the idea of insufficient demand for commodities from the working class as a permanently insurmountable problem for the system have difficulties in explaining periods of dynamic capital accumulation (such as the 1950-73 upswing).

Malthus and others failed (among other things) to understand the role played by expansion of the means of production in creating increased demand for (capital) goods. Their ideas may be described as 'underconsumptionist', as can Rosa Luxemburg's mistaken idea that accumulation is impossible in a closed capitalist system (consisting solely of capitalists and workers) and that capitalist growth required the continual extension of the capitalist market to new areas, such as colonies.

While rejecting the ideas of Malthus, however, Marx did not accept the equally false notion of Say (adopted by Ricardo) that supply always creates its own demand, thus maintaining an equilibrium in the market. Marx was far from rejecting the idea that, at a certain stage of the capitalist cycle, there will be a deficiency of aggregate demand for commodities - a deficiency in which the weakness of the workers' demand for commodities is a significant component. For instance, in *Capital* II, Chapter 16, The Turnover of Variable Capital, Marx deals with the cycle of unemployment/full employment, low wages/increased wages, weak demand/strong demand, during the capitalist cycle of growth and slump.

In a period of rapid growth, successful capitalists and especially speculators, "exert a strong consumer demand on the market, and wages rise as well". "A part of the reserve army of workers whose pressure keeps wages down is absorbed. "Wages generally rise, even in the formerly well-employed sections of the labour market. This lasts until, with the inevitable crash, the reserve army of workers is again released and wages are pressed down once more to their minimum and below it".

Significantly, at this point there is a footnote inserted by Engels, a cryptic manuscript sketch by Marx which he intended to elaborate later: "Contradiction in the capitalist mode of production. *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.* [Our emphasis]

"Further contradiction: 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 realisation." [In other words, the capitalists have to sell commodities to consumers before they can realise the value embodied in commodities, cover wages and production costs, and pocket the surplus value.]

"However, the sale of commodities, the realisation [sale] 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." [Capital II, ch16, 391]

With the rise of workers' living standards during the post-war upswing, poverty (in the Advanced Capitalist Countries though not in the majority of underdeveloped countries) became for a period relative poverty (though a minority of the workers still suffered from absolute poverty). But in the current phase of world depression large sections of the working class are once again being driven into absolute poverty through chronic mass unemployment, low wages and cuts in social benefits.

There are many passages in Capital and Theories of Surplus Value where Marx presents overproduction (an excess of commodities/deficiency of demand) as a contradiction in the capitalist mode of production. Does this make him an 'underconsumptionist'? In distinction from the crude 'underconsumptionists', who focussed on weak demand as a chronic problem without understanding the whole cycle of the production and realisation of surplus value, Marx saw crises of excess commodities as occurring at 'definite periods' (Theories of Surplus Value III: 56)... Weak demand is one link in a chain of cause and effect, a crisis tendency which can come to the fore at a certain stage of the capitalist cycle, exerting a decisive effect in that particular conjuncture.

Crises can be caused by disproportionality between different industries. Also, excessively rapid technological changes driven by coercive competition, which is resisted by workers, can be a factor in a crisis. Capitalism is a mode of production that seeks to obtain the highest rate of profit possible but must also sell its commodities. This dual demand generates a permanent contradiction which manifests itself during crises. One of the essential contributions of Marx was his study of the conditions of reproduction of capital.

It is a key question that can be summarised thus: who buys what is produced by the exploited employees? It is all very well for an employer to exploit their workers but the profit drawn from it remains virtual so long as it is not realised by the sale of commodities. This question is posed during the cycle, but it is posed in a structural manner over the long term. The upwards tendency of the rate of exploitation observed since the early 1980s poses a problem from the viewpoint of 'realisation'. If the share of the consumption of employees falls by relation to the new wealth produced, the question is who will buy the rest. There can be problems of the 'realisation' that is the selling of goods and services - without which surplus value and profit are not produced.

A Marxist economist wedded to the 'rate of profit school', Bill Jefferies of the tiny Permanent Revolution group (now disbanded!) actually used the same 'fundamentalist' approach of Kliman and Wallace and got it wrong when it came to the crisis of 2007-08. He predicted the crisis would not take place. It would be interesting to see what position Kliman took on economic perspectives before the crash - Wallace was just not around at that stage! Unlike Kliman, Jefferies, who did not adhere to the state capitalist school and took his own theory seriously, did understand that the entry of millions into the labour market from the former Stalinist states was an important factor in economic perspectives and concluded that this would mean that a deep crisis would not develop in 2007-08 because of new fields of exploitation for capitalism. He at least admitted his mistake: "I did have a little too

fundamentalist, indeed one-sided crisis theory resting on profit rates." Kliman and Wallace would be advised to take note.

Conclusion

The Socialist Party therefore does not accept the central thesis of Kliman and Wallace's dogmatic theory that the tendency of the rate of profit to decline explains the present crisis. We have only touched on the most important issues in this reply to the criticism and attacks of our opponents. If necessary, we will raise further issues in the debate. But we stand over our analysis of the situation prior to 2007-08 and subsequently. In the debate that will now open on this issue, we will advance further arguments to justify our analysis.