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Since capitalist economic policy must make no mention of the exploitation relations underlying the capitalist mode of production, economists and politicians must seek “solutions” to economic problems in terms of market phenomena. It all seems quite simple. The periodic shortage of profit which results from the laws of capitalist development appears on the market as a lack of demand, which hinders the expansion of production and so of new investments. When this state of affairs takes on a protracted character, the state jumps in to increase demand through public spending. This indeed revives production, but has no effect on the profit situation itself. Goods produced in the “public” sector are paid for by the government with funds taxed or borrowed from the private sector; so that what appear as new profits for the businesses with government contracts are subtracted from the profits already realized on the private market by other businesses. Nevertheless, the economists measure capitalist “progress” by the increase of production as a whole, lumping together profitable and unprofitable production. Although only the profitable part of production makes possible the accumulation of additional capital, growing total production simulates the conditions of a general upswing. The conditions experienced since the second world war can thus be celebrated as a boom, and taken as proof that capitalism has succeeded in abolishing the crisis cycle through state interventions in the economy.

This optimism was to an extent borne out by the facts, thanks to a rapid rise in the productivity of labor resulting from the extended application of science to technique during and after the war. However, unprofitable production has grown more quickly than profitable. The diversion of profits to the former has led to a further decline in accumulation, and the “solution” to this problem is now in turn sought in a restriction of public expenditures. The increased production based on governmental deficit financing which is, on the one hand, held to be a solution to crisis, is on the other, also held responsible for a continuing crisis situation, perceived in the form of growing inflation.

The bourgeois economists cannot understand their own economy. Just as they see insufficient demand as the cause of stagnation, they see inflation as the result of an increased demand, effected by the state-induced production, meeting a supply which ostensibly has not grown. Prices rise, it is said, because too much money seeks too few goods. It follows that a decline in demand through the restriction of public spending will end the inflation, if at the cost of growing unemployment. If public spending cannot be reduced, demand for new private capital must be diminished through higher interest rates, which also brings unemployment. Nothing can be done about this. For under today’s conditions there is only the choice between inflation and unemployment. To be sure a market equilibrium could be produced through a general reduction of wages and a further

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1 This is obviously the briefest form possible of a fairly controversial argument. For a detailed exposition of the latter, see Paul Mattick’s *Marx and Keynes*, Boston (Porter Sargent): 1969. – The Editors
increase in labor productivity. But this solution is blocked by the wages policy of the trade unions and the prices policy of the monopolies; such a solution would require bringing prices and wages under government control.

The facts, however, contradict such explanations. That prices are not determined by impossibly high labor costs is shown by the fact that despite increasing productivity workers’ real wages have not risen since 1967. That the problem is not one of an excessive demand is implicit in the fact that almost a fourth of American productive capacity lies unused. (If more goods aren’t produced it’s because they couldn’t be profitably sold.) Supply has exceeded Demand and nevertheless prices have risen yearly by around 7.2%. The deflationist policy of the last two years has not affected this situation in the least, though hope springs eternal that it will slow the tempo of inflation. In reality supply and demand have nothing to do with the inflation, just as monopolistic price and wage policies are not causes of the inflation but its results.

Inflation and deflation have always been forced on capital as means by which workers’ wages may be adjusted to meet profit requirements. The capitalist ideal is stability; this, however, comes into conflict with the necessities of accumulation, so that capitalism develops through a crisis cycle. Up to the second world war capitalist crises were principally characterized by deflation: production would be curtailed, workers fired, wages cut, capital values destroyed, and prices lowered. Through this process of decline and ruin a new balance would be struck between the profit requirements of the surviving (and now more highly concentrated) capital and the actual production. The increasing intensity of these crises led to attempts to neutralize them by means of inflation. With inflation, prices can be made to rise faster than wages. This reduces labor’s share of the social product and so augments profits and furthers capital accumulation.

With the growth of the public sector inflation acquires another role: as the means by which the unprofitable character of government-induced production finds partial compensation in higher prices for goods produced in the private sector. The unproductive expenditures of the state are financed in part through loans and in part through taxes. The government money- and credit-expansion in itself implies rising commodity prices and the depreciation of money. As the capitalists see it, lack of profit derives on the one hand from existing wage levels and on the other from the imposition of taxes on capital. The burden of unprofitable on profitable production, then, appears to the individual capitalist as a decrease in his earnings, which he seeks to offset by raising his prices. What is really happening is that total production is growing faster than total profit; this shows up in the fall of the average rate of profit. Under these conditions, a monopolistic price policy secures the needed profit at the expense of competitive capitals. (Its ability to do this must however disappear in the course of time as total profits continue to shrink.) The workers, finally, only try to adjust their wages to the higher prices.

If private capital does not succeed in outstripping the expansion of the unprofitable state sector through a relatively faster private capital accumulation, then what lies behind the continuing inflationary trend is the slow decline of the profit-oriented market economy. In the absence of an accelerated capital accumulation, a renewed deflation seems required as the basis for a new prosperity. The novelty of the present situation lies in the fact that deflation and inflation are being applied at the same time. Higher prices accompany diminishing production, the appearance of prosperity that of crisis. This double attack on the existing wage and working conditions expresses American capital’s need for accelerated accumulation within its own borders and in the framework of the world economy. The sharpened international competition, including the imperialist policy, requires as basis the greater exploitation of workers in this country.
Since the capitalist state is not to compete in the market with the private capitalists it serves, its contribution to production must take the form of public spending which is useful to capital. This means first of all paying the expenses of imperialist power politics, which works in the best interests of private capital. The costs involved can be considered a kind of “social investment,” which may open up new profit possibilities or keep existing ones safe. It must be remembered that America has through two world wars become the strongest imperialist power. American capital has to a great extent replaced European capital in Canada and South America, made large investments in nearly all European countries, and brought colonies formerly under European control under its own. The oil of the Middle East is now for the most part in American hands, and in SE Asia American capital is trying to win supremacy over this area of great promise. Without imperialist competition America would not have become what it is today. Capital’s need to expand makes imperialism as necessary as it is desirous, and the power already won determines the degree of imperialist aggressiveness.

**PROBLEMS OF IMPERIALISM**

To be sure, the imperialist policy contains its own contradictions, which in the end can be traced back to those of capitalist production. While imperialism is a necessity, it is also a danger which can lead to deeper economic disorder. Public spending can somehow be controlled within a national framework; this is no longer possible in the case of war, since the enemy has a share in the decision-making. In the great wars of the past everything, so to speak, was at stake; they ended after a couple of years with the destruction of one side and the victory of the other, permitting rearrangements of international economic and political power. In the era of the atomic bomb, however, the imperialist powers themselves draw back in fright from such a war, with the result that their actual war activities threaten to take on a permanent character, and therefore yield no visible fruits. The American war in Indochina has led to the disappointment of imperialist expectations. Instead of creating possibilities for further expansion it has only deepened the difficulties of profit production and has enlarged public expenditures.

Since the individual corporations do not participate equally in the state-controlled production, one part of capital subsidizes another part. The capitals which do not profit from the war turn, if not on ideological then on economic grounds, against the apparently unsuccessful war policy. Since the war involves continuing inflation, a part of the middle class has also lost interest in it. The workers have up to now been the least opposed to it, perhaps since many fear that their jobs depend on war and armaments. Obviously opposition to or acceptance of the war are not determined only by economic motives, but such considerations are bound to give one attitude or the other particularly expressive force. At any rate a growing war-weariness is developing which under certain circumstances can be dangerous for the imperialist policy.

It would however be incorrect to trace America’s economic difficulties exclusively back to the war in Indochina. They are due, as pointed out above, to a tendency to crisis inherent in the capitalist mode of production and relatively independent of this war. The success achieved through the Second World War is already a thing of the past. The capital increased through this success now requires a correspondingly greater mass of profit in order to continue to expand at the same tempo. Thus yesterday’s success itself becomes tomorrow’s obstacle. When the mass of profit adequate to the expansion of the existing capital can no longer be obtained expansion transforms itself into stagnation. That the gains made through the World War and its aftermath are not sufficient to solve the accumulation problem of American capital is visible in the very fact that it has been
necessary throughout the whole post-war period to ward off unemployment through growing public expenditures.

Since the capitalist economy is not centrally coordinated, it is naturally unable to frame policies to control its development: to decide at one time on a rising and at another on a declining state of business. Rather, production expands when profits grow, and contracts when profits shrink. When we speak of economic policy we refer only to measures taken by the state to influence the economy in one direction or another, within the limits imposed by the cyclical nature of capitalist development. The state can use the tax system, state credit, and control of the money supply to affect business conditions. Through the scarcity of money and the rise in the interest rate that goes with it production and investments are slowed down. The same end is accomplished through the raising of direct or indirect taxes on capital. With the limitation of production in general, the profitability of weaker capital is especially lowered, and the resulting restrictions in business activity and bankruptcies produce unemployment which is no longer absorbed by additional public expenditure. The final aim of the whole process is also the primary goal of all capitalist production, namely the increase of profits, in order to achieve a new prosperity on the basis of a changed capital structure.

The deflationary course introduced by the Nixon administration was in this regard successful. According to Arthur F. Burns, head of the Federal Reserve System,

Reductions in employment have occurred among all classes of workers – blue collar, white collar, and professional workers alike. Indeed, employment of so-called non-production workers in manufacturing has shown a decline since March that is unparalleled in the post-war period.

Because of these vigorous efforts to cut costs, the growth of productivity has resumed, after two years of stagnation. In the second quarter of this year, output per man-hour in the private nonfarm economy rose at a 4 per cent annual rate, and the rate advanced to 5 per cent in the third quarter. These productivity gains have served as a sharp brake on the rise in unit labor costs, despite rapid increases in wage rates. [New York Times, Dec. 8, 1970]

Although it has escaped this expert that real wages already ceased to rise since 1967, it cannot be doubted that unemployment, which according to official data affected 6% of all wage workers at the end of 1970, made possible greater exploitation and lowered production costs. But this cost-cutting has had little effect on the continuing rise in prices.

Nixon’s policy was thus a “disappointment” while it indeed slowed the pace of the economy, it did not end inflation. Inflation without unemployment, it is now said, has only given way to inflation with unemployment. But capital must make profits in all situations, and that of inflation with unemployment suits it well. Solomon Fabricant, another expert, drew these conclusions:

In fact, to have maintained an inflationary policy in 1969 would, I believe, have postponed the recession only at the cost of a far worse recession later, when the rate of inflation had accelerated to an altogether intolerable level. [New York Times, Nov. 8, 1970]

The interruption of the inflationary trend appears to be not only a national; but also an international necessity, since the American situation is closely bound to that of the world economy. The dollar is a reserve currency. On its stability hangs that of the international currency system, and so that of the world market. International agreements set the relations of other currencies to the dollar, which itself is – at least theoretically-based on a fixed gold price. During the last ten years, the buying power of the dollar has fallen by more than one fourth. With this the dollar reserves of other countries have also
depreciated, and the preference for exchanging dollars for gold has risen. The constantly increasing loss of its gold backing makes the dollar continually more problematic as world money and reserve currency, and with it the world’s money system. Thus, while the depreciation of the dollar makes

for higher profitability in so far as prices rise faster than wages, it tends to undermine the existing international money system, which rests on the parity of the dollar with other currencies. A greater efficiency in international competition has up to now granted American capital a positive balance of trade, which however has been accompanied by a negative balance of payments because of great capital exports and the war in Indochina. The dollars spent by the government found their way abroad, since profits promised to be greater there than in America, and an increasing part of the world economy was brought under the control of American exploitation. The acceleration of international economic activity was thus in part tied to America’s inflationary policy and for a long time met with no serious opposition. But with the increasing competitive capability of European and Japanese capital, these countries turned against the American capital export advanced by inflationary means. It is not to be expected that these countries will forever submit their own capitalist interests to the inflationary necessities of America, just in order to preserve the dollar standard.

At all events, the accelerating inflation, national and international, appears to slip from the control of the American regime and to harm capital more than profit it. In addition to de- and re-evaluations of other currencies, it has forced an international inflation. This has undermined the international agreements reached anyway only with difficulty, and points to a general financial crises. In addition the rapidly climbing dollar prices decrease the international competitive ability of American capital and its commodity exports have fallen in relationship to imports. Between 1962 and 1968 American exports grew from $21.4 billion to $34.2 billion. In the same period however, imports climbed from 16.4 to 32.4 billion dollars, so that the positive balance of trade was rapidly disappearing. That it still exists to a small degree is due not to the commodity exchange between Europe and America but to that between America and the underdeveloped countries. With the disappearance of the trade surplus, the pressure is on the payments balance through greater capital exports and the costs of imperialism continued to grow, and thus contributed to the decision to halt the inflationary trend.

This decision came the more easily as the war situations in Indochina and in the Middle East had seemingly lost much of their menace, allowing America to stabilize the costs involved. The temporary limitation of capital exports poses no great problems for the capital already invested, since the latter can now make use of a newly developed European capital market to find funds for further growth. An artificial reserve forced on the International Monetary Fund, the so-called Paper Gold, serves as backup to the American gold reserves, and resumed European capital exports to America aid the payments balance. In the breathing space produced by this conjunction of factors it appeared quite possible to brake the inflation. The social consequences – such as unemployment – will be put up with as a necessary price to pay in order to push forward from the inflationary to a more stable form of capital production.

PRODUCTION GOES DOWN

This appears to be an illusion. Indeed, total production fell in 1970 for the first time since 1958 - but without change in the price level. By the end of the year there were 5

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2 This was written before the dollar crisis of May, 1971 - The Editors.
million unemployed and nearly 15 million on welfare. Every week around 300 firms and more than 3,000 independent businessmen declare bankruptcy. The increasing productivity of labor has certainly improved profitability, but not by enough to make new investments attractive. Orders in the machine tool industry are lower today than they have been for twelve years. The “calculated” reduction of economic activity has turned into a general decline, the social consequences of which cannot be foreseen. The Nixon administration’s first response was an attempt to push the economy up again by means of a greater reduction of taxes on capital, and a lowering of the interest rate; but it was quickly compelled to return to the inflationary tactics of the past. For 1971 a deficit of between 15 and 20 billion dollars and a corresponding expansion of the money supply is foreseen in order to return to full employment.

To be sure, “full employment” is defined as allowing up to 4% unemployment. But in order to do justice even to this definition, according to economic experts, yearly production must climb by 6% in real values. But in view of the decline in production at the year’s end, even this 6% growth rate – itself unrealistic – would not suffice to produce full employment, and this the less so, as in so far as planned new investments are known, all industries are striving to lower their investments for 1971 by between 5% and 9%. The unemployed will not find jobs in the private sector of the economy, so that the full employment program can be realized only through a new wave of inflation (i.e., government-induced production).

Inflation, war, and unemployment lead to a general dissatisfaction which makes itself felt not only politically but also in the demoralization of the army. The return of part of the troops from Indochina is traceable not only to the desire to stabilize military expenditures but also to the growing unreliability of the soldiers stationed in Vietnam. Of course it is made possible only by the apparent inability of North Vietnam and the NLF to carry on the war on an expanding scale.’ The return of the troops, and the implied promise of a full withdrawal from Vietnam, awakened new illusions and brought the American antirwar movement, at the end of 1970, to a nearly full halt. In addition, the student movement, which focused its opposition nearly exclusively on American imperialism, without much concern with the capitalist system itself, became a victim of its own programmatic limitations and its present inability to have any real influence over the pace of events. Through the interventions into Cambodia and Laos it received a new impetus, which however lagged behind the activity developed earlier.

The economic and political difficulties of American capital should not be overestimated. In general, the discontented are opposed not to the capitalist system but only to the policy of the present administration. Likewise, the Nixon administration is concerned not so much about

the breakdown of capitalism as about its own continued existence, and constructs its policy, insofar as this is objectively possible, with an eye to the coming election. To be sure, this viewpoint is possible only with respect to domestic issues, but here it is quite feasible to increase total production and lower unemployment, if at the cost of greater governmental indebtedness. The resulting impairment of capitalist accumulation can not yet upset the system itself, since the sphere of state-induced waste production in the totality of production is still relatively small.

Control over foreign policy does not, however, rest in America’s hands alone. Without doubt the Nixon regime would welcome an end to the war on America’s terms, particularly as a situation critical for American capital is beginning to develop in South America, and as the situation in the Middle East has not lost its explosiveness. The invasions into Cambodia and Laos show that for America the war in Indochina can end only with the defeat of the NLF and North Vietnam, i.e., with the end of the attempt to
unite South and North Vietnam. It depends on the behavior of Russia and China, whether 
US military dominance of S.E. Asia will be followed by the consolidation of American 
power in that area. As things stand, the renewed inflationary trend coincides with 
sharpened imperialist aggressiveness. Both phenomena can only drive the internal social 
contradictions to extremes, so that American capitalism is bound to continue in its long 
standing condition of social crisis.

America’s War in Indochina

Transcribed: by Thomas Schmidt;

The origins of the war in Indochina are to be found in the results of the second 
world war. Waged in Europe, Africa, and East Asia, World War II turned America into 
the strongest capitalist power in both the Atlantic and the Pacific areas of the world. The 
defeat of the imperialist ambitions of Germany and Japan promised the opening up of 
new imperialist opportunities for the United States, which emerged from the conflict not 
only unimpaired but enormously strengthened. America’s opportunities were not 
limitless, however; concessions had to be made to the Russian war-time ally, which 
formed the basis for new imperialistic rivalries and for the ensuing “cold war.” The post-
war years were marked by the two great powers’ attempts to consolidate their gains. This 
excluded further unilateral expansion that would destroy the new power relationships. To 
that end, America assisted in the reconstruction of the West European economies and the 
revival of their military capacities, as well as in the rebuilding of Japan under her 
tutelage.

The second world war provided an opportunity for the colonial and semi-colonial 
nations of East Asia to gain their political independence. The British, French, Dutch, and 
Japanese colonizers lost their possessions. At first, the national liberation movement was 
welcomed by the Americans as an aid in the struggle against Japan, just as at first the 
Japanese had supported this movement as a means to destroy the European colonizers. 
Even after the Japanese defeat, the United States displayed no serious intentions to help 
the European nations to regain their colonies. The Americans were fully convinced that 
they would inherit what their European allies had lost, if not in the political then in an 
economic sense.

The Chinese revolution altered the whole situation, particularly because at that time 
it appeared as an extension of the power of the new Russian adversary and as the 
expansion of a socio-economic system no longer susceptible to foreign exploitation 
through the ruling world market relations. The needs of the American imperialists were 
clear: short of war, they would have to contain China in Asia, as they contained Russia in 
Europe. This necessitated a system of Asian alliances such as the Atlantic Pact provided 
for Europe.

Capital is international. The fact that its historical development paralleled that of 
the nation state did not prevent the establishment of the capitalist world market. However, 
due to political interventions in defense of one national bourgeoisie against competitor 
nations, the concentration of capital was, and is, more difficult to achieve on an 
international than on a national scale. Even capitalist crises, world-embracing accelerators
of the concentration process, needed the additional measures of imperialistic wars to extend the national concentration process to the international scene. The capitalistic organization of the world economy is thus a contradictory process. What it brings about is not the final accomplishment of capitalist world unity but capital entities competing more and more destructively for the control of always larger parts of the world economy.

This process is inherent in capital accumulation, which reproduces the fundamental capitalist contradictions on an always larger scale. With capital accumulation still the determining factor of social development, we re-experience more extensively and more intensely the experiences of the past with respect to both competition and the internationalization of capital. To regard the world as destined for private exploitation is what capitalism is all about. If, at the beginning, it was predominantly a question of exporting commodities and importing cheap raw materials, it soon turned into the export of capital for the direct exploitation of the labor power of other nations and therewith to colonization in order to monopolize the new profit sources.

The end of the colonial system did not remove the twofold capitalist need to expand internationally and to concentrate the profits thereby gained into the hands of the dominant national capital entities. Because capitalism is both national and international it is by its very nature imperialistic. Imperialism serves as the instrumentality for bridging national limitations in the face of pressing international needs. It is therefore silly to assume the possibility of a capitalism which is not imperialistic.

Of course, there are small capitalist nations which flourish without directly engaging in imperialistic activities. But such nations, operating within the frame of the capitalistic world market, partake, albeit indirectly, in the imperialistic exploits of the larger capitalist nations, just as – on the domestic scale – many small sub-contractors profit from business given to them by the large prime contractors producing for the war economy. Not all capitalist countries can expand imperialistically. They find themselves more or less under the control of those nations which can, even if this control is restricted to the economic sphere. It is for this reason that some European observers see a form of neo-colonialism in the recent expansion of American capital in Europe, and others press for a more integrated Europe able to act as a “third force” in a world dominated by imperialist powers.

The contradiction between the national form of capital and its need for expansion, which recognizes no boundaries, is intertwined with the contradiction between its competitive nature and its urge for monopolization. In theory, a competitive economy flourishes best in a free world market. Actually, however, competition leads to monopoly and monopolistic competition, and the free world market leads to protected markets monopolized by political means. Monopolistic competition implies imperialistic struggles to break existing monopolies in favor of new ones. The economic form of competition takes on political expressions and therefore ideological forms, which come to overshadow the economic pressures which are their source.

This transformation of economic into political-ideological issues has become still more confounded through the modifications of capital production brought about by way of social revolution. The planned economies of Russia, China, and their satellites not only disturbed the monopolistically controlled world market but tended to prevent its further expansion under private-capitalist auspices. To be sure, there was not much capitalization in the underdeveloped parts of the world. International capital concentration resulted in the rapid development of existing capital at the expense of potential capital in subjugated countries. Lucrative markets, and cheap foodstuffs and raw materials increased the profit rates in the manufacturing nations and therewith hastened their capital accumulation.
Beyond that, however, it was expected that a time would come when further expansion of
capital would include its intensified extension in the underdeveloped parts of the world.

Capital is not interested in the continued existence of industrially-underdeveloped
countries \textit{per se}. It is interested only to the extent that this state of affairs proves to be the
most profitable. If a further development of backward countries should be more, or
equally, profitable than investments in advanced nations, capitalists will not hesitate to
foster their capitalist development just as they hastened it in their own countries. Whether
or not this could ever become a reality under the conditions of private-capital production
is a question the capitalists cannot raise for their own continued existence is clearly bound
up with the capitalization of the underdeveloped nations. They thus cannot help seeing in
the formation and expansion of state-controlled systems a limitation of their own
possibilities of expansion and a threat to their control of the world market. For them
“communism” means the formation of super-monopolies which cannot be dealt with by
way of monopolistic competition and have to be combatted by political-ideological
means and, where opportune, by military measures.

In their opposition to “communism” the capitalists do not merely object to a
different economic system. They also condemn it for political and ideological reasons
especially since, convinced that the economic principles of capitalism are universal
principles of economic behavior, their violation seems a violation of human nature itself.
They do not and cannot afford to understand the dynamics and limitations of their own
social system. They see the reasons for its difficulties not in the system itself but in
causes external to it. From this point of view, it is the erroneous and depraved creed of
communism which subverts society and robs it of the possibility of working itself out of
whatever difficulties arise. It is thus not necessary that the capitalists, their apologists, and
all the people who accept the capitalist ideology be aware of the fact that it is the ordinary
business of profit-making which determines the national and international capitalist
policies.

Neither is it necessary for the capitalist-decision-makers to comprehend all the
implications of their activities in the defense of and, therefore, the expansion of their
economic and political powers. They know in a general way that whatever lies outside
their control endangers their interests and perhaps their existence and they react almost
“instinctively” to any danger to their privileged positions. Because they are the ruling
class, they determine the ruling ideology, which suffices to explain their own behavior, as
it covers their special class interests and nothing else. They will thus explain all their
actions in strictly ideological terms, taking their economic content for granted and as
something not debatable. Indeed, they may never make a conscious connection between
their political convictions and their underlying economic considerations, and may
inadvertently violate the latter in satisfying their ideological notions.

The capitalists are not Marxists, which is to say that they must defend, not criticise,
existing social relationships. Defense does not require a proper understanding of the
system; it merely demands actions which support the \textit{status quo}. Marxist rationality,
which includes criticism of existing conditions, often assumes that all capitalistic
activities are directly determined by its capitalistic rationality, that is, by its immediate
need to make profit and to accumulate capital. They will look for directly-observable
economic motives behind the political activities of capitalist states, particularly in the
international field. When such obvious reasons are not directly discernible, they are
somewhat at a loss to account for imperialist aggression. In the case of Indochina, for
example, the apparent absence of important economic incentives for American
intervention has been a troublesome fact for Marxist war critics. This was seemingly
mitigated only by the recent discovery of offshore oil potentials, which are supposed to
explain, at least in part, the continued interest of big business in a victorious conclusion of the war. It is clear, however, that the Indochina war was there, and would be there, without this discovery and explanations must be found other than some definite but isolated capitalistic interests.

The apologists of capitalism utilize this situation to demonstrate that it is not the capitalist system as such which leads to imperialism, but some aberration thrust upon it by forces external to itself. They speak of a “military-industrial complex,” conspiring within the system, to serve its particularistic interests at the expense of society as a whole. In their views, it is one of the institutions of society, not capitalism itself, which is responsible for the war through it usurpation of the decision-making powers of government. Whereas the war – far from being waged for profits, current or expected – is an enormous expense to the American taxpayers and therefore senseless, it does directly benefit the particular group of war profiteers in control of government. Specific people, not the system, are to blame, for which reason all that is necessary to end the aberration is a change of government and the emasculation of the “industrial-military complex.”

There is, of course, truth in both these assertions, namely, that imperialism is economically motivated and that it is spearheaded by groups particularly favored by war. But by failing to relate these explanations to the fundamental contradictions of capital production, they fail to do justice to the complexity of the problem of war and imperialism. Neither the production nor the accumulation of capital is a consciously-controlled process on the social level. Each capitalist entity, be it an entrepreneur, corporation, conglomerate, or multinational enterprise, necessarily limits its activities to the enlargement of its capital, without regard to or even the possibility of having regard for social needs and the course of social development. They are blind to the national and international social consequences of their relentless need to enlarge their capital. The profit motive is their only motive. It is what determines the direction of their expansion. Their enormous weight within society determines social policies and therewith the policies of the government. This implies, however, that government and society itself operate just as blindly with respect to its development as each separate capital entity with regard to its profit needs. They know what they are doing, but not where it will lead them; they cannot comprehend the consequences of their activities.

These consequences may include war and war may be initiated not because of some definite economic expectations, such as possession of specific raw materials, entry into new markets, or the export of capital, but because of past economic policies whose consequences were not foreseeable. This is quite clear, of course, in the case of imperialistic interventions in defense of capitalist property which stands in danger of being expropriated, or has been expropriated, in nations which try to gain, or regain, some measure of independence in economic as well as in political terms. This explains recent interventions such as those in Guatemala, Cuba, the Dominican Republic, the Congo and so forth. It is not clear with respect to the intervention in Indochina, where the United State’s economic interests were minimal and their possible loss of no consequence to her economy. Yet this intervention, too, was the unforeseen outcome of past economic developments, even though it cannot be related to any immediate and specific economic needs or opportunity on the part of American capitalism.

There is only one way to secure the capitalist market economy and that is through the continuous expansion of capital. It is this expansion which is the secret of its prosperous stages of development, just as lack of expansion results in its periods of depression. Capital development has been an alternation between prosperity and depression, the so-called business-cycle. For American capital, however, the last big depression, that of 1929, did not lead to a new period of prosperity but to an era of
relative stagnation and decline, which was overcome only through the transformation of the economy into a war economy, that is, the growth of production not by way of capital accumulation, but through the accumulation of the national debt and production for “public consumption” such as is required by war and preparation for war. But just like the Great Depression before, the war failed to restore a rate of capital expansion sufficient to assure the full utilization of productive resources and the available labor power. The government saw itself forced to continue its support of the economy by way of deficit-financed public expenditures which, given the nature of the capitalist system, are necessarily non-competitive with private capital and therefore largely arms expenditures. The “cold war” in the wake of the real war provided the rationale for this type of compensatory production.

To be sure, private capital continued its expansion at home and abroad, but not to the extent which would have allowed a significant curtailment of non-profitable government-induced production. Indeed, in spite of both types of production – that is, for the market and for extra-market “public consumption” – full employment and full use of productive resources could not be reached. Despite the great expenditures connected with the war in Indochina, at the end of 1970 America counted six million unemployed and an 80% utilization of her productive resources. War expenditures are, of course, a deduction from the national income and can neither be capitalized nor be consumed in the usual sense of the term. A steady growth of expenditures for war is possible only at the expense of capital accumulation and living standards. It is, therefore, no solution for the problems caused by an insufficient rate of capital expansion; instead it makes a solution harder to achieve. Capitalistically, war makes “sense” only if it serves as an instrument for bringing about conditions more favorable for a further expansion and extension of capital. Yet at the same time, under prevailing conditions, absence of the war in Indochina would merely increase the number of unemployed and increase the unused part of the productive resources.

War or no war, short of an accelerated rate of private capital expansion, there is only the choice between a deepening depression and the amelioration of conditions through the further extension of non-profitable “public” expenditures. But whereas the war may eventually yield the preconditions or an American penetration of East Asia, and its present expense be recompensed by future profits, public expenditures for other purposes do not have such effects. Experience shows that war does open up possibilities for further capital expansion. From a consistent capitalistic standpoint a successfully waged war is more “rational” than a steady drift into economic decline.

Even if the “mixed economy” has found acceptance as a probably unavoidable modification of the capitalist system, the “mix,” that is, governmental interventions in the economy, are supposed to be only such as benefit private capital. To keep it that way, interferences in market relations must be limited on the national as well as on the international level. A general expansion of government production internally would spell the certain end of corporate capitalist property relations, just as the extension of a state-determined social system of production within the world economy points toward the contraction of the free-enterprise economies. The necessity of containing the spread of “communism,” that is, of state-controlled systems, is thus related to the necessity of restricting governmental interventions in the economy within each private-capitalist nation. With more nations adopting the state-controlled form of capital production and thereby limiting the expansion of private capital, insufficient expansion of the latter calls forth more intensive government interventions in the private-capitalist nations. To halt the trend toward state-capitalism in the market economies requires the containment and possibly the “roll-back” of the already-established state-capitalist
systems. But while at home the capitalists control their governments and thus determine the kind and degree of the latter’s economic interventions, they can only halt the dreaded transformation abroad either by gaining control of the governments of other nations or by imperialistic military measures.

There is, then, no special reason for America’s intervention in Indochina, apart from her general policy of intervening anywhere in the world in order to prevent political and social changes that would be detrimental to the so-called ‘free world,’ and particularly to the power which dominates it. Like an octopus, America extends her tentacles into all the underdeveloped countries still under the sway of private-capitalist property relations to assure their continued adherence to the free enterprise principle or, at least, to the old world market relations which make them into appendages of Western capitalism. She tries to rally all pro-capitalist forces into various regional alliances, arms and finances the most reactionary regimes, penetrates governments, and offers aid, all to halt any social movement which might strive for the illusory goal of political and economic self-determination. Because self-determination is not a real possibility, the United States recognizes that attempts to attain it could only result in nations’ leaving the orbit of Western capitalism to fall into that of the Eastern powers. By fighting self-determination and national liberation, America is simply continuing her war against the Russian and Chinese adversaries. Although no longer a “cold war,” it is as yet fought only on the periphery of the real power issues involved.

Separately, none of the small nations which experienced American intervention endangered the United States’s hegemony in world affairs to any noticeable extent. If they were hindered in their attempts to rid themselves of foreign domination and of their own collaborating ruling classes, this was because America recognizes that their revolutionary activities are not accidental phenomena, but so many expressions of an as yet weak but world-wide trend to challenge the capitalist monopolies of power and exploitation. They must, therefore, be suppressed wherever they arise and conditions that will prevent their return must be created, quite apart from all immediate profit considerations. In this respect, the present differs from the past in that while imperialist interventions used to serve to create empires within a world system, such interventions today serve the defense of capitalism itself.

At first glance, America’s gains in Asia are quite impressive. She has not only regained the Philippines and destroyed Japan’s “co-prosperity sphere,” but found entry into nations that only a few years ago had been monopolized by European powers. With the aid of a reconstructed Japan, now allied to the United States, it seemed relatively easy to keep China out of Southeast Asia and secure this part of the globe for the “free world” in general and the United States in particular. But the “communist” enemy was to be found not only in China but to a greater or lesser extent in all the countries of the region, achieving by subversion what could ostensibly no longer be achieved by more direct procedures. Securing America’s newly-won position in Southeast Asia thus required the destruction of native national forces which saw themselves also as communist movements and wished to emulate the Russian and Chinese examples rather than adapt themselves to the ways of Western capitalism.

Like all countries, the emerging states in Southeast Asia were divided by different class interests. Different social groups fought for special aims by way of and within the struggle for national liberation, which was thus at the same time a civil war. Its results would determine whether the liberated nations would have societies keeping them within the fold of Western capitalism. It became necessary to influence the outcome of the civil war by outside intervention. For the United States it was essential that whatever the results of the liberation movements they must not lead to new “communist” regimes
willing to side with the Chinese adversary. America’s politicians rightly surmised that notwithstanding the most exaggerated nationalism, which would tend to oppose a new Chinese domination as it had opposed that of the old colonial powers, China by sheer weight alone would dominate the smaller nations at her boundaries, disguised though this domination would be by ideological camouflage. The surge of nationalism was to be channeled into anti-communism, which meant the upholding or creation of governments and institutions friendly to the United States and Western capitalism.

Political decisions are left to the decision-makers; so long as they are successful they find some kind of general support. Even if the decisions involve war, they will be accepted not only because of the generally-shared ideology, but also because of the practical inability on the part of the population to affect the decision-making process in any way. People will try to make the best of a bad situation – which also has its advantages. Certainly, the armaments producers will not object to the extra profits made through war. Neither will the arms production workers object to it, if it provides them with job security and steady incomes, which might be less certain under other circumstances. The military will see the war as a boon to their profession; war is their business and they will encourage business to make war. Because the mixed economy has become a war economy, many new professions have arisen which are tied to war conditions or to preparation for such conditions. A growing government bureaucracy relies for its existence on the perpetuation of the war machinery and of imperialistic activities. Wide-spread interests vested in war and imperialism ally themselves with those specific to the large corporations and their dependency on foreign exploitation.

While for some war and imperialism spell death, then, for many more they constitute a way of life, not as an exceptional situation but as a permanent condition. Their existence is based on a form of cannibalism, which costs the lives of friend and foe alike. Once this state of affairs exists, it tends to reproduce itself and it becomes increasingly difficult to return to the “normal” state of capitalist production. War itself increases the propensity for war. The American decision-makers, who decided to enter the Indochina conflicts (or for that matter any other) have thus been able to count on the consensus of a large part of the population, a consensus which was by no means purely ideological in nature.

Even so, the United States did not, and has not as yet, declared war against North Vietnam. Allegedly, she still is only defending the endangered self-determination of South Vietnam. The Korean War indicated that, short of risking a new world war, already established “communist” regimes could not be detached from their protector states, Russia and China. In other respects, however, the situation was still fluid. Apart from North Vietnam, other Southeast Asian nations were either anti-communist, or declared themselves “neutralist” or “non-aligned,” meaning that their civil wars, clandestine or open, were still undecided. In the case of Laos, this led to a tripartite arrangement, engineered by the great powers, with “neutralist”-, “communist”-, and “western”-oriented forces dividing the country between them. This too was thought of as a temporary solution which would perhaps be resolved at some future date. Cambodia maintained a precarious “independence” by catering to both sides of the overshadowing larger power conflict. Only in Thailand, where America had replaced Britain as the major foreign influence was the commitment to the West almost complete. Here the United States States sent more than 30,000 troops and much aid to build this kingdom into a bastion of the “free world.” (It has become the most important American airbase for the Vietnam war.)

Because of the flexibility of the situation, it seemed essential to the United States to stop any further change in Southeast Asia by assisting all “anti-communist” forces in that
region. This has been a consistent policy, from which none of the successive American administrations has deviated. Objecting to the Geneva Agreements of 1954, the American-installed regime of South Vietnam refused to consider the proposed elections, which were to decide the question of unification of South and North Vietnam. To assure the continued existence of South Vietnam, the United States poured money and soon troops into the country. The resumed civil war in the South found support from North Vietnam, turning the American intervention into a war against both the national liberation forces in the South and the North Vietnamese government. This intervention has often been found unjustified, because it concerned itself with a civil war instead of, as claimed, with the national independence of South Vietnam. However (as was pointed out above) in the context of Indochina no distinction can be made between international war and civil war, because here all wars for national liberation are at the same time civil wars for social change. It was precisely because of the civil-war character of the national liberation movements that the United States entered the fray.

America’s determination to retain influence in Indochina at all costs did check a possible further extension of social transformations such as occurred in North Vietnam and in a part of Laos. As it became evident that neither Russia nor China would actively intervene in the Vietnamese war, the “anti-communist” forces in Southeast Asia were greatly strengthened and, aided by the United States, began to destroy their own “communist”-oriented movements, the most gruesome of these undertakings being that in Indonesia. But while neither Russia nor China was ready to risk war with the United States to drive the latter out of Southeast Asia, they tried to prevent the consolidation of American power in that region by enabling the Vietnamese to carry on the war. The military aid given to the Vietnamese by Russia and China could not lead to the defeat of the Americans, but promised a prolonged war which would deprive the United States of enjoying the spoils of an early victory. The immediate and growing expenses of the war would, instead, loom ever larger in comparison with its possible positive results, which would recede always further to the indeterminate future. By bleeding the people of Indochina America would in increasing measure bleed herself, and perhaps lose confidence in her ability to conclude the war on her own terms.

It seems quite clear that the Americans expected less resistance to their intervention than they actually came to face. They aspired to no more than a repetition of the outcome of the Korean conflict—a mutual retreat to previously demarcated frontiers, which meant halting the “communist” penetration at the Seventeenth Parallel in the case of Vietnam, and at the agreed-upon zones in Laos. As in Korea, in Vietnam too they had no desire to turn the war into a new world war by bringing Russia, China, or both into the conflict. A war of the great powers, possessing atomic weapons, could easily lead to mutual destruction. The fear of such a war has until now set limits to the war in Vietnam. It has prevented a concentrated, all-out American onslaught on North Vietnam to bring the war to a victorious conclusion, since neither Russia nor China, like the United States herself, can be expected to allow any territory already under their control or in their sphere of interests to be lost, without encouraging further encroachments on their power positions. It was for this reason that the Western powers did not intervene on the occasions of the Russian invasions of Hungary and Czechoslovakia, and that America now hesitates to attempt the complete destruction of North Vietnam.

Of course, a nation’s determination to hold on to what it has, or has gained, is not absolute. The overriding fear of a possible atomic war, for instance, kept the United States from re-conquering Cuba. Nations tend to avoid actions which have a very high probability of leading to undesired results. Uncertainty is the rule, however, and it is the presumed job of diplomacy to weigh the pros and cons of any particular policy with
regard to long-run national and imperialistic interests. This may incorporate short-run decisions which need not have a direct logical connection with long-run goals. The latter are, of course, illusory, since the dynamics of capitalism imply an ever-changing general situation which escapes political comprehension. The imperialist strategy remains a policy with regard to long-run national and imperialistic interests. Since the dynamics of capitalism imply an ever-changing general situation which escapes political comprehension, long-run imperialist strategy put into practice remains a matter of blindly executed activity, in which all diplomatic expectations may come to naught. Actually, the political decision-makers can affect only immediate, short-run goals (which need not have a direct logical connection with the long-run goals). They try to attain a definite and obvious objective. They may reach it or not; if they lose, it will be through the action of an adversary. Until stopped, they will see their course of action as the only “rational” one and will try to follow it up to the end. In the case of Indochina, the simple goal was to secure this part of the world for Western capitalism without initiating a new world war. The unexpectedly effective resistance of the adversaries led to a continuous escalation of the war effort and a growing discrepancy between the limited objective and the costs involved in reaching it.

In one sense, to be sure, the American intervention proved successful, in that it not only prevented the unification of South and North Vietnam but also sustained Western influence in Southeast Asia in general. Confidence in the ability to maintain this situation is reflected in new extensive and predominantly private American and Japanese direct investments in oil, timber, and mineral resources in Taiwan, Indonesia, Thailand, and even South Vietnam. Still, the war goes on, because the North Vietnamese and the National Liberation Front in the South are not willing to acknowledge defeat and to accept peace on American terms. Short of a successful invasion of the North or an internal collapse of the “communists” there is no reason to expect a change in this situation, though an apparent loss of offensive power on the part of the North Vietnamese and NLF forces is allowing a reduction in the number of American troops in Vietnam.

There is no reason to doubt that at this juncture the United States would prefer a negotiated peace, which would honor her main objectives, to the continuation of the war, if only to stall the growing unrest at home. Opposition to the war has begun to affect the military situation through an increasing demoralization of the armed forces. The anti-war movement displays a variety of motivations, but has gained its present strength and dangerous possibilities because of deteriorating economic conditions. It is also the long duration of the war, and the lack of any recognizable advantages gained by it, which turn more and more people against it. There existed from the war’s beginning a moral opposition, based on pacifist and anti-imperialist ideologies, which has now found more general adherence – large enough to induce opportunistic politicians to enter the movement to further their personal aims and to keep it within the framework of existing political institutions. But even though war protests are as yet of a merely verbal nature, with an occasional firebomb thrown in, they contain the potentiality of more decisive actions in the near future. In any case, the present administration finds itself obliged to placate the anti-war movement, even though it has no more to offer than the demagoguery of promises which it is in no position to keep.

However, one should neither under- nor over-estimate the anti-war movement. While it is true that its existence has forced the government to masquerade its continued and intensified war activities as so many attempts to reach an “honorable” peace, in its broad majority the opposition to the war directs itself not against the capitalist system, which is necessarily imperialistic, but merely against this particular and apparently
unsuccessful war (now viewed as a “big mistake” that needs being undone). And while it is true that the hitherto-displayed apathy about the war on the part of the working population is apparently giving way to a critical attitude, this does not in itself imply independent working-class actions such as could bring the war to an end. Even among the bourgeoisie, not directly favored by the war, dissatisfaction with its course and its internal consequences is visibly rising. But this amorphous anti-war sentiment, affecting all layers of the population, does not as yet constitute a real threat to the Administration’s war policy; especially because the government still commands the unswerving loyalty of perhaps a majority of the population, which would no doubt come to its aid should this become necessary. The developing polarization of pro- and anti-war forces points in the direction of civil strife rather than to the government’s capitulation to the opposition.

Meanwhile, the government’s demagoguery is taken quite seriously – namely, that the war is being “wound down” by way of “Vietnamization” in accordance with the “Nixon doctrine,” which wants to leave the (capitalist) defense of Asia to the Asians. This demagoguery is seemingly substantiated by a partial withdrawal of American troops and the simultaneous increase of the Vietnamese army, as well as by the intensification of the American air war in Laos, Cambodia, North and South Vietnam. Withdrawal has in fact meant, first of all, the extension of the war into Cambodia and Laos to prepare the conditions under which the Asians themselves will be enabled to take care of all “communist aggression.” It would indeed be an “ideal” situation to have Asians fight Asians to secure Indochina for capitalist exploitation. But as matters stand, it is more likely that a real American withdrawal would also be the end of “Vietnamization” and the “Nixon doctrine.”

The “ideal” situation is admittedly unrealizable, however, even though an approximation is held to be possible, provided the enemy adapts itself to the American strategy. If it does not, then, of course, the Americans must return in greater numbers to defend their endangered occupation troops. The deterrent strategy of a large naval and air presence will be maintained in any case. Even this strategy assumes the continuation of the present military stalemate, which favors the Americans, since it can be utilized for the systematic destruction of enemy forces within the areas under American control. A resurgence of resistance to the Americans and their Indochinese allies becomes increasingly more problematical, as ever greater masses of the population are driven into controlled “refugee” centers and as the countryside is laid waste. If Russia and China continue to stay out of the conflict, the aid they provide by itself will not enable North Vietnam and the NLF to win a war of attrition with the United States.

Clearly, the war will go on as long as the North Vietnamese continue to defy the American will. They will be able to do so as long as they receive sufficient aid from either Russia, China, or both. In this sense, the war is still a war between these Eastern powers and the United States, even though only the latter has engaged her military forces due to the weakness of her Indochinese allies, who were no match for the national-revolutionary forces they set out to combat. The rift between Russia and China has not altered this situation, as each of these nations has its own reasons for opposing the American advance in Asia. Whatever national interests and rivalries divide Russia and China, these interests cannot be furthered for either side through an alliance with the United States, which cannot help treating both as implacable enemies because of their socio-economic structures and their own desires to make themselves secure by gaining greater power and more influence within the world economy.

In summing up, it must be said that the Indochina war has to be seen not as an isolated conflict between America and North Vietnam, but as an aspect of an unfolding wider struggle concerning the whole of Asia and the nature of its further development.
Beyond that, it is a special case of a general struggle going on in many parts of the world against the imperialist forms of private capital production. Objectively and subjectively, this struggle can as yet take on no other form than that of national liberation, even though this is not a real solution to the social and economic problems that beset the countries subjugated to the double yoke of native and and foreign exploitation. However, this struggle is itself a sign of an ongoing dissolution of the capitalist mode of production and will, in time, find support in class struggles to be waged in the imperialist nations. For it is more than doubtful that capitalism will be able to overcome its deepening structural crisis by way of outward expansion, since it is certain that all attempts in that direction will meet ever more effective resistance. Whatever the outcome of the struggle in Indochina, it will not affect this general situation.

Die Gemischte Ökonomie und ihre Grenzen

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Diesen bisherigen Auffassungen widersprach, wurde es notwendig, die Theorie den neuen Tatsachen anzupassen.


Darüberhinaus hätte die staatlich vermittelte Produktionsvermehrung die eigenartige Wirkung der Selbstfinanzierung, so daß unter Umständen das Problem des Budgetausgleiches überhaupt nicht aufzutauchen brauchte. Diese Auffassung fand ihren Ausdruck in dem Begriffe des „Multiplikators“, d. h. in der Annahme, daß jede zusätzliche Investition das volkswirtschaftliche Gesamteinkommen weit über die Summe der Investition hinaus vermehrte. So würden sich die größeren staatlichen Ausgaben durch die von ihnen verursachte Vermehrung des Gesamteinkommens von selbst bezahlen. Es wurde allerdings vergessen, daß die zusätzlichen staatlichen Ausgaben nicht vom Himmel fallen, sondern zurückzuzahlende Anleihen sind, die nur dann zu einer größeren als der ihr eigenen Summe führen können, wenn sie produktiv angelegt werden, d. h. soweit sie ihrem Wert einen Mehrwert zuzufließen gestatten. Anderenfalls tauscht sich der Wert der staatlichen Investitionen nur gegen einen gleichen Wert in anderer Form aus, und vor „Multiplikation“ kann keine Rede sein.


Verzinsung der Anleihen zu berücksichtigen, also nur ein kleiner Bruchteil der Staatsschuld, der durch Steuern gedeckt werden kann.


Im allgemeinen unterscheidet die bürgerliche Ökonomie nicht zwischen profitabler und unprofitabler Produktion. In ihren Augen dient alle Produktion dem Verbrauch gleich


Die Marktkonjunktur war gezeichnet durch eine Rentabilität und deren Realisierung, die ihren Niederschlag in der Akkumulation fand. Die durch den Staat künstlich erzeugte Konjunktur vermehrt die Produktion in gleichem Ausmaß ohne eine ihr entsprechende Förderung der Akkumulation. Ein Teil des Kapitals wird


Wenn auch die zunehmende Staatsschuld keine unmittelbaren Sorgen verursacht, so bleibt ihre Verzinsung doch an eine weitere Besteuerung gebunden. Diese Zinsen können nur von der Profit machenden Produktion beglichen werden, womit sich der gesellschaftliche Gesamtnetto auf beide, die produktive und die unproduktive Produktion, zu verteilen hat und damit für jedes einzelne Kapital den Profit vermindert. Diese Profitverminderung wird durch Preiserhöhungen ausgeglichen, durch die sich das zirkulierende Geld entwertet. Die „gemischte“ Wirtschaft ist so eine inflationistische Wirtschaft. Damit ist nicht gesagt, daß die Verzinsung der Staatsschuld, die ja nur einen Bruchteil des Staatshaushaltes ausmacht, für die Inflation verantwortlich ist. Sie ist es nur zusammen mit der wachsenden Besteuerung, die sich auch unabhängig von der Defizitfinanzierung vollzieht. Es sind die Gesamtausgaben des Staates, nicht nur der
Die Gemischte Ökonomie und ihre Grenzen

geborgte Teil, die zu einem schnelleren Wachstum tendieren als die profitable Produktion.


Würden die Löhne, genau so schnell steigen wie die Preise, dann hätte die Inflation keinen Sinn. Aber obwohl sie mit der Inflation steigen, kann die letztere ihnen doch stets vorausgehen. Es gibt zudem breite Bevölkerungsschichten, deren Einkommen sich nicht vermehren läßt und deren Lebensstandard der Inflation entsprechend sinkt. Es ist so durch die Inflation möglich, die Kosten der unprofitablen Produktion und der öffentlichen Ausgaben im allgemeinen dem Kapital zu ersparen, indem man sie auf die breite Masse der Bevölkerung überträgt. Durch die weite Verstreuung der Kosten bleibt die damit verbundene Herabsetzung des Lebensstandards ein langsam hinziehender Prozeß. Nimmt die Produktivität der Arbeit ständig zu, dann kann der inflationistische Prozeß in tragbaren Grenzen gehalten werden, und er mag selbst den von ihm negativ Betroffenen vorteilhafter erscheinen als eine deflationistische Krisensituation.


Damit würde sich das Dilemma wiederholen, das erst zur Etablierung der „gemischten“ Wirtschaft führte und das diese zu beenden trachtete. Die staatlichen Eingriffe hatten die Krise aufgeschoben, aber nicht aufgehoben. Dieselben Ursachen, die zur Krise führten, heben auch die Wirkungen der staatlichen Krisenbekämpfung auf; und der Ausweg aus ihr bleibt nach wie vor eine dem angewachsenen Kapital angemessene Rentabilität, die zu weiterer Akkumulation führen kann. Ist das auf Grund der bisherigen Erfahrungen bereits eine zweifelhafte Angelegenheit, so läßt sich die Notwendigkeit weiterer staatlicher Eingriffe nicht vermeiden, obwohl diese nun zu einem krisenverschärfenden Faktor werden. In einer solchen Situation ist beides verfehlt, die Ausdehnung wie die Einschränkung der die mangelnde Produktion kompensierenden öffentlichen Ausgaben. Der Weg der „neuen Ökonomie“ in die krisenfreie Wirtschaft stellt sich als Sackgasse heraus.

Es gibt jedoch keine absolut ausweglosen Lagen für die kapitalistische Wirtschaft. Selbst in der Marxschen Akkumulations- und Krisentheorie bricht der Kapitalismus nicht von selbst zusammen, sondern findet sein mögliches Ende in den durch die Krise ausgelösten politischen Aktionen. Obwohl es selbstverständlich ist, daß die Geschichte nicht mit dem Kapitalismus zum Abschluß gekommen ist, so läßt sich doch nicht sagen,


entscheidend ändern, bis die Ausbeutungsrate auf ihre endlichen sozialen und natürlichen Grenzen stößt, die sich jedoch, obwohl logisch unvermeidlich, empirisch nicht ermitteln lassen. Wie das Kapital sich blind in die Krise hineinwirtschaftet, so blind wirtschaftet es sich auch wieder heraus durch die Anwendung aller Mittel, die zu einer Erhöhung der Arbeitsproduktivität und damit zur fortgesetzten Akkumulation führen. Ohne weiter darauf einzugehen, sei nur bemerkt, daß es auf Grund dieser Zusammenhänge nicht möglich ist, die Probleme des Kapitals auf nichtkapitalistischen Wegen wie dem der profitlosen Produktion zu lösen. Von diesem Gesichtspunkt aus ist die „gemischte“ Wirtschaft bereits logisch widerlegt, bevor sie sich selbst als Fehlschlag zu bekennen hat.

Es ist aber gerade die kapitalistische Blindheit, die von den Vertretern des „organisierten Kapitalismus“ gelehrt wird, die in ihren Augen läßt sich die Wirtschaft regulieren, ja bis aufs „feinste Abstimmen“. Die Ökonomen werden zur Wirtschaftspolitik in die Regierung berufen und plädieren dort für diese oder jene Maßnahmen, um die Wirtschaft anzukurbeln oder zu bremsen. Warum sie angetrieben oder abgedämpft werden muß, entgeht ihnen, ist ihnen auch gleichgültig, da sie ihr kritiklos gegenüber stehen. Was ihnen zur Verfügung steht, sind jedoch nur monetäre und fiskalische Manipulationen als Reaktionen auf die Eigenbewegung des Kapitals. Den konjunkturellen Schwankungen soll begegnet werden durch steuerpolitische Maßnahmen, Anleihepolitik und Geldschöpfung. Geld wird verknappt oder vermehrt, die Zinsrate erhöht oder gesenkt, die Steuern vermehrt oder vermindert, Anleihen aufgenommen oder abgetragen, immer im Gefolge der sich von allen diesen Maßnahmen unabhängig vollziehenden kapitalistischen Jagd nach dem Profit. Es ist diese Jagd, die die Wirtschaftspolitik bestimmt, nicht umgekehrt, und die damit auch die Grenzen der wirtschaftlichen Manipulation zieht.

Da die Wirtschaftspolitik Regierungspolitik ist, bleibt sie auf die nationale Wirtschaft beschränkt. Es hängt von den besonderen nationalen Umständen ab, wie, und in welchem Umfang, sie angewandt wird. Sie ist in allen Ländern verschieden. Es gibt natürlich auch internationale Vereinbarungen, vornehmlich mit Bezug auf die Geld- und Zollpolitik, wie es multinationalen Kapitaleinheiten gibt, die unter verschiedenen Bedingungen zu operieren haben. Da die nationale Wirtschaftspolitik sich nicht vom Welthandel isolieren läßt, wird sie nicht nur von den nationalen, sondern auch den internationalen Erscheinungen des kapitalistischen Akkumulationsprozesses bestimmt. Die staatlichen Maßnahmen können nicht nur durch die unkontrollierten Vorgänge im nationalen Rahmen, sondern auch durch kontrollierte wie unkontrollierte Vorgänge in anderen Ländern durchkreuzt und in ihrer Wirkungskraft geschwächt werden, oder sie können völlig ausgeschaltet werden. Gegenüber der ökonomischen und politischen Entwicklung im Weltsaumstabe sind die schon an sich begrenzten nationalen Wirtschaftseingriffe von verschwindender Bedeutung und unfähig, den krisenlosen Zustand zu erreichen, der ihnen noch zugeschrieben wird.

# Arbeitsteilung und Klassenbewußtsein

(November 1971)

Produktive und unproduktive Arbeit

In jüngster Zeit wurde die Frage des proletarischen Klassenbewußtseins erneut mit den Marxschen Begriffen der produktiven und unproduktiven Arbeit in Zusammenhang gebracht und eingehend diskutiert. Obwohl sich Marx über dies von den Physiokraten und der klassischen Ökonomie aufgeworfene Problem weitgehend geäußert hat, läßt sich seine diesbezügliche Auffassung doch in wenigen Sätzen zusammenfassen. Die Frage, was die produktive von der unproduktiven Arbeit unterscheidet, bezieht sich für Marx nur auf die kapitalistische Produktionsweise. „Bloß die bürgerliche Borniertheit“, schrieb er, „die die kapitalistischen Formen der Produktion für die absoluten Formen derselben hält – daher für ewige Formen der Produktion – kann die Frage, was produktive Arbeit vom Standpunkt des Kapitals aus ist, mit der Frage, welche Arbeit überhaupt produktiv ist oder was produktive Arbeit überhaupt ist, verwechseln und daher sich weise dünken in der Antwort, daß jede Arbeit, die überhaupt etwas produziert, in irgend etwas resultiert, eo ipso productive Arbeit ist.“

Für Marx ist nur die Lohnarbeit produktiv, welche Kapital produziert, während unproduktive Arbeit solche ist, die sich nicht gegen Kapital, sondern unmittelbar gegen Profit oder Lohn austauscht. „Das Resultat des kapitalistischen Produktionsprozesses“, führt Marx aus, „ist weder ein bloßes Produkt (Gebrauchswert) noch Ware, d. h. Gebrauchswert, der einen bestimmten Tauschwert hat. Sein Resultat, sein Produkt ist Schöpfung des Mehrwerts für das Kapital und daher faktische Verwandlung von Geld oder Ware in Kapital, was sie vor dem Produktionsprozeß bloß der Intention nach, an sich, ihrer Bestimmung nach sind. In dem Produktionsprozeß wird mehr Arbeit eingesaugt, als gekauft ist, und dieses Einsaugen, Aneignen fremder unbezahlter Arbeit, das im Produktionsprozeß vollbracht wird, ist der unmittelbare Zweck des kapitalistischen Produktionsprozesses; denn was das Kapital als Kapital (daher der Kapitalist als Kapitalist) produzieren will, ist weder unmittelbarer Gebrauchswert zum Selbstkonsum noch Ware, um sie erst in Geld und später in Gebrauchswert zu verwandeln. Sein Zweck ist die Bereicherung, die Verwertung des Werts, seine Vergrößerung, also das Erhalten des alten Werts und Schaffen von Mehrwert. Und dieses spezifische Produkt des kapitalistischen Produktionsprozesses erreicht es nur im Austausch mit der Arbeit, die daher produktive Arbeit heißt.“


3 ebd. S. 368-369.
4 ebd. S. 375.
Branchen der Marktwirtschaft mit sich und damit die Anteilnahme der unproduktiv angewandten Einzelkapitale an dem gesellschaftlich produzierten Gesamtmehrwert. Wie das mehrwertproduzierende Kapital tritt auch das unproduktiv angelegte Kapital als kapitalistisches Unternehmen auf, das dem in ihm investierten Kapital den durchschnittlichen Profit vermittelt.


„ist es ja eben das Eigentümliche der kapitalistischen Produktionsweise, die verschiedenen Arbeiten, also auch die der Kopf- und Handarbeiter – oder die Arbeiten, in denen die eine oder andere Seite vorwiegt – zu trennen und an verschiedene Personen zu verteilen, was jedoch nicht hindert, daß das materielle Produkt das gemeinsame Produkt dieser Personen ist oder ihr gemeinsames Produkt in materiellem Reichtum vergegenständlicht, was andererseits ebensowenig hindert oder gar nichts daran ändert, daß das Verhältnis jeder einzelnen dieser Personen das des Lohnarbeiters zum Kapital und in diesem eminenten Sinn das des produktiven Arbeiters ist. Alle diese Personen sind nicht nur unmittelbar in der Produktion von materiellem Reichtum beschäftigt, sondern sie tauschen ihre Arbeit unmittelbar gegen das Geld als Kapital aus und reproduzieren daher unmittelbar außer ihrem Salär einen Mehrwert für den Kapitalisten."


Hier scheint sich eine Schwierigkeit zu ergeben, da viele dieser Berufe, Lehrer, Ärzte, Wissenschaftler, Schauspieler, Künstler usw., obwohl sie Dienste leisten und keine Ware produzieren, sondern Dienste leisten, diese Berufe leben entweder von dem Einkommen der Arbeiter, der Kapitalisten oder von beiden zugleich und sind vom Standpunkt des Kapitals aus unproduktiv, wie nützlich oder notwendig sie auch sein mögen. Ob ihre Dienste wie Waren verkauft oder aus Steuern bezahlt werden, in jedem Fall beziehen sie ihr Einkommen aus der Revenue der Kapitalisten und den Löhnen der Arbeiter.

Weiterhin gibt es auch heute noch selbständige Handwerker und Bauern, die keine Arbeiter beschäftigen, also nicht als Kapitalisten produzieren. „Sie treten nur als Verkäufer vor Waren, nicht als Verkäufer von Arbeit auf, und dieses Verhältnis hat also mit dem Austausch von Kapital und Arbeit nichts zu tun, also auch nichts mit dem Unterschied von produktiver und unproduktiver Arbeit. der bloß darauf beruht, ob die Arbeit gegen Geld als Geld oder gegen Geld als Kapital ausgetauscht wird. Sie gehören daher weder in die Kategorie der produktiven noch der unproduktiven Arbeiter, obgleich

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5 ebd. S. 387.

**Das Klassenbewußtsein mit Bezug auf produktive und unproduktive Arbeit**


Es konnte erwartet werden, daß die im „kapitalistischen Produktionsprozeß geschulten, vereinten und organisierten Arbeiter“ sich ihrer Ausbeutung und Klassenlage

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⁶ ebda. S. 382.
⁷ MEW. Bd. 23. S.790.


Von dieser Art Klassenbewußtsein unterscheidet sich das revolutionäre Klassenbewußtsein, das dem Kapitalismus ein Ende machen will. Von solchem Klassenbewußtsein sind die produktiven wie die unproduktiven Arbeiter gleichmäßig weit entfernt. Es stimmt, daß Teile der europäischen Arbeierschaft in sozialen Krisenzeiten Versuche zur Abschaffung des Kapitalismus unternahmen, aber diese Versuche hingen nicht mit der Produktivität ihrer Arbeit, sondern mit der Krise zusammen und umfaßten, neben ihnen, Elemente verschiedener sozialer Schichten. Es stimmt auch, daß die entstehende Arbeiterbewegung neben ihren Tagesprogrammen den Sozialismus zum Endziel hatte, aber dieses Ziel wurde bald preisgegeben. Es ist deshalb nicht möglich, in den produktiven Arbeitern, nur weil sie solche sind, die ausschließlichen Träger des revolutionären Klassenbewußtseins zu sehen. Sie können in
Arbeit und Wissenschaft

Allerdings bezieht sich die Debatte über produktive und unproduktive Arbeit, von der wir ausgingen, nicht auf die von Marx gemachte allgemeine Unterscheidung, sondern auf spezifische Ereignisse der letzten Jahre, die einerseits die unproduktive Arbeit auf Kosten der produktiven wachsen ließ und andererseits die Wissenschaft in größerem Maß als bisher in die Produktion einschalte. Die produktive Arbeit, so wurde gesagt, sei damit nicht länger nur durch das Industrieproletariat repräsentiert, sondern umfasse auch die Wissenschaft, die sich in sachlichen Arbeitsbedingungen vergegenwärtigt. In Anbetracht dieses Umstandes wäre es an der Zeit, das Verhältnis der Wissenschaft den Arbeitern und der Gesellschaft gegenüber erneut zu untersuchen.


Ist letzteres der Fall, so äußert es sich in einer zunehmenden Akkumulationsrate und einer aufsteigenden Konjunktur mit wachsender Beschäftigung, obgleich die Investierungen in Kapitalgütern schneller zunehmen als die in Arbeitskraft. Ist es nur in unzureichendem Maße der Fall, so äußert sich dies in einer stagnierenden oder abnehmenden Akkumulationsrate und zunehmender Arbeitslosigkeit. Der aktuelle Gang der kapitalistischen Akkumulation hat sich seit dem zweiten Weltkrieg nur schlecht ermitteln lassen, da die zyklische Bewegung der Wirtschaft durch politische Eingriffe von außen zum Teil verwischt wurde. Die Ausdehnung der staatlich veranlassten unproduktiven Produktion mittels Defizitfinanzierung, d. h. der staatlichen Kreditausweitung, hat die Beschäftigung der Arbeiter auf einem Niveau gehalten, das nicht dem der notwendigen Akkumulationsrate entsprach, sondern sich in wachsender Staatsverschuldung, zunehmender Besteuerung und ununterbrochener Inflation widerspiegelte. Der Anteil der unproduktiven Arbeit an der Gesamtarbeit ist damit ständig gewachsen.


Kapitalanlagen in Wissenschaft und Technik werden für einträglicher gehalten als solche in zusätzlichen Produktionsgütern, weil deren Anwendung zu weiteren Kapitalersparnissen und größerer Rentabilität führe. Obwohl dies nicht zu bezweifeln ist, so kann es sich im Kapitalismus doch nur um die Produktion von Mehrwert handeln, der sich am Gesamtkapital zu messen hat, um etwas über die kapitalistische Profitabilität auszusagen. Wenn die Kapitalersparnis durch die wissenschaftlich gesteigerte Produktivität der Arbeit von einer verhältnismäßig noch größeren Verminderung der allgemeinen menschlichen Arbeit begleitet ist, dann ändert auch die Kapitalersparnis nichts an dem mit der Akkumulation zusammenhängenden tendenziellen Fall der Profitrate, der nur durch die Beschleunigung der Akkumulationsrate latent gehalten werden kann. Auch bei Kapitalersparnis muß sich das Kapital verwerten, d. h. die gegebene Produktion muß das gegebene Kapital in ein größeres verwandeln.
Der kapitalistische Überfluß

Die Abnahme der produkiven Arbeit und die Zunahme ihrer Verwissenschaftlichung führte zu neuen Illusionen. Es wird angenommen, daß die sich so ausdrückende Steigerung der Produktivität die kapitalistische Problematik aus der Sphäre der Produktion in die der Verteilung verlegt habe. Die Schwierigkeiten des Kapitalismus seien rächt dem Mangel an Mehrwert, sondern seinem Überfluß zuzuschreiben, der seine Realisierung im Rahmen der Marktwirtschaft in wachsendem Maße erschwere.  

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Der unrealisierbare Überschuß müsse deshalb unproduktiv verbraucht werden, um die Produktionskapazitäten und die Beschäftigungszahlen auf einem gesellschaftlich tragbarem Niveau zu halten. So zeige sich das Problem der produktiven und der unproduktiven Arbeit nunmehr als die Verschwendung von Arbeit zu unproduktiven, ja zu destruktiven Zwecken. In diesem Sinne wird die unproduktive Arbeit als solche definiert, die in einer „rational geordneten Gesellschaft“ nicht notwendig wäre.


Das Problem der produktiven und unproduktiven Arbeit auf die Ebene eines angeblichen Widerspruchs zwischen Rationalität und Irrationalität zu verlagern, wird zwar von Altvater und Huiskens in der hier behandelten Diskussion abgelehnt, doch zugleich als Instrument der Kritik der monopolistischen Gesellschaft für entschuldbar gehalten. Tatsächlich hat sich die Studentenopposition der letzten Jahre vornehmlich gegen die „irrationalen“ Aspekte der kapitalistischen Herrschaft gewandt, ohne sich viel um die unterliegenden Produktionsverhältnisse zu kümmern, als ob sich die äußeren Erscheinungen der inneren Widersprüche des Kapitals auch rein äußerlich beseitigen ließen. Mit Recht betonen Altvater und Huiskens, „solange nicht das Proletariat aus den Bedingungen des Produktionsprozesses bestimmt wird und die Bedingungen für die Genesis von Klassenbewußtsein nicht aus den objektiven Bewegungen der Klassenkämpfe analysiert werden, können auch die Konflikte des Kapitalismus nicht als Ergebnis des Widerspruchs von Lohnarbeit und Kapital verstanden werden, sondern  


9 Sozialistische Politik, Nr. 8, S. 52-53.


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10 ebda. S. 53.
11 Frankfurter Rundschau. 5. Dezember 1970, S. IV.
12 ebda.
Es ist also vorbei mit der Verbürgerlichung der Arbeiter durch die fortgesetzte Verbesserung ihrer Lebenslage.


\[\text{ebda.}\]

\[\text{ebda.}\]
anderen Schichten der Bevölkerung, und es besagt nicht mehr, als daß die Arbeitsbedingungen vom Kapital gesetzt sind. Unter den kapitalistischen Produktionsverhältnissen hängt die Qualität und Quantität der Produktion vom Kapital ab. Es sind nicht die „unmittelbaren Interessen“ der Arbeiter, die sie der Kriegsproduktion zugänglich machen, sondern der unmittelbare Zwang zum Verkauf der Arbeitskraft, ohne Rücksicht auf den Zweck ihrer Anwendung, der aus ihrer Klassenlage entspringt. Da sie keine Wahl haben, hat es keinen Sinn, sie für die kapitalistische Politik verantwortlich zu machen, obwohl man ihnen das Versäumnis der Abschaffung des Kapitalismus „vorwerfen“ kann.


Mit der allgemeinen Zunahme der unproduktiven Arbeit als Folge der wachsenden Produktivität der produktiven Arbeit, und ihrer besonderen Zunahme durch die staatlich veranlaßte zusätzliche Produktion, d. h. mit der über die gewöhnlichen Ansprüche des Staates hinausgehende Produktion, muß sich der Gesamtmehrwert dem Gesamtkapital gegenüber vermindern und dessen Verwertung fortlaufend erschweren. Der kapitalistische Reichtum, der nur Reichtum von Mehrwert
sein kann, ist damit eine abnehmende Größe, und alle kapitalistischen Anstrengungen müssen auf die Umkehrung dieses Zustandes gerichtet sein. Ob diese Anstrengungen Erfolg haben, ist allerdings eine andere Frage, die aber nicht vom Kapital gestellt werden kann.

Es ist ein Irrtum, mit Altvater und Huisken anzunehmen, daß die der Verschwendung gewidmete unproduktive Arbeit die Tendenz des Falls der Profitrate abschwächt, obwohl, ihrer Ansicht nach, der akkumulationsfähige Teil des Mehrwerts dadurch verringert wird. Fällt die Akkumulationsrate, dann muß auch die Profitrate fallen, da sie nur unter den Bedingungen einer beschleunigten Akkumulation auf einem gegebenen Niveau gehalten werden kann. Verwertung des Kapitals heißt immer seine Vergrößerung, also seine Akkumulation, und mit abnehmender Verwertung, oder abnehmender Akkumulationsrate, befindet sich der Kapitalismus in einem Krisenzustand, der einen aktuellen Fall der Profitrate mit sich bringt. Die Tendenz des Falls der Profitrate als Folge der strukturellen Veränderungen des Gesamtkapitals kann durch die beschleunigte Akkumulation, die Vermehrung des Profits aufgehoben werden, womit aber nicht gesagt ist, daß eine relative Stagnation des Kapitals den tendenziellen Fall der Profitrate ebenfalls aufzuhalten vermag. Im Gegenteil, die Tendenz wird nun zur Realität, die damit verbundene Krisenzustand die aktuellen Profite vermindert und zum Teil vernichtet.


Obwohl es zutrifft, daß die Ausdehnung staatlich veranlaßter Produktion der Bourgeoisie aus einem akuten Krisenzustand heraushalf und für lange Zeit eine scheinbare Konjunktur entfesselte, d.h. im größeren Maßstab veranlaßte, was jede Kreditausweitung erlaubt, hat sie weder das Problem der Kapitalverwertung noch das der Kapitalrealisierung, die beide der Krise zugrunde lagen, in irgend einer Hinsicht gelöst. Die Verwertung des Kapitals bedingt, daß der Mehrwert durch die Akkumulation realisiert wird; es ist der Überschuß über den Konsum, der sich verwerten kann, ganz gleich welcher Art der Konsum sein mag. Die abnehmende Akkumulationsrate ist damit ein Ausdruck der sich vermindernenden Verwertung des Kapitals, der abnehmenden Möglichkeit, Mehrwert als Kapital zu realisieren. Sie setzt im Rahmen einer falschen Konjunktur fort, was in jeder Krisenperiode in Erscheinung tritt, nämlich die Schwierigkeiten, Mehrwert in Kapital zu verwandeln. Was sich in früheren Krisen in Arbeitslosigkeit und ungenutzten Produktionskapazitäten darstellte, stellt sich nun als

15 Sozialistische Politik, Nr. 8, S. 78-79.
16 ebda.
Zunahme der unproduktiven Arbeit, der profitlosen Produktion dar, die sich nur so lange tragen läßt, wie die Produktivität der Arbeit schneller als der Mehrwertverlust durch unproduktive Arbeit wächst.

**Arbeiter und Studenten**

Muß es den Arbeitern, ihrer Klassenlage entsprechend, gleichgültig sein, ob sie produktive oder unproduktive Arbeit leisten, so ist ihnen der von ihrer Beschäftigung abhängende Lebensstandard umso wichtiger. Es ist die unausbleibliche Verschlechterung dieses Lebensstandards und die wieder um sich greifende Arbeitslosigkeit, welches sich beides aus einer fallenden Akkumulationsrate ergibt und nur vorübergehend durch die Vermehrung unproduktiver Arbeit zu kompensieren ist, die zu einer Radikalisierung der Arbeiter führen können. Trotz all des Geschwätztes über die Unzulänglichkeit einer sogenannten Katastrophenpolitik macht die Geschichte der Arbeiterbewegung offensichtlich, daß revolutionäres Klassenbewußtsein sich nur in Zeiten katastrophaler Krisen zu zeigen vermag. Sogar Klassenkämpfe, die sich noch kein Klassenziel gesetzt haben, die aber über die reine Lohnbewegung hinausgehen, sind spontane Reaktionen auf eine sich dauernd oder plötzlich vollziehende Verschlechterung der proletarischen Lebenslagen, wie es z.B. Ende des Jahres in Polen und 1968 in Frankreich der Fall war.


Man muß sich die ungeheure Macht, die allen proletarischen Klassenbestrebungen entgegengesetzt ist, vor Augen halten, um zu begreifen, warum die Arbeiter es vorziehen, sich den gegebenen Verhältnissen anzupassen, anstatt sie anzugehören. Sie sind weder Berufsrévolutionäre, noch haben sie Zeit oder Lust, sich in Protesten zu ergehen, die endlos sein müßten, da die kapitalistische Politik zu dauernder Opposition aufruft. Eine auf lange Sicht gerichtete politische Betätigung mag sie ideologisch befriedigen, ist aber ihren nächsten Notwendigkeiten nach bedeutungslos. Es gibt zwar einen politisch denkenden, organisierten Teil der Arbeiterschaft, was aber nicht besagt, daß eine wirkliche Bereitwilligkeit zu revolutionärer Tätigkeit damit verbunden ist. Ein anderer Teil akzeptiert die bürgerliche Ideologie bedingungslos, womit aber auch nicht gesagt ist, daß er sich rückhaltlos der Bourgeoisie zur Verfügung stellt. Die breite, indifferente Masse fügt sich der kapitalistischen Gesellschaft, ohne sie damit zu bejahen, und versucht sich schlecht und recht in ihr einzurichten, da sie nicht imstande ist, sich eine andere vorzustellen.

Produktion erzielt werden kann. Da diese wachsende Produktion mit sinkender Kapitalverwertung verbunden ist, kann sie nicht von Dauer sein. Das zeigt sich bereits beim höchstenentwickelten amerikanischen Kapitalismus, in dem die reale Gesamtproduktion erneut im Sinken und die Arbeitslosigkeit im Steigen begriffen ist. Mit der Wiederkehr des schon totgeglaubten Krisenmechanismus und den sich erschöpfenden Möglichkeiten, die Produktion auf Kosten der Verwertung vorwärtszutreiben, läßt sich erwarten, daß auch die Einstellung der Arbeiter zu diesem System sich ändern wird.


Ohne auf die Theorie weiter einzugehen, sei nur bemerkt, daß die an sie geknüpften Hoffnungen sich bisher noch nicht erfüllt haben. Wohl haben sich, durch die Umstände des zweiten Weltkrieges begünstigt, eine Reihe kolonialer und halbkolonialer Nationen ihre politische Selbstbestimmung errungen, und wohl existiert eine weltweite, wenn auch noch schwache Bewegung gegen die kapitalistisch-imperialistische Ausbeutung und Unterdrückung unentwickelter Länder, doch hat sich keine Verbindung dieser Bestrebungen mit der Arbeiterbewegung in den imperialistischen Ländern herstellen lassen. Was unter den Bedingungen einer allgemeinen Weltkrise eine Wahrscheinlichkeit hätte sein können, wurde unter den tatsächlichen Bedingungen des wirtschaftlichen Aufschwunges nach dem zweiten Weltkrieg zur Illusion. Und wenn dieser Aufschwung auch nur der Vorläufer einer neuen Krise sein kann und zudem mit Mitteln erreicht wurde, die selbst auf die Unlösbarkeit der kapitalistischen Widersprüche hinweisen, so erstickte die sich in den kapitalistischen Ländern entfaltende Konjunktur nichtsdestoweniger jede Möglichkeit revolutionärer Solidarität.
Die national-revolutionäre Bewegung kann verschieden verstanden werden und verschiedene Ziele verfolgen, eben weil sie an die nationalen Besonderheiten der einzelnen Länder und an deren besondere Beziehungen zu anderen Staaten gebunden ist. Sie kann mit bürgerlich-nationalen, national-sozialistischen oder kommunistischen Ideologien operieren, die unter Umständen sogar austauschbar sind. In jedem Fall dreht es sich hier im wesentlichen nicht um Erhebungen revolutionärer Arbeiter gegen die kapitalistischen Produktionsverhältnisse, sondern um soziale Aufstände zur Überwindung eines allgemeinen Elends, dem unter der imperialistischen Oberherrschaft nicht abzuhelpen ist. Die ideologischen Träger dieser Bewegung sind die unter diesen Bedingungen unzufriedenen Intellektuellen und Studenten, die sich auf die verelendete Bevölkerung zu stützen haben, und auch Teile der Mittelklassen, die sich von einer ungehemmten nationalen Entwicklung eine Verbesserung ihrer Lage versprechen. Die Ideologie des Nationalismus hat zudem eine Eigenwirkung und findet Widerhall selbst bei denen, die durch die Verwirklichung der Selbstbestimmung nichts zu gewinnen haben.


revolutionären Bewegungen stellen, nicht ins Bewußtsein rücken; es ist trotzdem unausweichbar, solange die Massen nicht aus sich selbst heraus imstande sind, die organisatorischen Formen zu schaffen, die dieser neuen „revolutionären Arbeitsteilung“ den Wind aus den Segeln nehmen. In den unterentwickelten Ländern ist dies nicht zu erwarten, in den entwickelten ist es eine Möglichkeit.

Diese Möglichkeit gehört der Zukunft. Bisher haben sich die Arbeiter der kapitalistischen Länder nicht um ihre Selbstbestimmung bemüht, nicht einmal in den eigenen Organisationen. Haben sich die Arbeiter bisher selbst nicht gegen die Produktionsverhältnisse auflehnt, so ist es nicht verwunderlich, daß die Studentenopposition, aus ihrer besonderen gesellschaftlichen Lage heraus, noch weniger imstande war, die grundlegenden gesellschaftlichen Verhältnisse zum Ausgangspunkt ihrer Bewegung zu machen. Sind die Arbeiter nicht revolutionär, dann existiert auch keine revolutionäre Situation, der sich die Studenten anpassen könnten. Befinden sie sich trotzdem in Opposition und wollen sie dies sichtbar machen, so kann sich dies nicht auf die wirklich grundlegenden Probleme der Gesellschaft beziehen, wo sie noch keinen Widerhall finden, sondern nur auf die allgemein mögliche Entrüstung über die „schlechten Seiten“ der kapitalistischen Herrschaft.

Die Studentenbewegung selbst ist kein überraschendes Phänomen; es wäre wirklich eigenartig, wenn die Studenten auf die sich unablässig ausbreitende kapitalistische Barbarei nicht reagieren würden, selbst dann, wenn ihnen bewußt wäre, daß ihre Opposition vorerst noch keine praktischen Erfolge haben kann.


17 Frankfurter Rundschau.


Obwohl der Sozialismus keine Studentenbewegung ist, können Studenten doch Sozialisten sein und damit an der Schaffung neuer revolutionärer Organisationen teilhaben. Machen die Arbeiter selbst keine Anstrengungen in dieser Hinsicht, nützen den Studenten auch ihre eigenen Organisationen nichts, da sie, auf sich selbst gestellt, an der Gesellschaft nichts zu ändern vermögen, obwohl sie imstande sind, besonderen Bedürfnissen im akademischen Getriebe nachzugehen. Allerdings mag ihre revolutionäre Agitation in Wort und Tat doch zur Revolutionierung der Arbeiter beitragen, wenn die Arbeiter schon aus sich selbst heraus im Begriff sind, revolutionäres Klassenbewußtsein zu entwickeln. Dies wäre der Moment, wo sich die Studentenbewegung mit der Arbeiterbewegung zu verschmelzen hätte, wo sie aufhören muß, als Studentenbewegung weiter zu existieren, und dadurch, ohne Sonderinteressen, zum Teil der Gesamtbewegung wird.

**Mögliche Perspektiven**

Gab die Verbesserung der proletarischen Lebenslage in den kapitalistischen Ländern Anlaß, von der Verbürgerlichung der Arbeiter zu sprechen, so führte die Verwissenschaftlichung der Produktion zur Vorstellung der Proletarisierung der aus dem Kleinhübeltum stammenden intellektuellen Berufe. Weder das eine noch das andere trifft in dieser krassen Form zu. Die Verbesserung der proletarischen Lebenslagen hat nichts an den kapitalistischen Produktionsverhältnissen geändert; nach wie vor stehen die Arbeiter dem Kapital als ausgebeutete Klasse gegenüber, und nach wie vor hängt ihre Existenz von den Verwertungsmöglichkeiten des Kapitals ab. Sie sind „verbürgerlicht“ in dem


Wie die Arbeitslosigkeit die jungen Arbeiter mehr betrifft als die älteren, da sich dem Zuwachs weniger Arbeitsplätze öffnen, so sind auch die Berufsaussichten der Studenten durch jeden Rückgang der Konjunktur mehr beeinträchtigt als für die schon etablierten Wissenschaftler und Techniker. Und wenn der Wirtschaftszyklus die letzteren auch der Arbeitslosigkeit ausliefert, dann sind die Erfolgschancen der Studenten doppelt gefährdet. Die um sich greifende allgemeine Sicherheit der Existenz äußert sich in politischen Formen, die das persönliche Dilemma mit den allgemeinen gesellschaftlichen Zuständen in Verbindung setzen. Nach dem zweiten Weltkrieg war die allgemeine Unsicherheit allerdings zuerst nicht direkt ökonomischer Natur, sondern fand ihren Grund

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**Der imperialistische Imperativ**

*Zur Politik und Ökonomie der USA*

(Dezember 1971)

Transkription/HTML-Markierung: Thomas Schmidt für das [Marxists’ Internet Archive](http://www.marxists.org).
Der imperialistische Imperativ

zu kapitalistischen Formierungen, die immer zerstörerischer um die Kontrolle immer größerer Anteile an der Weltwirtschaft wetteifern.


bestehenden Kapitals auf Kosten potentieller Kapitalbildung in unterjochten Ländern zum Ergebnis. Lukrative Märkte, billige Nahrungsmittel und Rohstoffe erhöhten die Profittraten der Industrienationen und beschleunigten damit deren Kapitalakkumulation. Darüber hinaus jedoch erwartete man, daß eine Zeit kommen würde, in der eine weitere Kapitalexpansion auch zu einem verstärkten Kapitalfluß in die unterentwickelten Weltregionen führen würde.


Krieges verständlich machten. Es ist jedoch klar, daß der Indochinakrieg ohne diese Entdeckung kam und gekommen wäre, und daß andere Erklärungen als nur einige spezifische und isolierte kapitalistische Interessen gefunden werden müssen.


Natürlich steckt in beiden Erklärungen ein Stück Wahrheit — dies, daß Imperialismus wirtschaftlich vom Krieg besonders begünstigten begründet ist und daß er durch Gruppen verfochten wird. Aber indem man versäumt, diese Erklärungen in Beziehung zu den fundamentalen Widersprüchen der Kapitalbildung zu setzen, wird man der Kompliziertheit des Kriegs- und Imperialismusproblems nicht gerecht. Weder die Bildung noch die Akkumulation von Kapital ist ein bewußt gesteuerter gesellschaftlicher Prozeß. Jede kapitalistische Einheit, sei es der Unternehmer, der Konzern oder das multinationale Unternehmen, beschränkt notwendigerweise ihre Tätigkeit auf die Vergrößerung ihres Kapitals ohne Rücksicht, oder sogar ohne die Möglichkeit einer Rücksichtnahme, auf soziale Bedürfnisse und die gesellschaftliche Entwicklung. Sie sind blind gegenüber den nationalen und internationalen Folgen ihres ruhelosen Dranges, ihr Kapital zu vergrößern. Er bestimmt die Richtung ihrer Expansion. Ihr enormes Gewicht innerhalb der Gesellschaft bestimmt die gesellschaftliche und damit die Politik der Regierung. Das bedeutet jedoch, daß Regierung und Gesellschaft in ihrer Entwicklung so blindlings handeln wie jede einzelne kapitalistische Gruppe dies im Blick auf ihre Profitinteressen tut. Sie wissen, was sie tun, aber nicht, wohin das führt; sie können die Folgen ihrer Tätigkeit nicht begreifen.

Diese Folgen können Krieg einschließen, und Krieg kann begonnen werden nicht wegen bestimmter wirtschaftlicher Ziele, wie etwa Besitz besonderer Rohstoffe, Zugang zu neuen Märkten oder Kapitalexport, sondern wegen einer vorherigen Wirtschaftspolitik, deren Folgen nicht voraussehbar waren. Dies ist natürlich völlig klar im Falle imperialistischer Interventionen zur Verteidigung von Kapitaleigentum, das Gefahr läuft, enteignet zu werden, oder das in Ländern enteignet wurde, die ein gewisses Maß an Unabhängigkeit in wirtschaftlicher wie auch in politischer Beziehung zu gewinnen oder wiederzugewinnen suchen. Das erklärt die Interventionen in Guatemala, Kuba, der Dominikanischen Republik, im Kongo usw. Die Verhältnisse sind jedoch nicht so klar in Bezug auf die Intervention in Indochina, wo die wirtschaftlichen Interessen der USA minimal waren und ihr möglicher Verlust ohne Konsequenz für ihre Ökonomie geblieben wäre. Doch auch diese Intervention war das unvorhergesehene Ergebnis vorheriger ökonomischer Entwicklungen, selbst wenn sie nicht auf irgendein unmittelbares und spezifisches wirtschaftliches Bedürfnis des amerikanischen Kapitalismus bezogen werden kann.


Selbst wenn die „gemischte Wirtschaft“ als wahrscheinlich unvermeidbare Modifikation des kapitalistischen Systems hingenommen wurde, so sollen doch die Eingriffe der Regierung in die Wirtschaft nur solche sein, die für das Privatkapital vorteilhaft sind. Um dies zu sichern, müssen Eingriffe in Marktverhältnisse sowohl auf
nationaler als auch internationaler Ebene eingeschränkt werden. Ebenso wie innenpolitisch eine allgemeine Expansion regierungsabhängiger Produktion das sichere Ende kapitalistischer Eigentumsverhältnisse bedeuten würde, weist die Ausbreitung eines staatlich bestimmten gesellschaftlichen Produktionssystems innerhalb der Weltwirtschaft auf eine Schrumpfung der freien Unternehmerwirtschaft hin. Darum ist es lebenswichtig, die Ausbreitung des „Kommunismus“, d. h. eines staatlich kontrollierten Produktionssystems einzudämmen, so wie es innerhalb jeder privatkapitalistischen Nation gilt, die Regierungseingriffe in die Wirtschaft einzuschränken. Beide Notwendigkeiten sind voneinander abhängig. Wenn mehr Nationen die staatlich beherrschte Form der Kapitalbildung annehmen und dadurch die Expansion des privaten Kapitals beschränken, so fordert ungenügende Expansion des letzteren intensivere Regierungseingriffe in den eigenen Ländern heraus. Um den Trend in Richtung Staatskapitalismus in den Marktwirtschaften aufzuhalten, ist die Eindämmung und möglichst ein „roll-back“ der bereits etablierten staatskapitalistischen Systeme erforderlich. Doch während die Kapitalisten ihre eigenen Regierungen kontrollieren und so Art und Grad der wirtschaftlichen Eingriffe bestimmen, können sie die gefürchtete Transformation international nur aufhalten, indem sie entweder die Kontrolle über die Regierungen anderer Nationen besitzen oder mit imperialistischen Interventionen eingreifen.

Es gibt also keinen speziellen Grund für Amerikas Intervention in Indochina, neben seiner allgemeinen Politik, überall in der Welt zu intervenieren, um politische und soziale Veränderungen zu verhindern, die für die „freie Weil“ und insbesondere für seine Vormacht abträglich wären. Wie eine riesenkranke streckt Amerika seine Saugnäpfe nach allen unterentwickelten Ländern aus, die sich noch unter dem Einfluß kapitalistischer Eigentumsverhältnisse befinden, um deren weiteres Festhalten am Prinzip der „freien“ Wirtschaft oder wenigstens an den alten Weltmarktvorsätzen zu sichern, die sie zu Anhängeln des westlichen Kapitalismus gemacht haben. Es versucht, alle pro-kapitalistischen Kräfte in verschiedenen regionalen Bündnissen zu sammeln, bewaffnet und finanziert die reaktionärsten Regimes, dringt in Regierungen ein und bietet Hilfe an - all das, um jede soziale Bewegung aufzuhalten, die nach dem Ziel politischer und wirtschaftlicher Selbstbestimmung streben könnte. Weil Selbstbestimmung keine reale Möglichkeit sei, betrachten die USA Versuche, sie zu erreichen, lediglich als Verlassen des kapitalistischen Weges, die in den Machtbereich der Ostmächte führen müßten. Mit der Bekämpfung der Selbstbestimmung und der nationalen Befreiung, setzt Amerika einfach seinen Krieg gegen die russischen und chinesischen Widersacher fort. Obwohl das kein „Kalter Krieg“ mehr ist, werden bisher die wirklichen Probleme aber nur am Rande berührt.

Dabei gefährdete keine der kleinen Nationen, die eine amerikanische Intervention erlitten, nennenswert die Hegemonie der USA in Weltangelegenheiten. Wenn sie trotzdem gehindert wurden, sich von Fremdherrschaft und ihren kollaborierenden herrschenden Klassen zu befreien, so geschah dies in Erkenntnis der Tatsache, daß ihre revolutionäre Aktivität nicht ein zufälliges Phänomen ist, sondern mannigfacher Ausdruck eines Trends — zwar jetzt noch schwach, aber weltweit- zur Herausforderung der kapitalistischen Macht- und Ausbeutungsmonopole. Darum muß revolutionäre Aktivität unterdrückt werden, wo auch immer sie entsteht, und es muß ihr Wiederaufleben ungeachtet aller unmittelbaren Profitrücksichten verhindert werden. In dieser Beziehung unterscheidet sich die Gegenwart von der Vergangenheit dadurch, daß imperialistische Interventionen in der Vergangenheit stattfanden, um Weltraume zu schaffen oder um andere Nationen der Vorherrschaft expandierenden auswärtigen Kapitals zu unterwerfen, während gegenwärtig solche Interventionen der Verteidigung


Die die Entscheidung treffenden Männer in den USA, die sich zum Eintritt in die indochinesischen oder in andere Konflikte entschlossen, konnten auf die Zustimmung eines großen Teils der Bevölkerung rechnen, eine Zustimmung, die keineswegs rein ideologischer Natur war. Gewiß würden die Rüstungsproduzenten nichts gegen kriegsbedingte Extraprofite haben. Noch würden die Arbeiter dagegen sein, wenn ihnen dies sichere Arbeit und ständiges Einkommen verschafft, was unter anderen Umständen weniger gewiß wäre. Die Militärs würden den Krieg als einen Segen für ihren Beruf betrachten; Krieg ist ihr Geschäft, und sie würden die Geschäftswelt ermutigen, Krieg zu führen. Weil die gemischte Wirtschaft eine Kriegswirtschaft geworden ist, sind viele Berufe entstanden, die nur unter Kriegsbedingungen oder bei der Vorbereitung solcher


Die amerikanische Entschlossenheit, um jeden Preis ihren Einfluß in Indochina zu wahren, hemmte eine mögliche weite Ausdehnung sozialer Veränderung, wie sie in Nordvietnam und einem Teil von Laos, eingetreten waren. Dagegen waren weder Rußland noch China bereit, einen Krieg mit den USA zu riskieren, um sie aus Südostasien zu vertreiben, doch suchten sie die Konsolidierung amerikanischer Macht in dieser Region zu verhindern, indem sie den Vietnamesen halfen, den Krieg fortzuführen.
Die von Rußland und China den Vietnamesen gegebene Militärhilfe konnte nicht zur Niederlage der Amerikaner führen, versprach jedoch einen verlängerten Krieg, der die Amerikaner um einen schnellen Sieg bringen würde.


Über den Begriff des Staatsmonopolistischen Kapitalismus

(Mai 1973)

Transkription/HTML-Markierung: Thomas Schmidt für das Marxists’ Internet Archive.
„Monopol“ und „Konkurrenz“


Erst spät, durch die Monopolisierung ganzer Industriezweige, sah sich auch die bürgerliche Ökonomie gezwungen, den Tatbestand der herrschenden, unvollkommenen oder monopolistischen Konkurrenz in ihre Theorien einzubeziehen und auf die monopolistischen Modifikationen des Marktes einzugehen.


Unter den Bedingungen eines entwickelten Kapitalismus, in dem die Arbeiterschaft die ausschlaggebende Klasse bildete, bot jede große Krise die Möglichkeit der sozialen Revolution. Sieht man jedoch von der Möglichkeit einer revolutionären Lösung der
kapitalistischen Widersprüche ab, so ergibt sich aus der kapitalistischen Entwicklungstendenz, trotz und mittels aller Rückschläge in den Krisenperioden, die zunehmende Monopolisierung der nationalen Wirtschaft und die sich verschärfende internationale monopolistische Konkurrenz.

„Monopol“ und „Sozialismus“


War dieser Zustand ein Ausdruck des sich vollziehenden kapitalistischen Verfalls, so schrieb ihm Friedrich Engels auch eine positive Seite zu, nämlich die der Kapitulation der planlosen kapitalistischen Produktion vor der planmäßigen Produktion der sozialistischen Gesellschaft. Seiner Ansicht nach handelt es sich hier um einen „Gegendruck der gewaltig anwachsenden Produktivkräfte gegen ihre Kapitaleigenschaft“ und um einen „steigenden Zwang zur Anerkennung ihrer gesellschaftlichen Natur, der die Kapitalistenklasse selbst nötigt, mehr und mehr, soweit dies innerhalb des Kapitalverhältnisses überhaupt möglich, sie als gesellschaftliche Produktivkräfte zu behandeln.“ Engels ist sich allerdings darüber klar, daß „weder die Verwandlung in Aktiengesellschaften noch die in Staatseigentum, die Kapitaleigenschaft der Produktivkräfte auflöst“. Bei den Aktiengesellschaften ist dies offensichtlich, und was den Staat anbetrifft:

„je mehr Produktivkräfte er in sein Eigentum übernimmt, desto mehr wird er wirklicher Gesamtkapitalist, desto mehr Staatsbürger beutet er aus. Die Arbeiter bleiben Lohnarbeiter, Proletarier. Das Kapitalverhältnis wird nicht aufgehoben, es wird vielmehr auf die Spitze getrieben. Aber auf der Spitze schlägt es um. Das Staatseigentum an den Produktivkräften ist nicht die Lösung des Konflikts, aber es birgt in sich das formelle Mittel, die Handhabe der Lösung“. Indem die kapitalistische Produktionsweise „auf Verwandlung der großen, vergesellschafteten Produktionsmittel in Staatseigentum drängt, zeigt sie selbst den Weg zur Vollziehung dieser Umwälzung.“ (Anti-Dühring, MEW 20, S. 260)

Ist die Monopolisierung und Verstaatlichung der Wirtschaft bei Engels noch ein von Krisen begleiteter Prozeß, so nehmen sie bei Hilferding einen die Krisen ausschaltenden Charakter an, womit das Problem des Sozialismus zu einem rein politischen wird. Obwohl! durch die fortschreitende Monopolisierung die Lasten aller nicht-kapitalistischen Klassen immer drückender würden, führe dieser Prozeß zuletzt doch zu einer kartellisierten, bewußt geregelten Produktion, die den weiterbestehenden
Über den Begriff des Staatsmonopolistischen Kapitalismus

Die schon vergesellschaftete Funktion des Finanzkapitals — der Verbindung von Industrie- und Bankkapi−

„erleichtert die Überwindung des Kapitalismus außerordentlich. Sobald das Finanzkapital die wichtigsten Produktionszweige unter seine Kontrolle gebracht hat, genügt es, wenn die Gesellschaft durch ihr bewußtes Vollzugsorgan, den vom Proletariat eroberten Staat, sich des Finanzkapitals bemächtigt, um sofort die Verfügung über die wichtigsten Produktionszweige zu erhalten.“ (Das Finanzkapital, Frankfurt 1968, S. 502)


Ohne auf Lenin's Imperialismus-Theorie näher einzugehen, sei doch bemerkt, daß für ihn der Imperialismus mit dem Finanzkapital zusammenfiel und die organisatorische Vorstufe des Sozialismus darstellte. Die zentralisierte Verfügungsgewalt über das gesellschaftliche Kapital durch das monopolistische Finanzkapital brauchte nur vom proletarischen Staat übernommen und der Gesamtheit dienend angewandt werden.


„Staatskapitalismus“ und „Monopolkapitalismus“

Dem Profitmotiv folgend, organisieren auch die Monopole weiter nichts als sich selbst. Werden sie alle unter die zentrale Kontrolle des Staates gebracht, so kann der Staat dieses neue Kapitalverhältnis zwischen sich selbst und den Produzenten nur reproduzieren, es sei denn, daß die letzteren den Staat beseitigen. Die lange Existenz sogenannter sozialistischer Staaten hat den praktischen Nachweis geliefert, daß der Begriff Sozialismus hier nur der, aktuellen Staatskapitalismus oder „Staatssozialismus“
Paul Mattick. Texts / 2


Die Stoßrichtung gegen den „Staatsmonopolistischen Kapitalismus“ heute


Damit ist nicht gesagt, daß diese Parteien dem eigenen Ziel untreu geworden sind. Wo sich die Gelegenheit bietet, werden sie ohne Zweifel versuchen, jede erforderliche anti-kapitalistische Bewegung in den Staatskapitalismus umzubiegen. Da solche
Über den Begriff des Staatsmonopolistischen Kapitalismus

Bewegungen noch nicht auf der Tagesordnung stehen, erschöpft sich die Tätigkeit in der Erringung von Machtpositionen innerhalb der existierenden Gesellschaft. Ihr „Kampf“ gegen den staatsmonopolistischen Kapitalismus bleibt somit eine leere Propagandaformel, um die „Massen“ hinter sich zu bringen, die sich vorerst noch nicht gegen den Kapitalismus, sondern nur gegen seine „schlechten Seiten“ wenden.

Im Kapitalismus gibt es aber nur unvereinbare Klasseninteressen. Man kann deshalb die kapitalistisch eingestellten Gesellschaftsschichten, die der Monopolisierung zum Opfer fallen, nicht für den Sozialismus gewinnen, da er ihre besonderen gesellschaftlichen Positionen noch schneller und gründlicher vernichten würde als der Monopolkapitalismus. Man kann sie höchstens auf der Basis des Kapitalismus für eine Politik gewinnen, die ihre besonderen Interessen wahrzunehmen verspricht, d.h. für eine anti-sozialistische Politik. So verbirgt sich hinter der Parole des Kampfes gegen den staatsmonopolistischen Kapitalismus die Ankündigung einer, gegen den Sozialismus gerichteten, konterrevolutionären Politik.

Es läßt sich allerdings vorstellen, daß der sich verschärfende monopolistische Druck, der die Proletarisierung kleinbürgerlicher Schichten in sich einbezieht, einen Teil dieser Schichten überzeugt, daß ihre letzte Chance im Staatskapitalismus zu finden ist, der ihnen die, im Monopolkapitalismus schon versperrte Karriere wieder freilege. Ein Blick in die „sozialistischen Länder“ genügt, um diese Überzeugung zu rechtfei-

ökonomisches System, ist damit erforderlich. Auch hier fallen die Ideen des
genewärtigen Kapitalismus mit denen des Staatskapitalismus zusammen. Auch der
staatsmonopolistische Kapitalismus bildet sich ein, die Krisengesetzlichkeit durch
staatliche Eingriffe in den Wirtschaftsmechanismus beendet zu haben. Da diese Illusion
bereits durch die widerspenstige Wirklichkeit an Überzeugungskraft verliert, stellt sich
die „Opposition“ gegen den staatsmonopolistischen Kapitalismus als Forderung nach
einer weitläufigeren und zuletzt völlig staatlichen Beherrschung der Wirtschaft dar, um
weiteren Erschütterungen aus dem Wege zu gehen.

Der Staat soll auf politischen Wegen erreichen, was der kapitalistische Markt selbst
nicht mehr zu erreichen vermag. Tatsächlich haben die staatlichen Wirtschaftseingriffe
dauernd zugenommen. Die Konjunkturperioden wurden damit auf die staatliche
Wirtschaftspolitik zurückgeführt und die Vorstellung erweckt, daß sich der Kapitalismus
tatsächlich bewußt regulieren läßt.

Das war schon in sozialistischen Theorien vorweggenommen. So schrieb
Hilferding z.B.:

„wenn die monopolistische Vereinigungen die Konkurrenz aufheben, so heben sie
damit das einzige Mittel auf, wodurch sich ein objektives Preisgesetz verwirklichen kann.
Der Preis hört auf, eine objektiv bestimmte Größe zu sein, er wird ein Rechenexempel
derjenigen, die ihn mit Willen und Bewußtsein bestimmen.....Die Verwirklichung der
Marxschen Konzentrationslehre, die monopolistische Vereinigung, scheint damit zur
Aufhebung der Marxschen Werttheorie zu werden.“ (Das Finanzkapital, S. 313)

Es entging dem Verständnis Hilferdings, daß in der Marxschen Werttheorie nicht
die Preise selbst, sondern nur das allgemeine Preisniveau und dessen Veränderungen vom
Wertgesetz bestimmt werden. Die Konkurrenz tendiert zu einer durchschnittlichen
Profitrate, die sich aus den Abweichungen der Preise von den Werten ergibt. Dadurch
bilden sich Extraprofite oder Monopolpreise, und das während der ganzen
capitalistischen Entwicklung, die einen der Gründe für die beschleunigte Akkumulation
bilden. Mit fortschreitender Monopolisierung reduzieren die Monopolpreise die
Durchschnittsprofitrate der konkurrierenden Kapitale. Es handelt sich hier um Profite,
die aus der Sphäre der Konkurrenz in die der Monopole transferiert werden. Mit dem
Verschwinden der Konkurrenz verschwindet auch die Möglichkeit der Transferierung der
Profite aus den konkurrierenden in den monopolistischen Sektor der Wirtschaft; die
monopolistische Profitrate wird zur Durchschnittsprofitrate auf Basis des Wertgesetzes.

Die monopolistische Wirtschaft hebt das Wertgesetz nicht auf, sondern bestätigt es
durch den Fall der Profit- und damit Akkumulationsrate auch des monopolistischen
Kapitals und der damit verbundenen Notwendigkeit

staatlicher Wirtschaftseingriffe. Aber solche Eingriffe stoßen auf bestimmte
Grenzen in den kapitalistischen Produktionsverhältnissen und sind nur als
vorübergehende Möglichkeiten zu werten. Sind diese Möglichkeiten erschöpft, so setzt
sich die kapitalistische Krisengesetzlichkeit von neuem durch und bietet wieder die
Möglichkeit der revolutionären Überwindung des kapitalistischen Systems. So stellt der
staatsmonopolistische Charakter des gegenwärtigen Kapitalismus dem Proletariat keine
anderen Aufgaben als der Kapitalismus irgend einer anderen Prägung, nämlich die
Abschaffung des Kapitalverhältnisses durch die Aufhebung der Lohnarbeit in der
klassenlosen Gesellschaft.
Peter van Spall spricht mit Paul Mattick

(1973)

Fragen sowohl als auch Antworten sind gelegentlich von der Redaktion gekürzt worden.
Transkription/HTML-Markierung: Thomas Schmidt für das Marxists’ Internet Archive.

Peter van Spall:


Paul Mattick:


**Peter van Spall:**

Was ist für Sie Staatskapitalismus im Unterschied zum dezentralisierten Privatkapitalismus? Was sind aus der Sicht der Arbeiterklasse die Vor- und Nachteile dieser Systeme?

**Paul Mattick:**


**Peter van Spall:**
In den USA und anderen führenden industriekapitalistischen Ländern nimmt der Widerspruch zwischen öffentlicher Armut und privatem Reichtum lebensbedrohende Formen an. Liberale und sozialistische Wissenschaftler warnen in diesem Zusammenhang vor der Zerstörung der „Umwelt“, die schon in wenigen Jahren nicht mehr aufzuhalten ist.

Haben die Linken recht, die aufgrund dieser Entwicklung der Auffassung sind, daß sich der „Spätkapitalismus“ in seiner Endphase befindet?

**Paul Mattick:**


**Peter van Spall:**

Paul Mattick:

Von einer „oppositionellen“ Arbeiterbewegung kann in Amerika noch nicht die Rede sein, obwohl eine zunehmende kritische Einstellung zum Verlauf der Dinge schon zu bemerken ist. Sie richtet sich auch gegen die offizielle Haltung der Gewerkschaften und Industrieverbände — die hier die einzig bemerkenswerte wie fragwürdige Form einer Arbeiterbewegung vorstellen — und findet ihren Ausdruck in wilden Streiks. Es handelt sich hier aber vorerst um eine sich ausbreitende Unzufriedenheit mit den wirtschaftlichen Zuständen und dem Krieg, der damit in Verbindung gebracht wurde. Die allgemeine Mißstimmung erfaßt auch die Arbeiterjugend und die Studenten wie auch die Minoritäten, die vom ökonomischen Niedergang am härtesten betroffen sind. Was hier als „Linke“ bezeichnet wird, d. h. die radikale Bewegung der Neger und Studenten, hat bisher, wie jede aussichtslose Sache, keine Beständigkeit. Sie springt an und flaut ab mit den nicht von ihnen bestimmten wechselnden Situationen, wie z.B. anläßlich der Protestbewegung bei der Wiederaufnahme des Bombardements von Nordvietnam. Jedoch drückt die Ansicht der bürgerlichen Medien über das Abflauen der Protestbewegung nur einen Wunschtraum aus. Wie die Dinge liegen, wird die nächste Zukunft mit der Verschärfung aller kapitalistischen Widersprüche auch die Verschärfung der sozialen Unruhen mit sich bringen.

**Economic Crisis and Crisis Theory**

(1974)

**Preface**

It was not so long ago that Keynesian economics seemed to offer instrumentalities not only to overcome depressions but to avoid them altogether. This is no longer true, as we find ourselves in a post-Keynesian world in which neither the equilibrium tendencies of supply and demand nor Keynesian interventions in the economic processes are able to prevent the steady deterioration of the economy through rising inflation and growing unemployment. Due to the long postwar prosperity in the leading capitalist nations, this has come to many people as an unpleasant surprise and has led to a new concern with the problem of the capitalist crisis. Although largely ignored by bourgeois economists before 1929, crises accompanied the whole of capitalistic development as the decisive “regulator” of the capital accumulation process. It is thus worthwhile to take an overall look at the crisis cycle both as it has asserted itself historically and with respect to the responses it evoked in economic theory.

As regards bourgeois economics, however, there is very little to say, as its general equilibrium theory has no room for the dynamics of the dis-equilibrating process of capital expansion. Accumulation appears here as a matter of “saving,” or as a phenomenon of “growth,” for which an equilibrium path must be found in order to escape the persistent “business cycle.” That the problem is considered at all reflects the
inescapable recognition that many, or all, of the categories of bourgeois economic theory have no more bearing on long-run capitalistic development than on the everyday production and exchange relations of the capitalist market. There is a strong tendency to look back to classical political economy, or even to Marx, in search for a more useful theoretical approach for solutions to the problems of capital production. In this connection it is interesting to note that the questions raised by present-day economists merely repeat, but in a shallower form, the discussions around the crisis problem carried on in the Marxist camp around the turn of the century. These controversies, too, concerned the possibility of an “equilibrium path” leading to a crisis-free, harmonious development.

The different and contradictory interpretations of Marx’s crisis theory may provide some comfort to its opponents, but they indicate no more than the infiltration of bourgeois economic concepts into Marxian doctrine as the theoretical complement to the practical integration of the socialist movement into the capitalist system. There was, and is, a two-pronged endeavor to reconcile, at least to some extent, the historical antagonism between Marxism and bourgeois economic theory, which finds its reflection in an increasing eclecticism in both quarters. That the crisis of Marxism is still deepening may be surmised from the article on Ernest Mandel’s book on “late capitalism,” which brings the discussion, so to speak, up to date and confronts it with undiluted Marxist crisis theory.

* But a great period of world history never expires as quickly as its heirs would hope and perhaps must hope if they are to be able to attack it with the necessary force.
Franz Mehring

*  

1. Bourgeois Economics

The progressive development of the capitalist economy was from the start a process punctuated by setbacks. There were good and bad times and for this an explanation was sought. That social production was at first still dominated by agriculture made it possible to find the cause of economic distress in the inconstancy of nature. Bad harvests could be blamed for the general scarcity of goods. In addition, the low productivity of agricultural labour, in the context of a growing population, awakened the fear that the development of capitalist production would run up against natural limits, indicating the inevitability of a stationary state. Bourgeois political economy was colored by a deep pessimism, which was overcome only with the accelerating growth of capital.

Although in classical economics social relations were regarded as “natural,” this did not stop the classical theorists from explaining the distribution of income specifically in terms of these relations. And, while in classical theory the equilibrium of different interests was guaranteed by the exchange process, because the latter was regulated by the quantities of labor contained in the commodities exchanged, this character of exchange was called into question by the theory of distribution, and with it the equilibrium based on it. A purely formal consideration of exchange relationships, that is, together with the assumption of free competition, makes individual interests appear to coincide with that of society as a whole, and the economic law of the exchange of equivalents appears to
ensure the system’s justice. But recognition of the class-defined distribution of the social product between rent, wages, and profit implied that the formal model of the exchange process was not a legitimate abstraction from reality.

The labor theory of value propounded by the classical economists examined the conditions of the time and their future development from the standpoint of capital and, therefore, from the standpoint of capital accumulation. With few exceptions, although with different arguments, the classical theorists hypothesized that capitalist accumulation would have definite limits that would manifest themselves in a decline of profits. According to David Ricardo, accumulation would inevitably be limited by the decreasing productivity with which the soil could be cultivated. An increasing difference between the returns from industry and agriculture would raise wage costs and lower profit rates to the benefit of rents.

This theory obviously reflected the relationship between the landowners and capitalists of Ricardo’s time and had nothing to do with developmental tendencies inherent in value production. As Marx put it, it was Ricardo’s inability to explain the developmental laws of capital on the basis of the nature of capitalism itself that caused him to flee ‘from economics into organic chemistry.” Nevertheless, Marx saw in the English economists’ concern over the decline of the rate of profit a profound understanding of the conditions of capitalist production.” What worried Ricardo, for example, was that the rate of profit, the stimulating principle of capitalist production, the fundamental premise and driving force of accumulation, should be endangered by the development of production itself... It comes to the surface here in a purely economic way i.e., from the bourgeois point of view, within the limitations of capitalist understanding, from the standpoint of capitalist production itself that it has its barrier, that it is relative, that it is not an absolute, but only an historical mode of production corresponding to a definite limited epoch in the development of the material requirements of production.

If the tendency of profits to fall was first explained by increasing competition and by increasing rents (in connection with population growth), it was not long before wages were also seen as conflicting with the profit requirements of accumulation. On the other hand, the extension of wage labor as a social institution suggested, to those who analyzed value in terms of labor time, questions about the origin of profit questions answered by the producers’ demand for the full proceeds of their labor. Like profit itself accumulated capital came to be understood to be accumulated unpaid labor. To refute the accusation of capitalist exploitation thus demanded abandonment of the labour theory of value. Moreover, the problem of accumulation could simply be forgotten, as earlier apprehensions appeared to be false. Accumulation did not decline but increased, and capital unmistakably dominated the whole society. Wage labor and capital now represented the fundamental antagonistic classes that determined the further metamorphoses of bourgeois economics.

The increasingly apologetic nature of economies did not, to be sure, require a conscious effort on the part of the bourgeois economists. For them, convinced as they were that the capitalist economy was the only possible one, every criticism of it was an unjustified and subjective distortion of the real facts of the matter. Apologetics appeared as objective, scientific knowledge, which no demonstrable shortcoming of the system could shake. Of course, the generalization of the capitalist economy as a model for all social systems required an ahistorical approach and the conversion of the categories of political economy into general laws of human behaviour.

As the past can only be conceptualized in terms derived from the present, for Marx also the bourgeois economy provided a key to the understanding of earlier forms of
society, “but not at all in the manner of the economists, who smudge over all historical
differences and see bourgeois relations in all forms of society.” There are general,
abstract categories applicable more or less to all forms of society, but for the analysis of
any particular system they must be given a content corresponding to that system alone.
Money as a means of exchange and money as capital express different social
relationships, and the means of production utilized in the past are not to be equated with
capital or self-expanding value. The capitalist economy cannot be explained on the basis
of abstract general categories of human behavior; the attempt to do so arises either from
ignorance of real social interrelations or from the wish to escape the problems they
involve.

According to Marx, the classical theory of value rested on a confusion between the
natural and the economic senses of production. Taking labor as a starting point, it thought
of capital as a thing „not a social relationship. However, to develop the concept of capital
it is necessary to begin not with labor but with value and, precisely, with exchange value
already developed in the movement of circulation.” It is on the difference between the
exchange value and the use value of labor power that the existence’ and the development
of capitalist society depend, a distinction that presupposes the separation of worker from
the means of production. Labor itself has no value, but the commodity labor power
generates, when consumed, a surplus value in addition to its own value. This surplus
value divides into the various economic categories of the market economy, like price,
profit, interest, and rent categories that at the same time conceal their origin as shares of
surplus value.

The Marxian critique of bourgeois economics was therefore a double one. On the
one hand, it consisted ii) the rigorous application of the labor theory of value to the study
of capitalist development, which it analyzed in terms of the system’s own fetishistic
economic categories. On the other hand. it exposed these categories as expressions of the
class and exploitation relations specific to capitalist commodity production. Marx
achieved what the classical economists could not namely, an explanation of capital’s
growing difficulties by the contradiction, specific to capitalism, between exchange-value
and use-value production. In this way he succeeded showing that the limits of capital are
set by capital itself. And since the economic categories mask real class relations, the
economic contradictions characteristic of capitalism are at the same time real antagonisms
of interest, which can therefore be abolished by revolution.

Because it refused to observe the class conflict between labor and capital to which
capitalism gave birth, classical economics saw itself as an unbiased science. It did not,
however, fall into pure positivism, since at the same time, from its normative side it
indulged itself in proposals for the redress of persisting or newly emerging grievances.
The harmony of interests expected to characterize market society was held to be delayed
by the retrograde efforts of mercantilist monopoly and monetary policy. At the same
time, however, doubts arose that universal competition would be a cure-all for economic
injustice. The obvious pauperization of the workers led John Stuart Mill, for instance, to
suggest a modification of the economic consequences of capitalist production by a more
just distribution of income, to be achieved by political means.

For Marx the relation of production to distribution was determined by the class
relations of production. From this point of view Mill only shows his “fatuity” when he
“considers the bourgeois relations of production as eternal, but their forms of distribution
as historical, [and thereby] shows that he understands neither the one nor the other. “The
normative elements of classical economics expressed only an insufficient understanding
of the capitalist economy.
In general the political economy that arose along with capitalism was still the idealized representation, from the bourgeois point of view, of commodity production in which exchange enabled the possessors of the means of production to realize profits. The practical critique of political economy represented by the workers’ struggle for better living conditions remained within the same conceptual framework, seen from the workers' side. The content of political economy was thus the struggle between labor and capital disguised in economic categories. So long as the bourgeoisie adhered to the labor theory of value in its own way it recognized objective realities, even if it passed over in silence the fact of exploitation. By abandoning this theory it deprived itself of the possibility of objective knowledge of economic relations and relinquished to its Marxian critique the scientific investigation of bourgeois society.

It would be incorrect, however, to explain the bourgeoisie’s abandonment of the labor theory of value solely by the desire to deny the fact of exploitation. To begin with, the real significance of this theory—the dual character of labor power, at once an exchange value and a use value—was not correctly understood. In addition, the labor theory had no practical importance for the bourgeoisie. In the business world we encounter not labor-time-values but the prices derived from them and established through competition. This need not have prevented the classical theorists from establishing the validity of the value theory, since their starting point was the society as a whole, and indeed they put a great deal of effort into the matter. But the solution of the theoretical difficulties connected with the labor theory of value was left to Marx. Their inability to overcome them thus surely had a role in the economists’ abandonment of the law of value.

Be that as it may, to account for profit, interest, and rent on the basis of the law of value could only make it clear that the workers produce a surplus value, in addition to the value of their labor power, which the non-producing layers of society appropriate. The idea that labor alone creates value had to be dropped if income in the form of profit, interest and rent was to be justified. This move was not only necessary but also plausible, for under capitalist conditions the workers can no more produce without capital than capital without workers. As the workers’ lack of property is the presupposition of capitalist production, so capitalist possession of property is the presupposition of the existence of a proletariat. Since labor is as necessary as capital, and people do live on the earth, we can speak of three factors of production: land, labor, and capital that play equal parts in production. Thus the labor theory of value gave way, to begin with, to a theory of the determination of production costs by these three factors.

Although incompatible with the law of value, the cost-of-production theory remained an “objective” conception of value (in contrast with the later derivation of value from the subjective evaluations of consumers) in that it acknowledged the role of various putative contributions to social production and represented their value. In this theory the value of commodities was determined not only by the labor directly expended in their production but also by the conditions of production without which this labor would be impossible. Interest, often not distinguished from profit, was explained as arising from the “productivity of capital.” “Pure” profit (distinguished from interest) was explained as the payment to the entrepreneur on whose activity another portion of the total social value was supposed to depend. The cost-of-production approach, however, was unsatisfactory both from the theoretical and from the practical point of view. Moreover, the idea of property ownership as per so creative of value also was rather questionable. But the identification of the market price of labor power with its value (so that the worker seemed to be paid the full value of his labor) permitted the illusion that the gains obtained on the market were not based on exploitation. The problems of bourgeois economics seemed to disappear as soon as one ignored production and attended only to the market. This
exclusive concentration on the market led to the transformation of the objective concept of value into a subjective one.

The plausible idea that the value of a commodity derives from its utility for the purchaser had also not been foreign to the classical economists. Thus Jean-Baptiste Say had already tried to explain value on the basis of utility only to come to the conclusion that the latter could not be measured. It was measurable only by the quantity of labor which a person would be willing to perform in order to purchase a commodity. For Marx, too, the exchange value of commodities presupposed their having a use value. But capitalism is based not on the exchange of products of labor for the satisfaction of individual needs but on the exchange of some use value, playing a role as exchange value, for a greater quantity of exchange value in its gold or commodity form. For such an exchange to be possible as an exchange of labor-time equivalents, there must be a commodity whose use value is greater than its exchange value in an objectively measurable sense i.e., in value terms. The commodity labor power-whose use value is labor itself—fulfills this condition. But if, like the economists, we disregard this real basis of capitalism, exchange indeed appears to serve the satisfaction of individual needs, and the valuation of commodities seems to be determined by the multiplicity of subjective human preferences.

Viewed apart from production, the price problem can be dealt with purely in terms of the market. If the supply of commodities exceeds the demand for them, their price falls; in the opposite case it rises. The movement of prices, however, cannot explain the phenomenon of price itself, as a property of products. Even if the objective concept of value is given up, some other concept of value must be maintained to say more than that prices determine prices. The “solution” to this problem was found in a move from economics to psychology. Prices, economists began to claim, are based on consumers’ individual evaluations as represented by their demand for goods. Prices are then explained by the scarcity of the goods in question relative to the demand for them. It did not take long for this subjective treatment of value, in the form of “marginal utility theory,” to become almost universally accepted within bourgeois economics.

With the marginal utility theory the idea of political economy lost its sense and was abandoned for that of “pure” economics. Marginalism was not different in method from classical economics, but it applied this method no longer to social problems but to the behavior of individuals with respect to the goods available to them and to the consequences of this behavior for the exchange process. Naturally, classical economics also concerned itself with the individual who, as homo economicus, competed with other individuals for the greatest possible gain. But this competition was thought to be a process of equilibration and ordering that adjusted production and distribution to social requirements. While this process took place as if directed by an invisible hand behind the backs of the producers, it nevertheless took place, effecting the necessary unity of private and general interest. Conversely, it could obviously not occur to the marginalists to deny the existence of society But for them social conditions were only a means to the end of establishing the “economic relation” of the individual to the things he finds of use. They saw this relation as holding for individuals outside society as well as for each person in any and every society, so that the nature of any particular society was irrelevant.

Marginalism rested on the application to the economy of the not overly profound discovery that there can be too many good things as well as too many bad ones. In Germany it was Hermann Heinrich Gossen who first argued for this principle. At first unappreciated, it later won recognition through the popularity of the Englishman William Stanley Jevons’s independently developed concept of marginal utility. At the same time, Karl Menger founded the “Austrian School” of theoretical economics, based on the
subjective value concept, to which, among others, Friedrich von Wieser and Eugen von Bohm-Bawerk belonged. Although these economists differ among themselves on details, they can be lumped together as joint founders of marginal utility theory.

Marginalism takes its departure from the needs of individuals. The evaluation of these needs is an affair of human consciousness and thus is subjective. Exchange value and use value, which take account of the scarcity or superfluity of consumer goods, are only different forms of the general phenomenon of subjective evaluation. The desire for any particular good is limited. The point, on an individual’s scale of satisfaction, at which the desire for a good is satisfied determines that good’s marginal utility and thereby its value. Since an individual’s needs are multiple, he chooses between the various goods available in such a way as to realize the maximum of marginal utility. Since some pleasures of the moment have painful consequences, he measures present satisfactions against future privations in order to minimize dissatisfaction. In the market everyone measures the value of a commodity by its marginal utility, total utility reaching its maximum when the marginal utilities of all the commodities purchased are equal.

Who does not know that human life is attended by pleasure and pain and that everyone seeks to diminish the latter and increase the former? Just like the utilitarian philosopher and social reformer Jeremy Bentham, Jevons held pleasure and its opposite to be quantifiable and calculable, thanks to which economics can be mathematically conceived and algebraically represented. But what Say had already failed to do Jevons and the other marginalists did not achieve, and the attempt to measure subjective utilities was soon abandoned. It was agreed that utilities could be compared but not measured exactly.

Bourgeois apologetics had taken on two tasks. On the one hand, it was thought essential to represent the winning of profit, interest, and rent participation in the creation of wealth. On the other, it was thought desirable to found the authority of economics on the procedures of natural science. This second desire prompted a search for general economic laws independent of time and circumstances. If such laws could be proven the existing society would thereby be legitimated and every idea of changing it refuted. Subjective value theory promised to accomplish both tasks at once. Disregarding the exchange relation peculiar to capitalism—that between the sellers and buyers of labor power it could explain the division of the social product, under whatever forms, as resulting from the needs of the exchangers themselves.

This attempt had already been anticipated in Nassau W. Senior’s view that interest and profit should be considered as recompense for the sacrifice undergone by the capitalist in his abstention from consumption in favor of capital formation. Thus the cost of capital, like the cost of labor in the sense of the pain of work could be seen as an abstention from pleasure, and profit could be put on a par with wages. Apart from these abstentions the goal of exchange was the satisfaction of the needs of the exchangers, so that everyone could only gain in exchange, since everyone obviously valued the goods or services that he received more highly than those he gave in return. The capitalist buys labor power because it means more to him than the sum of wages paid for it, and the worker sells his labor power because it means less to him than the wage received in exchange. Thus the exchange benefits both, and there can be no talk of exploitation.

Since subjective value cannot be measured, the psychological foundation of marginal utility was soon given up, of course without abandoning the theory itself. “Utility” now referred not to the subjective evaluations themselves but to their manifestations in market demand. Utility, it was now held, concerned not so much a particular commodity as the number of commodities among which the buyer would be pleased to choose. This ordering or preference scale of the consumer’s was represented
graphically by so-called indifference curves. Thus economists now distinguished between the absolute (cardinal) magnitude of utility and the relative (ordinal) utility, which was represented in the preference scale. The concept of marginal utility metamorphosed into that of the marginal rate of substitution, the rate at which the quantity of one good must increase to compensate for the diminishing quantity of another. Maximal want satisfaction could then be defined in terms of the marginal rates of substitution between all pairs of goods. In other words, the buyer would so distribute his money that all the goods he purchased were equally valuable to him, at which point his choice behavior would come to a satisfactory conclusion.

Not all marginalists were ready to give up the concept of cardinal utility, and for others the concept of ordinal utility did not go far enough, as it still referred to subjective value. Since the marginal utility could be observed only in the price, this group preferred a pure price theory which kept its distance from all value problems. Marginalism ran into another difficulty, that it was impossible to regard price as determined by the demand side alone. Without a doubt there must be production as well as consumption and supply prices as well as demand prices. In meeting this problem they moved to unite the subjective value theory with its precursor, the cost-of-production theory. This gave rise to the so-called neo-classical theory, which found its most important representative in Alfred Marshall.

Of course, in this approach production costs were defined in subjective terms, as capitalist abstention and workers’ disinclination to work. Just as marginal utility was supposed to determine demand, so behind supply was discovered the marginal propensity to work more or to defer consumption in favor of capital formation. At the same time, it was clear to Marshall that these factors determining supply and demand were not observable as such, and that the only clue to these “real” factors would be found in the actual price relations. The monetary system converted subjective valuations into prices that thus reflected “real” needs and abstentions. In the form of price the non-quantifiable subjective value would become a measurable value. Since prices were regulated by the tendency of supply and demand toward equilibrium, the relation of supply and demand would determine commodity values in the long run, if not at every moment.

For another variant of the marginal utility theory, production, as an obvious prerequisite of exchange, required no particular investigation. For Leon Walras, the founder of the “Lausanne School,” economics as a whole was nothing but a theory of commodity exchange and price determination. For him, too, value arose from the scarcity of goods in relation to wants, with marginal utility explaining the variations in the intensity of felt needs. But exactly as the individual through his choices on the market would bring his various needs into an equilibrium of want satisfaction, so exchange on the level of society as a whole would tend to a “general equilibrium” in which the total value of demanded goods and services would correspond to the total value supplied.

To be sure, the assumption of a tendency to equilibrium of supply and demand effected by exchange lay at the basis of all market theories. Walras, however, attempted to prove the validity of this assumption in the manner of the exact sciences. According to him marginal utility was not only self-evident but also measurable by the application of the principle of substitution to the commodity market as a whole, where all prices inextricably intertwined. Prices seemed to him to be inversely proportional to the quantities of commodities exchanged. Production costs were formed, in his eyes, by the wages, interest, and rents entering into them, which he considered alike as payments for productive services. All persons exchanged their productive services for consumer goods of equal value. The “reality” of the subjective values manifested in equilibrium prices was here visible in the equilibrium of the economy, and this equilibrium in turn
demonstrated the validity of the subjective value concept. As value and equilibrium defined each other, the theory of value was equated to that of general equilibrium, and it sufficed to prove the theoretical possibility of the latter to prove the validity of the subjective theory of value.

Despite its dependence on circular reasoning, the idea of equilibrium applied to the economy as a whole, to parts of it, or to particular cases remains one of the methodological principles of bourgeois economics, if only because from this discipline’s point of view, all movement in the world riot only that of the economy tends toward equilibrium states. Of course, the Walrasian system of general equilibrium—represented by a system of simultaneous equations—was only a model and not a picture of concrete conditions. It claimed, however, the status of scientific knowledge on the ground that though the economy might depart from equilibrium, it would always tend to return to this condition. On account of the involution and complexity of the manifold intertwined economic processes, theoretical proof of the possibility of equilibrium could be furnished only by means of mathematics on a level of abstraction which, while corresponding to the theory, had lost all connection with reality.

The hypothesis that in the last analysis the consumers determine the value of commodities took no account of the social distribution of income. John Bates Clark attempted to remedy this situation through the application of marginal analysis to the factors of production. Just as in consumption the degree of saturation determined marginal utility, so a steady increase in the supply of labor implied its decreasing marginal productivity. This marginal productivity was represented by the wage paid at the time. The identity, or equilibrium, between wage and marginal productivity could of course be disturbed, but only to re-establish itself. For example, if the marginal productivity exceeded the wage, the demand for labor would increase until marginal productivity and wage again balanced. If the wage exceeded the marginal productivity, the demand for labor would go down until the identity of marginal productivity and wage was re-established. What held for wage labor would hold for all the other factors of production, so that in equilibrium all factors would share in the total income in proportion to their marginal productivity. In this way not only supply and demand but also the distribution of the social product were explained in terms of marginal utility (or disutility). And since every factor of production received the share of the social product corresponding to its contribution to social production, the existing distribution of income was not only economically determined but also just.

To some adepts of marginalism the inclusion of social production in the subjective value theory seemed uncalled for. To Bohm Bawerk, for whom all production in the last analysis was only for the sake of consumption, it made no sense to make a special study of production or to speak of a dependence of income distribution on the marginal productivity of the factors of production. The production of capital was for him “indirect” production, by contrast with “direct” production, or production carried on essentially without the use of means of production. From this point of view, every production process that involved means of production would be a capitalist production process, even in a socialist economy. For Bohm-Bawerk there were only two factors of production, labor and land; he considered capital as a purely theoretical concept, not a historical one. All present goods represented means of consumption, and future goods including means of consumption appeared in the intervening time as capital goods and products of labor. Profit, of which he took account only as interest, arose not from production but from the exchange of present goods for future goods. Marginal utility decided the relative valuation of present and future goods.
According to Bohm-Bawerk interest was thus not only inevitable but also justified, as all production depended directly on the capitalists’ propensity to save, and workers, like landed proprietors depended on capitalist credit. Neither could live directly from their production, as this would require various periods of manufacture. While they were producing they had to live on products made at an earlier time. Anyone not willing or able to restrain his consumption and to save would have no claim to the interest due to the time factor. Although interest was the form in which the revenue is derived by a pro-from capital goods was paid or collected, it was a product neither of labor nor of capital but a gain due simply to the passage of time-so to speak, a gift from heaven. Interest was all the more a heavenly gift as it was equally the instrument of economic equilibrium and progress. It established the necessary equilibrium between current and future production by regulating the extension or contraction of capital investments in reference to the consumption requirements at any given time. As indirect production increased, moreover, the mass of consumption goods would grow, thereby decreasing the need for new saving for additional means of production. In this way social progress would manifest itself in a declining rate of interest.

It would not be worthwhile, however, to spend time on other exponents of the subjective value theory, just as it was hardly wrong to ignore it completely in its heyday. Marx had nothing to say about it, and for Friedrich Engels it was only a bad joke, although he thought it quite possible “that it is just as easy to build up ... [a] plausible vulgar socialism ... on the foundation of Jevons’s and Menger’s theory of use value and marginal utility.”

In fact, a section of the reformist Social Democracy did turn toward the marginal utility theory out of the conviction that Marx’s alleged neglect of demand and its role in price formation had kept him from grasping the real interconnections of the economy. But even while the subjective value theory was gaining ground in the Social Democratic camp, it had already lost its persuasive power in the bourgeois camp and would soon be completely abandoned. Indeed, it is the rejection of the psychological conception of value by the bourgeoisie itself which renders superfluous a detailed critique of this theory.

The subjective value theory was discredited, first, by a theoretical refinement so excessive that it lost any visible connection with reality, and second, by the frank renunciation of the attempt to explain price by value. Joseph A. Schumpeter may be mentioned in connection with the first of these endeavours. From the standpoint of the Austrian School, from which he came, the value of final products, or consumer goods, depends on their marginal utility for the consumer, while the marginal utility of intermediate products, such raw materials and machinery is derived by a process of imputation from the marginal utilities of the final goods. For the consumer the various raw materials, means of production, and semifinished goods have no direct but only an indirect use value, but this is represented, through the process of imputation in the prices of the consumer goods. The same analysis was offered for commodity circulation. A distinction was made between first – order and second-order goods, the latter being those which have not yet entered into consumption and whose utility must be imputed to the marginal utility of the consumer goods. Schumpeter concluded from this that, seen theoretically, supply and demand are one and the same, so that the demand side is sufficient to state the conditions of equilibrium.

In Schumpeter’s conception of equilibrium not only were supply prices superfluous, since they could be understood in the form of demand prices, but profit and interest can be omitted as separate categories by including them under the rubric of wages. Equating production with exchange, Schumpeter saw no need to deal with utility or its opposite. He replaced the psychological concept of value with a logic of choices,
since even the subjective concept allowed one to say no more than that a person, with given tastes and income, is guided in his purchases by the given prices. Schumpeter had no interest in investigating the fundamental factors which determine consumer choices but took them as the given starting point for economic analysis. The logic of choice was sufficient for the mathematics of equilibrium, which on this abstract level admittedly had no real significance. Nevertheless, the “pure theory” was supposed to be a means to the understanding of reality and to stand in the same relation to it as theoretical mechanics to practical engineering. In any case, “pure theory” was a valuable pursuit in itself because it was interesting in its own right and satisfied human curiosity.

Among others it was notably Gustav Cassel who strove for the abolition of the marginal utility theory because of its vicious circularity. Although the theory was supposed to explain prices, prices were made use of in the explanation of marginal utilities. As business is transacted in terms of measurable quantities, money and prices, in Cassel’s view the analysis of those transactions required nothing but price concepts, so that economics had no need of any theory of value. On the assumption that economic relationships are determined by a general “scarcity,” Cassel saw the task of economics as the optimal adaptation of people’s various wants to the insufficient means available for their satisfaction.

The derivation of prices from the scarcity of goods can of course only explain one price by another and leaves the question of what lies behind prices unanswered. Bourgeois economics, however, sees no need to pose this question. It has therefore abandoned the original doctrine of marginal utility, as it can make do without it and is able to return to it, when necessary, with the assertion that in the final analysis prices express consumers’ subjective evaluations. Indeed, it came to be said that modern economic theory became an objective science just because it is based on the subjective. According to Ludwig von Mises, people’s needs are observable in their behavior, which requires no deeper investigation; they are to be taken as they are given. Since the marginal utility theory was finally boiled down to an identification of the economic realm with the domain of the price mechanism, the various attempts to substitute psychologically grounded marginal utilities for the objective value theory must be considered to have failed. They led only, to the elimination of the value problem from bourgeois economics.

Although the concept of marginal utility was abandoned, marginal analysis remained generally accepted by bourgeois economists. According to Joan Robinson, this showed that even metaphysical concepts, which are strictly speaking nonsense, have made a contribution to science. “As an instrument of analysis the principle of the “margin” is no more than a generalization of Ricardo’s idea of differential rent. Ricardo believed the price of agricultural products to depend on the yield of the least fertile soil; mutatis mutandis, the Ricardian law of diminishing returns is supposed to hold for industry just as for every other sort of economic activity and to determine prices and their fluctuations. The individual arranges his purchases, on the basis of the given prices, in such a way as to obtain the maximum satisfaction available with his income; in the same way, since all individuals follow this “rational” or “economic” principle, the interdependence of prices produces a general price configuration in which supply and demand are balanced. When the total demand is equal to the total supply, all prices are equilibrium prices; conversely, application of the economic principle (or marginal principle) leads to prices which represent a general equilibrium. Thus “pure theory” was anchored by the all-embracing marginal principle, on which the price theory in all its detail was built.
It is not worth the consumer’s effort in daily life to “optimize” the distribution of his expenditures by the application of marginal calculation apart from the question of whether he is in a position to do so. In the behavior of the capitalist entrepreneur as well, marginal calculation does not play the role assigned to it by the economists. To be sure, the latter admit that their theoretical reflections do not picture the world as it really is. But they are supposed to be close enough to reality to have practical validity over and above their value as scientific knowledge. The fact that entrepreneurs transact their affairs without troubling themselves about the calculation procedures of theoretical economics does not prevent the theorists from finding confirmation of their theories in practical economic life.

Of course, this requires translation of “ideas from the businessman’s language into that of the economists, and vice versa.” This would reveal that the theoretical “explanation of an action must often include steps of reasoning which the acting individual himself does not consciously perform... [T]he construction of a pattern for the analytical description of a process is not the same thing as the actual process in daily life; and we should not expect to find in daily life the definite numerical estimates that are part of the scientific pattern.” While it is conceded that the behavior of consumers and businessmen also displays “uneconomic” elements, both must on the whole operate rationally, that is, strive for maximum gain at minimum cost. Entrepreneurs must consider the proportional relations between their production and the existing demand, and between their production and the capital invested and the wages paid out, as well as make choices with respect to means of production and raw materials. In brief, they must proceed in accordance with the principle of the marginal rate of substitution. According to this principle the economic optimum is reached at the point where further alterations in the combinations of the multiple factors of production would yield no additional profit, the marginal rate of costs then coinciding with that of benefits. What we have here is thus not so much a matter of economics as a more precise than normal calculation of expenses and receipts. But at the same time, this method of calculation is viewed as the basic principle of all economic phenomena, since it establishes a common denominator for all exchange relations by means of the simple identification of value and price. In this way it eliminates a major defect of the classical theory of value. Although they founded their theory on an explanation of the phenomenon of value in terms of social labor time, the classical economists had nonetheless spoken in the same breath of individual market prices. Since they saw the true content of political economy as lying in the question of the class distribution of the social product, they struggled to show how individual prices are determined by social value relations. With the appearance of subjective value and “pure price theory,” the realm of economic questions was reduced to that of exchange, and the problems posed by the classical theory, like those of the relation between value and price and of distribution, could thereby be ignored. Now the marginalists saw distribution, just as the classical economists had seen production, as regulated -whatever the outcome of the process by the price system. The problem of distribution ceased to exist as a topic for theoretical economics. It was integrated into the general problem of price formation, since the different forms of revenue were treated as prices of factors of production. Since all prices are functionally related to each other, the solution of the general price problem already includes the solution of the problem of distribution.

In this way all questions about the economy were to be dealt with in terms of one principle. This principle had the form of a calculus that could pass for neutral with respect to any particular economic viewpoint. In the eyes of its advocates, marginal analysis and the concept of equilibrium derived from it gave economics, for the first time, a positive,
scientific character. The marginalist calculus, however, rested on no more than the old illusion, inherited from the classical theorists, of the possibility of an equilibrium of supply and demand and the possibility of price formation as governed by this equilibrium. The very nature of the mathematization of economics on the basis of marginal analysis led to the conception of equilibrium in terms of a static model. Since the capitalist economy in fact knows no steady state, static equilibrium models could not be confirmed by reality; and the mathematical expressions, while undeniably exact, “related not to the content of economic knowledge but to the technique of mathematical operations.”

In contrast to Marx, for whom the assumption of a static condition (in his terminology, simple reproduction) was only a methodological device to exhibit the necessary dynamic of the capitalist system, bourgeois economics saw its static model of the economy as furnishing “scientific” support for the hypothesis of a tendency toward equilibrium. The endless playing around with such equilibrium models gave rise to the conviction among theoretical economists that this mental expedient is a prerequisite for economic analysis, even though they admit that the actual economy is never in perfect equilibrium. Just as every machine can be in need of repair, the equilibrium of the economic system can be disturbed by internal or external shocks. In either case only equilibrium analysis permits identification of the reasons for the disturbances and allows for the discovery of the factors needed to re-establish equilibrium.

The idea of the equilibrium of supply and demand, imposed on the market through competition, has thus remained a common theme of bourgeois economics from the time of Adam Smith and Jean-Baptiste Say to the present, however the foundations of this hypothesis have been transformed and however unrealistic they have meanwhile become. The question that neo-classical theory set itself was not how the price system really functions, but how it would function if the world were as the economists have imagined it. This theory required the equilibrium principle in order to see the price system as the regulator of the economy, and it required the amalgam of the pure price system in order to be able to pass off the actual state of affairs as rational and therefore immune to attack. But this all added up to no more than a new version of Adam Smith’s “invisible hand” in mathematical formulas, together with Say’s conviction that every supply brings with it an equivalent demand.

Neo-classical theory not only remained at the level of bourgeois economic science’s first results but fell far short of it, since the equilibrium approach makes it impossible to investigate the real dynamic of capital, the accumulation process. ‘The freeze-frame image of static equilibrium did not allow predictions about the process of development. While the fact of economic change of course could not be overlooked, it was treated as self explanatory. Since they could not abandon the static equilibrium conception without declaring their own theoretical bankruptcy, the market theorists limited themselves, in dealing with development, to “comparative statics:” the features of one non-existent equilibrium were compared with those of a later non-existent equilibrium, in the hope thereby of registering economic changes in the actual world. But since there is no profit or any other sort of surplus in the neo-classical equilibrium, there can be no expanded reproduction of the system. To the extent that it nonetheless occurs, it falls outside the framework of theoretical economics.

In contrast, the classical economists had directed their attention to the accumulation of capital, the growth of national wealth. Their theories of distribution started from the necessity of accumulation and inquired what factors would favor or hinder accumulation. The profit economy was for them the condition sine qua non of accumulation. The pursuit of profit thereby served the community because on it depended the improvement of living conditions through increasing production and productivity. Market problems were
subordinated to those of accumulation and governed by the law of supply and demand. Under the conditions of general competition, exchange was considered to be a process regulating the economy in the framework of continuous social development.

This self-regulating and therefore crisis-free economy of classical theory confronted a refractory reality. The accumulation of capital took place not as a smoothly continuing process but as one interrupted periodically, since the beginning of the nineteenth century, by profound crises. How were these crises, clearly contradicting the dominant economic theory, to be explained? Although the classical economists, especially Ricardo, concentrated on the accumulation of capital, at the same time, they shared Say’s conviction that the market economy is a self equilibrating system in which every supply will find an equivalent demand. According to Say every person produces with the intention either to consume his product or to sell it in order to acquire other commodities for his own consumption. As this holds for all producers, production must naturally be balanced by consumption. If all individual supplies and demands match, social equilibrium results. This state can of course be disturbed from time to time by an oversupply of a particular commodity or an insufficient demand for another. But the price changes produced by such partial disequilibration lead to the restoration of equilibrium. Apart from such disturbances in particular markets there can be no general overproduction, any more than accumulation can overstep society’s propensity to consume.

Thus the classical economists’ theories of accumulation were combined with a static conception of equilibrium that obliged them to explain disturbances of the system’s equilibrium by reference to factors outside the system. The fact of crises of general overproduction led J. C. L. Sismonde de Sismondi to renounce classical theory and soon to reject the laissez-faire system as a whole. In his opinion it was exactly the general competition, based on nothing but prices, which, instead of resulting in equilibrium and general welfare, opened the way to the misery of overproduction. The anarchy of capitalist production, the passion for exchange value without consideration of social needs, gave rise to production in excess of effective demand and therefore to periodic crises. The underconsumption resulting from the unequal distribution of income was the cause of overproduction and the accompanying drive toward foreign markets. Sismondi was thus the founder of the theory, still widespread today, of underconsumption as the cause of capitalist crisis.

Among many others it was notably John A. Hobson who applied Sismondi’s theory to developed capitalism and related it to imperialism. In Hobson’s view, anticipating that later elaborated by Keynes, the demand for consumer goods, and with it the rate of capital expansion, falls as a result of unequal distribution and the increasing accumulation of capital. Since consumption cannot keep step with production, there are periodic crises, since part of the accumulating profits can no longer be profitably invested and fore lies fallow. Only the reduction of overproduction in depression makes possible a new beginning of the expansion process, which will lead again in time to overproduction and idle capital. Overproduction resulting from insufficient consumption also explains the need for foreign markets that characterizes imperialism and imperialistic competition. Hobson, however, was of the opinion that this state of affairs could be remedied by reformist government interventions in the economic mechanisms to strengthen consumer demand; in this respect he remained an ideological prisoner of the capitalist economy.

What should be clear here is that it was necessary to abandon the classical and then the neo-classical theories in order to come to grips with the reality of the economy. Viewed from a perspective defined by the allegedly self-regulating market mechanism, the actual economic processes were incomprehensible; this pushed Sismondi and Hobson
to renounce the market-oriented theory. To deal with the capitalist crisis, as with social conditions generally, was also to reject traditional economic conceptions, to develop theories closer to reality, though without questioning capitalist property relations this is possible only to a limited degree. Attempts in this direction were conditioned not only by the dominant theory’s flagrant conflict with reality but also by the impact of capitalist competition on the development opportunities of backward countries. This accounts, on the one hand, for the empiricism of the historical school and, on the other, for the evolutionary perspective of institutionalism, both of which opposed the theories developed by the classical economists. In the process of capitalist accumulation, the advantage of those who come first represents the disadvantage of those they have left behind. Thus free trade appeared as an English privilege and monopoly that made the industrialization of less developed lands more difficult and the misery of their “take-off” appear unbearable. In the struggle against monopolistic competition, the principle of laissez-faire had to be abandoned and with it the theories of classical economics. This was not, as Rosa Luxemburg supposed, a “protest of bourgeois society against the knowledge of its own laws” but an attempt to use political means to reach a stage of development to which the ideology of free trade would be appropriate. It was only after they experienced the effects of the international competitive struggle that the economically weaker countries escaped the influence of English political economy and developed an ideology suited to state intervention and protective tariffs. That the historical school which flowered briefly in Germany only expressed the particular needs of competitively weak countries was already visible in the contradiction implicit in its doctrine: that it recommended in the national context what it condemned in the international.

To be sure, the adherents of the historical school of political economy endeavored to demonstrate that a distribution of income regulated exclusively by the market would lead to the pauperisation of the workers and would thereby call the existence of bourgeois society itself into question an apprehension seemingly corroborated by the rise of an independent labor movement. The remedy for pauperization was simply a more rapid and more orderly development of capitalism. In this way the historical school combined a nationally oriented economic policy with the social policy known as Kathedersozialismus (academic socialism), an ideology which rejected the abstractions of classical theory with the aim not of transcending them completely but of adapting them through historical criticism to particular national interests.

In the eyes of the historical school, economic knowledge was much more than a deductively established understanding of the market mechanism. It included also the inductive discovery of the historically determined, nationally specific, and extraeconomic aspects of the social totality and its development, so that assertions about the content of political economy were held to presuppose extensive historical research. Things did not progress beyond the level of research, however, since the continuing homogenization of the economies of the West, which accompanied the capitalization of this part of the world, also dedifferentiated economic theory, and the historical school lost its influence. It left behind the need it had awakened for an unprejudiced investigation of the empirically given phenomena of the economy, which finally precipitated in business-cycle research.

Although the economy remained afflicted by crisis and cyclical fluctuations, bourgeois economics still had no theory of crisis as an inherent aspect of the capitalist system but explained economic fluctuations in terms of events external to the economy. Jevons went so far as to connect crisis with extraterrestrial natural phenomena. He discovered that the periodic appearance of sunspots coincided with the outbreak of economic crisis. Supposedly the sunspots adversely affected the weather and with it
agricultural production, whose decline led to a general crisis. Of course, this theory did not win many supporters. Although the weather certainly has some influence on the economy, crises have begun in periods of good weather, and a significant correlation between the weather and sunspots cannot be established.

Schumpeter, in contrast, attempted to explain the economic development resulting from the trade cycle and the cycle itself by reference to the nature of the capitalist system. Familiar with Marx’s theory, he was aware that all fundamental progress depends on the development of the social forces of production. But for Schumpeter the agents of new productive forces were the particularly energetic entrepreneurs who by their genius broke through custom-bound, monotonously repeated economic processes. He developed a kind of heroic theory of business fluctuations, seeing in them the dynamic of the capitalist system.

To this end, however, he made use of two different theories corresponding to two psychologically differentiated types of people. In the general equilibrium of “pure theory” there was no development. This corresponded to the fact that in the real world the majority of mankind was too sluggish and lazy in spirit to oppose the monotony of the static state. As we have already seen, in equilibrium there is no profit, the appearance of which indicates perturbation of the system, which will again be overcome by the countermovements it provokes. So the problem is posed: how can situation that knows no development give rise to development?

Here Schumpeter had the advantage that he, as earlier an adept of the historical school, had not forgotten that economics did not need to be confined to the abstractions of supply-demand equilibrium. To account for its dynamic the capitalist system must also be considered from the historical and sociological points of view. But in the framework of economic theory he would consider only the special mechanism that would transform the static to a dynamic model. This mechanism he embodied in a type of person who, tormented or blessed by creative unrest, breaks by self-willed, ‗activity through the cycle of static equilibrium. This type, the innovative entrepreneur, always on the lookout for new industrial, scientific, business, and organizational projects that would quantitatively and qualitatively alter existing productivity and production, destroys the consumer-governed economic equilibrium in such a way that it can be re-established only on a new, higher level. This spontaneous, accidental, but ever recurring process produces the business cycle, at once creative and destructive, in which the dynamic of the capitalist system is played out. While certainly regrettable, it is unavoidable that adaptation to changing circumstances involves costs and misery. These disadvantages, however, Schumpeter thought could be mitigated with better economic forecasts and government interventions. In any case, in his view the inherent dynamic of the capitalist system was of greater importance than the problem of economic equilibrium with which bourgeois economics had almost exclusively occupied itself.

Even if it was only in his imagination that Schumpeter’s theory was relevant to the laws of capitalist development, this theory was nonetheless symptomatic of the profound uneasiness of bourgeois theoreticians about cyclical fluctuations and crisis periods, which were becoming more serious as accumulation progressed. The theory of a self-regulating price mechanism made the crisis phenomenon an unsolvable riddle. Schumpeter’s attempt to find a solution in the repeated violation of equilibrium conditions by a special kind of person was no explanation but only a confession that the equilibrium tendency attributed to the market was not to be found in the real world. As we have seen, this had already been recognized by the earliest economic critics of capitalism, like Sismondi and Hobson. But the simple statement that the theoretical harmony of supply and demand, production and consumption, was refuted by reality was in the end reduced to a mere
description of obvious states of affairs, which in itself provides no explanation of the laws of motion peculiar to capital.

Unsolvable by the dominant economic theory, the problem of the nature of capitalist crisis could nevertheless not be ignored. Attempts were made to deal with it by empirical methods. This approach had been anticipated by the establishment of private institutions for the study of the business cycle with the aim of turning cyclical fluctuations to commercial account. From this arose a special branch of economic science, concerned exclusively with business-cycle research, which grew with the systematic multiplication of private and public data collection. Wishing to describe the course of economic events as it unfolds in reality, cycle research “made use of ‘pure theory’ only as an elementary theory.”

This rather minor concession to neo-classical economics was already an exaggeration, as business-cycle research could develop only in direct opposition to “elementary” economic theory. This theory dealt, as we have seen, only with the static equilibrium state, in which the course of economic events brings no change in the data. Such a stationary equilibrium was precisely excluded from the domain of cycle theory, as the latter dealt with the continuous transformation of the economy. While in the “elementary theory” deviations from equilibrium only led to the reestablishment of equilibrium, business-cycle theory did not deal with transient irregularities but attempted to lay bare the laws of motion of capital and to explain the phenomena of crisis. Success in this attempt would mean the construction of a dynamic theory of capitalist development transcending the static conception.

It goes without saying that the theory of capitalist development and its laws of motion long since formulated by Marx was intentionally neglected. The “unbiased” methods of the historical school were supposed to confer on business-cycle research the “objectivity” indispensable for knowledge of the actual process of economic events. In historical surveys of the changing market conditions and their oscillations, researchers attempted, on the basis of relevant statistics and with the aid of mathematical methods such as correlation coefficients, to trace the rhythm of economic life in order to determine its driving forces and internal relations. Of course, purely empirical research can yield no more than data; the facts, once determined, still require an explanation. For this a theory is required that would not only describe the business cycle but would also make it intelligible. But none of what seem to be dynamic theories of the business cycle investigates the causes of cyclical changes; instead, these changes form their point of departure and are taken as given. In these circumstances the business-cycle theories remain mere descriptions of the economic dynamic without exposing the nature of the dynamic itself.

The diversity of economic phenomena seemingly indicated a plurality of causes for the cyclical fluctuations and prompted the construction of various theories which, though confronting the same facts, distinguished themselves from each other by the emphasis laid particularly on one or another aspect of the whole process. Distinctions were made between economic and non economic, endogenous and exogenous factors responsible for the business cycle, while some opted for a combination of both to elucidate the rhythm of the economy. Sometimes money and credit questions, at other times technical matters, market discrepancies, investment problems, or psychological factors were pushed into the foreground and declared the decisive element of the whole movement. Starting from these various viewpoints, people sought the causes of crisis and depression in the events of the preceding period of prosperity and its decline or looked for means and ways to move from crisis to a new upswing.
The aim of business-cycle research was not a methodical and more exact description of the cyclical fluctuations observable in any case but the discovery of some way to intervene for the alleviation of crisis situations and for the “normalization” of the changing economic processes with the aim of evening out the harsh alternation of boom and crisis. Cycle diagnosis was to lead, on the one hand, to the formulation of a prognosis facilitating the adaptation of economic activity to a given trend of economic development and, on the other, to the attempt to stabilize the economy over the longer term through a cyclical policy counteraacting the automatic course of the cycle. Business-cycle theory thus saw itself as an applied science whose forecasts, even if they remained abstract, still permitted the drawing of analogical conclusions of possibly practical significance.

Of course, cycle theory did not call the social order into question and therefore remained from the start limited to the investigation of market phenomena. Not the essence of capitalism but its appearance formed the domain of business-cycle research and served as the basis for the various theories in which it clothed itself. According to the cycle theorists it is the obscurity of the developed market economy and the ignorance or misunderstanding of economic conditions that are the causes of the disproportional economic development in which the business cycle manifests itself. Consumption lags behind production, credit expansion leads to over investment, profits decline due to an unjustified expansion of production, so that at a certain point, the point of crisis, the economy swings in the other direction. Then investments lag behind savings, the saturated market finds no effective demand, capital values are destroyed, production decreases rapidly, and unemployment gains ground. The crisis and the period of depression that develops out of it make a clean sweep of the excesses of the period of expansion until the requisite economic proportions are restored, making possible a new upswing, which of course will in its turn meet its high point and collapse into a new crisis.

This represented an accurate picture of the economic events produced by capitalism’s tendency to crisis, but it did not explain this tendency itself. The cyclical movements appeared in this view to be departures from a normal course of affairs which without them would run smoothly. We see here the presence, in the minds of the business-cycle theorists, of the equilibrium mechanism of “pure theory,” a mechanism which to be sure can work only by way of irregularities, so that the proportionalities necessary for the “normal” course of the economy must be established through the ups and downs of the cycle. The business cycle was seen as the actual form of the equilibrium tendency of the market mechanism. It evidently followed that an exact knowledge of the factors responsible for the deviations from the norm could open the way to the conscious use of economic instruments to alleviate or eliminate the harmful sides of the cycle.

According to this view the capitalist economy is characterized by both static and dynamic tendencies, of which the latter condition the former. It follows from this that “pure theory,” the static equilibrium approach, ought to be subordinated to the bus-mess-cycle theories, since it applies to a situation that arises only momentarily, as a point of transition toward the perpetually changing conditions, and that could therefore yield no information about the real position of the economy and the direction in which it was moving. Although the partisans of the theory of general equilibrium claimed only that it was an abstract representation of the price system without direct correspondence to real economic processes, they nevertheless insisted on its heuristic value for the study of economic relationships. From their point of view even business-cycle movements could be considered as proof of the factual existence of equilibrium tendencies, since the departure from an equilibrium state taken as a norm is finally followed by a restoration of
equilibrium. Whatever brings them about, these deviations will in turn be annulled through the system’s own equilibrium mechanism, so that equilibrium theory cannot be denied the front rank among economic theories.

Some bourgeois economists went so far as to deny the very existence of the business cycle. For example, Irving Fisher found no justification for speaking of a business cycle, as the term referred to nothing but the record of economic activity at a level above or below the average. The supposition that these phenomena were characterized by a definite periodicity and that this opened a way to the making of economic predictions was untenable so long as the economy was governed by changing price relations. In Fisher’s view it was more important to show how the economy would function if there were no cyclical deviations so as to understand the character of these disturbances and to counteract them where possible. In the end a division of labor developed within economic science that preserved the equilibrium approach for the “pure” theorists and left the field of business-cycle analysis to the more empirically oriented economists.

Aside from the fact that there exists no unbiased empirical research, it is also worth noting, as W. C. Mitchell was led to see by his own experience, that two observers can interpret and utilize the same empirical material quite differently. Accordingly, all statistical investigations must be looked at with a skeptical eye, a requirement that of course is often forgotten, since simply as a result of being published, numbers and tables acquire an authority that in reality they do not deserve. Oscar Morgenstern has pointed out that the statistics relevant to the amplitude, the interactions, and the historical correspondences of cyclical waves are completely uncertain, although this flaw is for the most part ignored. The accepted data are not free from error and the judgements made on their basis are open to doubt.

Despite the acknowledged deficiencies of statistical techniques and the conflicting interpretations of the data, the results obtained by this kind of research do reveal the cyclical movement of capitalist development. But this only confirmed what was already obvious from the qualitative side. The series of crisis years—1815, 1825, 1836, 1847, 1857, 1866—suggested the existence of a ten-year cycle, although it could not be established why the industrial cycle had this particular rhythm. Later crises and the data worked up from past crises pointed to a less pronounced regularity in the onset of crisis periods, which in any case had different effects in different countries. Of course, it could also be shown that with the passage of time the phenomena of crisis took on an evermore international and uniform character. The more exact analysis of statistical time series yielded both smaller cyclical movements within the two phases of the business cycle and so-called long waves encompassing shorter wave movements. The second of these put business-cycle fluctuations into the context of an underlying trend the “long wave” or “secular trend,” with a wavelength estimated, depending on the calculation, at either twenty-five or fifty years.

All these cases represented different uses and interpretations of statistical time series, which by themselves could lead only to provisional statements of probability. The “long wave” theory has nevertheless maintained its power to fascinate until today, since on the one hand it allows the bourgeoisie to sink the irrefutable Marxian law of crisis in a mysterious, epochal wave motion of economic life, and on the other hand it gives the critics of bourgeois society an opportunity to adhere to the inevitability of crises despite their changing periodicity. But the statistical data themselves offer no explanation for the “long waves,” since the hypotheses are lacking that alone could lead to their interpretation.
From these bewildering descriptions of various types of cycles neither can short-run predictions be made nor long-range policy be defined, as every cycle has its particular character and accordingly calls for measures tailored to it, and hence not decidable in advance, with equally incalculable consequences. Although a cycle policy in the broad sense is a practical impossibility simply because of the private interests that govern society, it was nonetheless attempted to make the overall trend of business perceptible to the general public by means of so-called business barometers, in the hope thereby of influencing the economy in a beneficial way. The disappointing results of this attempt put an end to it, and business-cycle research remained a field within economic history.

Various theories of capitalist crisis, aiming in their results at the confirmation of preconceived ideas, had already been suggested without reference to cycle research. Some took the hypothetical equilibrium as their point of departure, only to show how it was violated in reality. The economy could expand free of crisis only if all its elements develop at the same time, something which, unfortunately, is never the case. The balancing mechanism does not operate directly but manifests itself only when the various deviations from the necessary proportionality reach their limits. The demand for commodities cannot be discovered in advance, for example, and production and its volume therefore cannot be adjusted to it. So production exceeds demand, which leads to declining profits, bringing the expansion process to a halt and releasing the crisis. This process is accentuated by the credit system, since low discount rates stimulate new investments, which then affect the whole economy to a point at which the extension of credit comes up against the limits of bank reserves and with this comes to an end. The resulting rise in interest rates leads to deflation, which also grips the whole economy and introduces a period of depression. The reduction of demand relative to production and capital accumulation arises either subjectively, from the decreasing marginal utility of the increasing quantity of consumer goods, or objectively, from the shrinking consumption of the working population as determined by the wage system.

In opposition to such views the adherents of “pure theory,” who not only started in their reasoning from equilibrium but remained there, insisted that the crisis situation should be blamed not on the system but on arbitrary disregard for or interference with its regulatory functions. They took their stand on the absolute validity of Say’s law of the market and consequently found it self-evident that when more is consumed, less will be invested, and when more is invested, less can be consumed. In either case the equilibrium of production and consumption remains intact. Of course, to err is human and can lead to bad investments; the consequences of such errors, however, disappear of themselves as entrepreneurs adapt to the changed market conditions. There is no point in racking one’s brain over the crisis since the price mechanism also makes it possible to overcome whatever distortions of the economy may appear. That these distortions can end up having very far-reaching effects in one or another phase of the cycle is a reflection less of the nature or the system than of the psychological properties of human beings. Although objective changes engender cyclical movement in the economy, saying this leaves unanswered the question:

why is this movement first pushed so far in one direction, only to be later reversed? Why does it lead to an incorrect relationship between consumption and production over time, instead of a permanent, one-time change in this relationship? This question can only be answered in a non artificial way by a “psychological” theory.

The course of economic affairs can only be said to be dynamic “when we find, on the highest level of theoretical abstraction as well as in reality no tendency toward the establishment of a static equilibrium.” The assumption that there is such a tendency in the construction of theories, whether they denied or recognized the tendency to crisis as well,
ruled out from the start any real insight into the dynamic of the capitalist system. Such theories must always be in contradiction with reality, despite the greatest efforts to escape this. The futility of trying to comprehend capitalist development with the methods of classical and neo-classical theory led in the bourgeois camp itself to a sharp critique of these theories and to new attempts to approach the laws of development by other paths.

According to Smith and Ricardo, the ultimate basis of economics was human nature, particularly the propensity to exchange, by which man is differentiated from animals. The division of labor, classes, the market, and the accumulation of capital were seen as natural phenomena that neither could be nor should be changed. Moreover, the political economy developed in England took up the ideas of the French physiocrats, notably the assumption that a smooth-running economy is in the nature of things, and that everything will turn out for the best if this natural order of things is undisturbed. The physiocrats’ theme song, laissez faire, became a moral element in the classical theory. While this moral principle was exchanged - to some extent already by Ricardo and after him even more widely – for conceptions borrowed from Malthus and Darwin, the capitalist mode of production nevertheless continued to pass for a nature-given order.

With Social Darwinism we see the bourgeoisie at the high point of its self-understanding. It had no more need of illusions about the character of society. The class struggle was confused with the general struggle for existence, with which all progress is patently connected. For the Social Darwinists every individual person is in competition with every other person, and this competitive struggle has nothing to do with the particular social relations of capitalising but expresses the operation within the economic realm of a law of nature. If one person is more successful than another, this is because they have had different social opportunities but because of their differing individual aptitudes. If one can abstract from class divisions, one might as well abstract from the relations of production in which they manifest themselves.

As a theory of evolution Darwinism implied a slow but continuous transformation of nature, society, and mankind. Accordingly, the present state of society must also be regarded as transitory and hence as a process that could not be comprehended by means of the statics of “pure” or orthodox theory. According to Thorstein Veblen, the founder of the American “institutionalist” school, orthodox theory’s neglect of development and its treatment of social relationships in isolation from any but abstract economic aspects prohibited any real insight into socio-economic reality. The transformations of society are to be seen, according to Veblen, in the changes of its institutions, by which he meant the culturally developed customs or habits of thought and feeling that he thought determine the way and manner in which people satisfy their vital needs. Cultural development is a slow but uninterrupted process of small but cumulative changes that results in new customs and new social relations.

The current result of this general process of development and the accumulation of experience is, according to Veblen, a set of customs or institutions whose expression we see in the machine process of production and in capitalist entrepreneurship. Although they developed simultaneously, these institutions are in conflict: the aim of the first is goods production, that of the second, money making. While industry represents the material basis of modern civilization, this civilization is controlled not by industry but by businessmen. From this arises all the absurdities of the economy and its crises.

The profit motive that dominates the economy conditions both its rise and its decline. Profits arise from the difference between the cost prices and the market prices realized. The value of an enterprise, however, is estimated by reference not to the profits it actually earns but to expected future profits. The nominal capital value differs from the actual capital value, but it is the former that determines the credit worthiness of the
enterprise. Competition compels the increase of productivity, the expansion of the enterprises, and therefore of their borrowings, which affect future profitability. So long as there is enough money to be borrowed and the prosperity engendered by expansion holds, the growing sum of capital value represents no problem. Otherwise, however, a divergence arises between the inflated capital values and their actual profits that leads to a process of liquidation and the depression to which this gives rise.

Thus prosperity bears the seeds of its own demise. Productivity and production increase as profits grow in tandem along with credit and the accompanying price increases, until the extension of credit comes up against its own limits and those imposed by the contraction of profits. As loan capital becomes scarce and interest rates rise, the earlier relationship between the profits expected and the capital invested on this basis changes, compelling a deflationary revision of capital values. To this are added the causes of sinking profitability resulting from production itself, such as rising wages, a decreasing intensity of labor, and the spreading disorganisation of the enterprises, which arises from the hectic character of the boom.

Though Veblen’s description of the course of the business cycle does not differ from those given by others, he does however relate it to the conflict between production and capitalist production. He sees that it is only because the aim of production is the increase of capital rather than the satisfaction of human needs that the lamentable conditions of capitalist society, and the crises characterized by overproduction and underconsumption, arise. Unlike other observers, Veblen saw crises not as phenomena determined by equilibrium relations and representing nothing but temporary deviations from the norm, but as the normal condition of capitalist society as soon as it has attained a certain maturity. From the crisis cycle of an earlier period arose the chronic crisis of developed capitalism, which could be eliminated only by a transformation of the social system.

Since there exist no static state and no economic equilibrium, it cannot be expected, according to Veblen, that the capitalist system will develop continuously despite or by means of its cyclical fluctuations. The system as such contains no equilibration mechanism. During the money-and-credit society’s period of ascendance, the periodicity of crisis had nothing to do with the system itself but was most likely due to external circumstances. The divergence between capitalism and profitability could still for a while be controlled by extra systemic means, such as monetary inflation or an enlarged and cheapened gold production and the price increases bound up with this. The crises that periodically arose were for the most part commercial crises, quite different from the crises of industrial society. With the development of the latter, the contradiction between the exigencies of capital and the profits attainable cannot be even momentarily overcome. From this arises the chronic crisis condition.

According to Veblen it is of the essence of machine production, and the continually increasing productivity that goes with it, that under competitive conditions prices fall and the profit of a given capital declines. The maintenance of profits requires the enlargement of the individual capitals. Thus a sort of race begins between capital expansion and the tendency of profits to fall, which of course only the latter can win. As capital values and the attainable profits increasingly diverge, an attempt to combat this is first made through trustification and monopolization. Monopolization, however, gives rise to monopolistic competition and a new start to the race. The need for profitable prices is then met by an extraordinary growth of unprofitable consumption a production of waste; but this encounters impassable barriers. [he end result is a situation that can only be described as one of chronic crisis. Veblen believed that this no longer surmountable crisis already existed and accordingly, that a general breakdown of society could be avoided only by the
replacement of the economic system (as a money-and-credit system) by another system of production.

This new system would be the existing system of production without its capitalist perversions. It was for Veblen already anticipated in the widening split between ownership and management and in a growing consciousness that industrial production can progress without the capitalist institutions parasitic on it. The increasing sabotage of industrial development by the decay of profit production (together with the growing significance of technology and machine production) would destroy antiquated customs and allow new ones to arise that were better suited to industrial production and to further social development.

As it became a branch of bourgeois economics, institutionalism, despite its critical moments, lost much of the consistency to be found in Veblen’s work. If Veblen (like Adam Smith) could in the last analysis only trace the ruin of capital back to the effects of increasing competition, his aversion to capitalist civilization extended to all its aspects. The critique made by his followers, in contrast, arose more from anxiety about the threatening end of capitalist society than from a desire for new social relations. For them the irresponsible behavior of the powerful “profit hyaenas” drove the system to collapse; thus “institutionalism is a call to action, an SOS to save a sinking world.” Conscious intervention in economic processes was necessary if a way out of the spreading misery was to be found. Orthodox theory offered no handle on a solution to the mounting social problems and conflicts. Here institutionalism wished to be of help by suggesting a set of reform measures, pointing in the direction of a planned economy, that would overcome the defects of competitive capitalism.

With this to offer, institutionalism could win no extensive or lasting influence and was seen as a curiosity, capable only of serving, in a modified form as an ideological foundation for temporary government interventions in crisis situations. It played all the greater role in various reform movements, particularly in the English Fabian Society. Orthodox theory subdivided into numerous specialties subordinated to ‘pure theory’-controlled the field of theoretical economics, offering a rapidly growing number of academics the opportunity to make a relatively good living. The purely ideological function of theoretical economics was also evidenced by the growth of business schools, dedicated to the practical life of business, which remained undisturbed by theoretical economics.

As an ideological apologia for the capitalist system, theoretical economics found itself more and more embarrassed thanks to its increasingly obvious irrelevance to real economic affairs. Since it could not approach this reality without renouncing itself it took the opposite road to greater abstraction in order to be able to escape every confrontation with reality. It no longer investigated merely the economy but a principle of rationality, purportedly relevant to all human action, which adapts scarce means to alternative ends in order to achieve the best possible result. Economics concentrated, in this conception, on a particular aspect of behavior, the form imposed by the influence of scarcity. It follows from this, therefore, that insofar as it presents this aspect, any kind of human behavior falls within the scope of economic generalizations. We do not say that the production of potatoes is economic activity and the production of philosophy is not. We say rather that, insofar as either kind of activity involves the relinquishment of other desired alternatives, it has its economic aspect. There are no limitations on the subject-matter of Economic Science save this.

This extension of economics to every subject matter as a principle of rationality was at the same time its reduction to a purely analytical procedure, which prohibited it
from saying anything at all about the economic system itself. Thus economic crisis, too, lay outside the sphere of interest of economics, and it required a worldwide crisis, shaking the globe for years, to overcome this lack of interest.

2. Marx’s Crisis Theory

The stagnation of bourgeois economics with respect to its content was for Marx a foregone conclusion. “Classical political economy,” he wrote, belongs to a period in which the class struggle was as yet undeveloped. Its last great representative, Ricardo, ultimately (and consciously) made the antagonism of class interests, of wages and profits, of profits and rent, the starting-point of his investigations, naively taking this antagonism for a social law of nature, but with this contradiction the bourgeois science of economics had reached the limits beyond which it could not pass....

In France and England the bourgeoisie had conquered political power. From this time on, the class struggle took on more and more explicit and threatening forms, both in practice and in theory. It sounded the knell of scientific bourgeois economics. It was thenceforth no longer a question whether this or that theorem was true, but whether it was useful to capital or harmful expedient or inexpedient in accordance with police regulations or contrary to them. In place of disinterested inquirers there stepped hired prizefighters, in place of genuine scientific research, the bad conscience and evil intent of apologetics.

Marx’s critique of political economy is based on his theory of value and surplus value. It differs methodologically from classical economics due to Marx’s understanding of the social dialectic, which includes in its positive understanding of what exists a simultaneous recognition of its negation, its inevitable destruction; regards every historically developed form as being in a fluid state, in motion, and therefore grasps its transient aspect as well; and because it does not let itself be impressed by anything, being in its essence critical and revolutionary. Of course, as Marx prefaced these observations, the method of presentation must differ in form from that of inquiry. The latter has to appropriate the material in detail, to analyze its different forms of development and to track down their inner connection. Only after this work has been done can the real movement be appropriately presented. If this is done successfully, if the life of the subject matter is now reflected back in the ideas, then it may appear as if we have before us an a priori construction.

His works show that in the course of time Marx increasingly freed himself from the philosophical interpretation of social development with which he had begun. It is therefore inappropriate to regard the formal dialectical method as fundamental for the understanding of capitalist reality and to maintain with Lenin that a real understanding of Marx’s Capital presupposes comprehension of Hegel’s Logic. While for Hegel philosophy was the age grasped by thought, for Marx the dialectic was the expression of the actual development of capitalism, which yielded in bourgeois philosophy only a false ideological precipitate. According to Marx it was not that Hegel’s philosophy led to a correct perception of the capitalist world but that an understanding of capitalism would make it possible to grasp the “rational kernel” of the Hegelian system.

Of course, Hegelian philosophy constituted Marx’s starting point, but it was soon overshadowed by his knowledge of the concrete capitalist social relations out of which the idealist dialectic had arisen. “What appeared to be only an object of philosophy became the object of political economy; what in the conceptual analysis appeared to be only a phantom had to be shown to be a real phenomenon of the external world.”
Independent of the Hegelian logic in principle if not in fact, Marx’s economic and historical investigations revealed the dialectical nature of capitalist development. Thus the dialectic is to be found in Capital just because it is the law of motion of capitalist society, which alone justifies the dialectical method as a means to discovery of the truth.

Thanks to the inherent dynamic of the capitalist relations of production, namely the unity of the opposites capital and labor, the relatively static process of production and development characteristic of European feudalism gave way to a process of social development of previously unknown rapidity and impetuosity, a process with world-wide effects. This engendered the theories of political economy, the bourgeois revolution, and its reflection in philosophy. Every revolutionary development of society is based on the creation of new productive forces, which require corresponding relations of production for their full unfolding and utilisation. Inversely, the creation of new production relations generates new productive forces, which of themselves operate on the existing production relations. Whatever stands in the way of these productive forces and remains bound to the old relations of production leads through conflicts between social classes to the political struggles that transform one social order into another. The process of development is thus at the same time a process of revolution that comprises more or less all aspects of human social existence.

The capitalist mode of production arose with the development of commodity production under the conditions of private property and presupposed the historical separation of the producers from the means of production. Labor power became a commodity and formed the basis of the conditions of the market economy. Capitalist production is social production only in the sense that commodities are produced not for personal use but for sale to other consumers. This type of social production must at the same time satisfy the profit requirement of the private owners of capital. The social division of labor is thus equally a class division. Social production serves society only insofar as it can serve the capitalists; it is social production subordinated to private interests. It can therefore be social production not directly but only indirectly, and this only when the needs of capital accidentally coincide with social needs.

The social character that capitalist production may in this sense be said to have appears in the relation between buyers and sellers on the market. The production carried out by individual firms must conform to social needs as they are defined by capitalism. In Bourgeois economics the market mechanism appears as the regulator of the relationship that must obtain between production and consumption and of the proportional distribution of social labor that underlies it. In this conception the dual character of production as the production of commodities and of profits is ignored, as the second of these is accomplished by means of commodity production and so is already covered by its laws. Although as a result of the commodity character of labor power this is actually the case, it in no way alters the circumstance that the production of commodities presupposes the making of profits and that it is this, in the first place, that determines the market and price relations. The symmetry of supply and demand found in bourgeois economics thus excludes insight into the true market relations and into the dynamic of capital they make possible and that arises from the drive for profit.

The limits of bourgeois economics are the starting point of the Marxian critique. For Marx economic relationships are the form assumed by class relationships under the conditions of capitalist production. Value and price are equally fetishistic categories for the real class relations that lie beneath them. While the classical theory of value speaks of exchange value and use value, Marx asks why the concept of value exists at all. His answer is that under the conditions of capitalist property relations, the social labor process is necessarily represented in terms of value relations. Since in such a system the class...
relations of exploitation have the form of exchange relations (since capitalists buy labor power from workers), the division of social production into labor and surplus labor must take on the character of value relations and appear as value and surplus value. Were society not a class society resting on exchange, there would be no exchange between the owners of the conditions of production and the propertyless workers, and the social production relations would not be value relations.

The difficulties which the classical economists had with the theory of value were due to the fact that although they considered commodities as combining exchange value and use value, they did not discover this double character in the commodity labor power. This discovery was reserved for Marx, who was thus the first to account for exchange relations as they actually exist without abandoning the law of value. The exchange of commodities on the basis of labor-time equivalence can yield no profit. The double character of the commodity labor power creates the possibility of profit. While according to the law of value the purchaser of labor power pays its exchange value, he acquires at the same time its use value, which is able to produce a value greater than its true exchange value. This is as much as to say that the price relations of the market can be understood only with reference to the value relations on which, as relations of production, they are based. The essence of the value-governed system is not the exchange of labor-time equivalents but the capitalist appropriation of unpaid surplus labor. The owners of capital do not exchange labor-time equivalents among themselves. The law of value governs the capitalist economy only in the sense that the forces of social production that exist at any moment set definite limits to the production of surplus value and that the distribution of the surplus value among capitals must be more or less adapted to social requirements if the existence and development of capital is to be secured. Because of this the exchange relations must appear not as value relations determined by labor time but as price relations deviating from them without this negating the regulation of capitalist production by the law of value.

The deviation of price from value excluded the consistent utilisation of the labor theory of value by classical economics which was principally concerned with distribution. If the law of value is to be maintained, it must be shown that the actual price relations although different from value relations are nonetheless determined by the latter. While this determination of price by value cannot be read off from the prices given in the market, it can be seen in the changing prices of production, which are formed from cost prices and the average rate of profit. In the capitalist’s consciousness, as also in the reality of the market, only the prices of commodities exist. For the individual entrepreneur even production presents itself as a problem of buying and selling. He purchases means of production, raw materials, and labor power in order to produce commodities whose price on the market brings him a profit from which he can live and which preserves his invested capital and increases it. Not value and surplus value but only the costs of production and the gains obtained, expressed in prices, are meaningful for him. But this indifference to value relations, shared by all capitalists, in no way alters the fact that production costs, like profits, are only other expressions for definite quantities of labor time contained in commodities.

The total labor time expended by society yields a total social product that is divided between wages and profits. The higher the share of the total social product that falls to the capitalists, the less can fall to the workers, and vice versa. In reality neither total social production nor total labor power nor total capital is a directly observable magnitude whose interrelations could be ascertained. Capital is divided into many different capitals, which confront not the working class as a whole but smaller or larger groups of workers. As the capitals themselves differ, so do their abilities to yield surplus value. The “organic
compositions"—the ratios of means of production (or constant capital) to labor power employed (or variable capital)—of individual capitals differ depending on the industries in which they are employed. According to the labor theory of value, only the living labor utilized produces surplus value. But as profit is surplus value measured against the total capital (i.e., against the sum of constant and variable capital), profits should be lower in industries with more constant than variable capital than in industries where these proportions are reversed. This, however, is not in general the case, exactly because the competition among capitalists and that of the buyers with them and with each other leads to a transformation of the true profits into socially average profits which, added to the costs of production, allow each capital to participate equally, in accordance with its size, in the total social surplus value.

If the formation of an average profit rate is explained by competition, the fact of competition does not explain the magnitude of this rate at any time. This magnitude depends on the unknown but nonetheless definitely given mass of profit yielded by the total social capital. And since the total value of the commodities conditions the total surplus value, while the latter governs the level of the average profit and thus the general rate of profit, the law of value regulates production prices.

Although the creation of surplus value by surplus labor takes place in production, the realization of profits is accomplished in the market. Though production is dominated by the accumulation of capital and realized on the market, it is its use-value side that determines the relation between supply and demand, with its influence on price relations and consequently on the division of the total surplus value among the various capitals. With the increase in demand for a particular commodity its production increases, as the decreasing demand for another diminishes its production. Thus capital moves from relatively stagnating into rapidly developing industries. The changes in the organic compositions of individual capitals resulting from this process do not affect their profitability. On the contrary, they lead to higher profits than those which fall to less productive capitals. The extra profit, in excess of the average profit, won at a given price level disappears again, however, with the influx of capital from profit-poor into profit-rich industries. The perpetual hunt for extra profit characterizes capitalist competition and leads by means of it to a higher organic composition of the social capital as a whole.

To understand changes in value relations and thus in prices, we must start from the process of accumulation. The modification of the general price level stems from capitalist accumulation as manifested in the rising productivity of labor. The general fall in commodity prices can be seen from the comparison of earlier with later production periods. Every individual commodity comes to contain less labor time than before. The decrease in value of the individual commodity is counterbalanced by the increase in the quantity of commodities, so that the profitability of capital is maintained despite falling prices. Thus the development of prices depends on the changing productivity of labor and so on the law of value. For the analysis of capitalist expansion, therefore, no particular price theory is needed, since the development of prices is already covered by the value analysis.

In the price relations effected by competition, the value designations of the individual commodities and individual firms’ profits are lost from sight, as is also the division of the social product into wages and profits. But whatever the terms of this division, it operates at any given time on quantities of commodities requiring definite amounts of labor time, in turn divided first of all into time spent on value production and on surplus-value production. The actual distribution, expressed in price terms, presupposes this first division. Hidden by the market, this basis has just as much reality as the observable world of prices and commodities. In view of the latter the value relations
appear to be simplifying abstractions from the complicated phenomena of the market; while if we focus on the fundamental relations of production, the world of commodities represents only a multifaceted modification of those relations. The relations of production can be understood without reference to the market, while the market cannot be understood without reference to them. It is therefore the production relations that must form the basis for any scientific analysis of capital and alone can make the possibilities and limits of market processes comprehensible.

The theory of value based on labor time is, then, abstract relative to the market and concrete relative to the relations of production. It is a mental construction only in the sense that value categories do not relate directly to market phenomena, so that the value relations hidden behind prices can be grasped only by way of thought. The pure market theory of bourgeois economics is naturally also an abstract affair, since it excludes the capitalist relations of production from consideration. In this way it shuts itself off from insight into the totality of the actual state of affairs and hence also from an understanding of market phenomena themselves. Value analysis, in contrast, makes possible the explanatory passage from abstract to concrete, since it can demonstrate the subordination of market relations to the production relations of modern society and so first bring to light the process of the capitalist economy as a whole.

The dual character of production as the production at once of commodities and of profits excludes the adaptation of production to real social needs or an equilibrium of supply and demand in the sense of an equilibrium of production and consumption. According to Marx, demand is essentially subject to the mutual relationship of the different classes and their respective economic positions, notably therefore to, first, the ratio of total surplus value to wages, and, second, to the relation of the various parts into which surplus value is split up (profit, interest, ground rent, taxes, etc.). And this thus again shows how absolutely nothing can be explained by the relation of supply and demand before ascertaining the basis on which this relation rests.

However, due to the effort, growing out of capitalist competition, to heighten exploitation, this basis (the relations of production) is in a state of perpetual transformation, which manifests itself in changing relative prices of goods on the market. Therefore the market is continuously in disequilibrium, although with different degrees of severity, thus giving rise, by its occasional approach to an equilibrium state, to the illusion of a tendency toward equilibrium. The capitalist laws of motion exclude any sort of equilibrium, even when profit production and commodity production develop in tandem, since this very development stimulates the unfolding of a contradiction inherent in it that only further development can overcome.

Market and production, it goes without saying, form a unity and can be separated only in thought. However, market relations are governed by the production relations. The price of labor power can in general not fall below its value, i.e., the cost of reproduction of the labor force. It can never rise to the point at which it would abolish capitalist surplus value and so threaten the existence of the system. Whatever may happen in the market its effects are determined by the relations of production and the apparently autonomous operation of the market is restricted to the paths prescribed by these relations. However much the actual price relations may deviate from the value relations on which they are based the total sum of commodity values can be no greater than the quantity of labor time expended in the production of the commodities. The sum of commodity prices can indeed lie below the total value, since total value and total price are equivalent only under the assumption that all the commodities produced are sold. There may, that is, be more value and surplus value created than finds expression in commodity prices, as happens when a part of production cannot be sold and therefore loses its value character. In any case the
total prices realized are equal to the total value realized. In this way an analysis of capital’s laws of motion based exclusively on value relations finds its justification.

While the phenomena investigated in Volume 1 of Marx’s *Capital* are those “which constitute the process of capitalist production as such,” in the third volume he attempts to “locate and describe the concrete forms that grow out of the movements of capital considered as a whole.” The configurations of capital, as Marx describes them, “thus approach step by step the form which they assume on the surface of society, in the action of different capitals upon one another, in competition, and in the ordinary consciousness of the agents of production themselves.” But this step-by-step procedure does not negate the insights into the laws of capitalist development attained by analysis of the process of production as such. These insights remain valid for capital “considered as a whole,” although they undergo various metamorphoses in the course of its investigation. The abstractions of Volume 1 represent not a mere methodology used to approach the inscrutable world of commodities but a representation of the actual foundation on which this world is based. Only if this foundation itself is exposed to view can the dynamic of the system, from which alone the multiple configurations of capital arise, be portrayed.

If the value of labor power is given by the cost of reproducing it, the labor time in excess of this amount has the form of surplus value. The increasing productivity of labor augments its use value relative to its exchange value and in this way enlarges the mass of capital derived from the surplus value. Capital formation can thus be shown to be the development of the productivity of labor. The increasing mass of capital determines the quantity of surplus value necessary for its further utilization or valorization (capital expansion by the investment of surplus value as additional capital). However, this process at the same time reduces the labor power employed relative to a given capital and accordingly diminishes the relative quantity of surplus value. With more rapid accumulation the employed labor power of course increases in absolute terms and declines only in comparison with the growing capital. But even this relative decline, in the context of the growing capital’s increasing valorization needs, must in the course of time lead to a declining rate of accumulation. From this it follows that the accumulation of capital is constrained by definite value relations. If there is sufficient surplus value to valorize the capital already in existence, it secures its future development. If the surplus value is insufficient, then further rapid development of capital comes to an end.

The capitalist production of commodities is in reality the production of capital; the production of goods for use, that is, is only a means to the expansion of capital, and this has no subjective limits. A capital, as a sum of money invested in production, must emerge again from circulation as an enlarged capital if the conditions of capitalist production are to be met. Production is thus exclusively the production of surplus value and is governed by the latter. Since surplus value is unpaid labor time, the production of capital depends on the quantity of labor time appropriated. It is therefore of the essence of capital to increase the quantity of unpaid labor time. At a given stage of development and with a given number of workers, surplus value can be enlarged only by lengthening the time during which workers labor for the capitalists and shortening that during which they produce for themselves. Both methods face impassable objective barriers, since the working day cannot exceed twenty-four hours, and the worker’s wage cannot be reduced to zero. The accumulation of capital possible under such conditions, as the accumulation of means of production, requires additional labor power and engenders a corresponding increase of the mass of surplus value. For accumulation to advance continuously, however, the productivity of labor must increase. This is accomplished by means of the development of technology and organization of the workplace. While these depend on
accumulation, both of them promote an acceleration of accumulation, leading to an alteration of the value relations that constitute the organic composition of capital.

Under the assumption of a continuous accumulation of capital an assumption in complete accord with reality the increasing productivity of labor is reflected in a shift of the organic composition of capital toward its constant component. The variable capital grows, of course, but this growth lags behind that of the capital embodied in means of production. Despite the declining number of workers relative to the means of production confronting them as capital, the surplus value increases so long as the increasing productivity of labor adequately reduces the portion of the social labor time necessary to reproduce the workers. Thus despite the changing organic composition of capital, the valorization of capital and its further accumulation can take place.

While the rate of surplus value increases with the changing organic composition of capital, the latter exerts a contradictory effect on the rate of profit, since the first is the ratio of surplus value to the variable capital, while the rate of profit compares surplus value to both parts of capital, constant as well as variable. With the more rapid growth of the constant relative to the variable capital, a given rate of surplus value must mean a declining profit rate. The rate of profit can remain unchanged despite a higher organic composition of capital only if the rate of surplus value rises rapidly. With a quick enough increase of the rate of surplus value, the rate of profit can even rise. As the rate of surplus value can increase essentially only together with the rise in the organic composition of capital that accompanies accumulation, the accumulation process turns out to be governed by the general rate of profit, the movement of which determines all other movements of capital.

On the assumption of an irresistibly continuous accumulation of capital, the mutually compensating but contradictory movements of the rate of surplus value and the rate of profit must eventually create a situation excluding further accumulation. While the rate of surplus value must be increased enormously if the fall in the rate of profit is to be halted, the variable capital still continues to decline relative to the constant, and the number of producers of surplus-value declines in comparison with the quantity of valorized capital. Ever fewer workers must create ever greater surplus value in order to produce the profits required by the capital already in existence if it is to continue to expand. Inevitably a point will be reached at which the greatest quantity of surplus value that can possibly be extorted from the diminished working class is no longer sufficient to augment the value of the accumulated capital.

This line of reasoning represents, to begin with, only the logical consequence of a hypothetical course of development. It refers to no more than the production and accumulation of capital in an imaginary system in which total capital confronts the working class as a whole thus it refers to the pure operation of the mechanism of surplus-value production and the dynamic of the accumulation process. Marx’s aim is to demonstrate the existence of a tendency, inherent in capitalist development and dominating it, by reference to which alone the real movement of capital can be explained. By this means he demonstrates that all the difficulties of capital arise from the nature of capital itself from surplus-value production and the development, governed by it, of the social productivity of labor on the basis of the capitalist mode of production.

Just as the law of value cannot be observed directly in the actual events of the market but acts through market processes to accomplish the necessities of capitalist production, so the tendency of the rate of profit to fall (and thus the effect of the law of value on the accumulation process) is not a process observable directly in reality but a drive to accumulate manifested in market phenomena, whose results bring the capitalist
mode of production into always greater conflict with real social needs. “The real barrier of capitalist production,” wrote Marx,

is capital itself. It is that capital and its self-expansion appear as the starting and the closing point, the motive and the purpose of production; that production is only production for capital and not vice versa, the means of production are not mere means for a constant expansion of the living process of the society of producers. The limits within which the preservation and self-expansion of value of capital resting on the expropriation and pauperization of the great mass of producers can alone move – these limits come continually into conflict with the methods of production employed by capital for its purposes, which drive toward unlimited extension of production, toward production as an end in itself, toward unconditional development of the social productivity of labor. The means — unconditional development of the productive forces of society – comes continually into conflict with the limited purpose, the self-expansion of the existing capital. The capitalist mode of production is, for this reason, a historical means of developing the material forces of production and creating an appropriate world market and is, at the same time, a continual conflict between this its historical task and its own corresponding relations of social production.

This analysis of capitalist accumulation exclusively in terms of the production process, which reveals the tendency of the rate of profit to fall, suggests the historical limits of this mode of production, without thereby being able to determine the exact time of its final denouement. But as this tendency characterizes the system from its beginning and is responsible for its dynamic, it must at all times appear in the actual events of the market, albeit in modified forms. It will be visible not as such but in the form of the measures taken to counter it, the processes Marx calls “counteracting influences which cross and annul the effect of the general law” of the falling rate of profit. All of these countertendencies the increasing intensity of the exploitation of labor, the depression of wages below the value of labor power, the cheapening of the elements of constant capital, relative overpopulation, foreign trade, and the increase in stock capital are real phenomena whose function it is to improve the profitability of capital, i.e., to counteract the tendency of the rate of profit to fall. So long as they are successful and make possible the valorization of capital, the tendency of the rate of profit to fall is not observable as such and is de facto without force, although it is the cause of capital’s activities to counteract it. Only in the actual crises which break out from time to time does the fall of the profit rate show itself in its own form, since the counteracting processes are then not sufficient to secure the further valorization of capital.

Marx’s theory of accumulation is thus at the same time a theory of crisis, as it locates the origin of crisis in an insufficient valorization of capital, which in turn originates in the breakthrough of the tendency of the profit rate to fall. This kind of crisis arises directly from capital accumulation, governed by the law of value, and can be overcome only through renewed value expansion, i.e., through the reestablishment of a rate of profit adequate for further accumulation. Its basis is an insufficiency of the surplus value available in relation to the capital already accumulated; this transforms the latent fall of the profit rate into an actual profit shortage. The cessation of further accumulation constitutes the crisis situation, which Marx characterized as one of overaccumulation:

Over-production of capital is never anything more than overproduction of means of production — of means of labour and necessities of life — which may serve as capital, i.e., may serve to exploit labour at a given degree of exploitation; a fall in the intensity of exploitation below a certain point, however, calls forth disturbances, and stoppages in the capitalist production process, crises, and destruction of capital. It is no contradiction that this over-production of capital is accompanied by more or less considerable relative over-
population. The circumstances which increased the productiveness of labour, augmented the mass of produced commodities, expanded markets, accelerated accumulation of capital both in terms of its mass and its value, and lowered the rate of profit — these same circumstances have also created, and continuously create, a relative overpopulation, an over-population of labourers not employed by the surplus-capital owing to the low degree of exploitation at which alone they could be employed, or at least owing to the low rate of profit which they would yield at the given degree of exploitation.

In order to illustrate the concept of overaccumulation, Marx had recourse to a further, not particularly well-chosen example:

To appreciate what this overaccumulation is, one need only assume it to be absolute.... There would be absolute overproduction of capital as soon as additional capital for purposes of capitalist production equals zero. ... As soon as capital would, therefore, have grown in such a ratio to the laboring population that neither the absolute working time supplied by this population, nor the relative surplus working time, could be extended any further (this last would not be feasible at any rate in the case where the demand for labor were so strong that there were a tendency for wages to rise); at a point, therefore, when the increased capital produced just as much, or even less, surplus value than it did before its increase, there would be absolute overproduction of capital. ... [T]here would be a steep and sudden fall in the general rate of profit, but this time due to a change in the composition of capital not caused by the development of the productive forces, but rather by a rise in the money value of the variable capital (because of increased wages) and the corresponding reduction in the proportion of surplus labor to necessary labor.

As this example has given rise to many misunderstandings, it is necessary to deal with it briefly. On its basis, for example, Martin Trottmann reproaches Henryk Grossmann, who explained over-accumulation in terms of insufficient value expansion of capital, for falsely identifying two different, completely contrary tendencies of capitalist accumulation as one and the same. Marx's concept of absolute overaccumulation, according to Trottmann, signifies overproduction not as a consequence of insufficient valorization but as the consequence of a shortage of labor power leading to rising wages and declining surplus value. What Trottmann fails to see is that the end result is the same in both cases, namely the suspension of accumulation as a result of a lack of profits. It was this state of affairs that Marx wanted to emphasize, although his example is doubly unfortunate, as it contradicts not only all experience but also his own theory of accumulation itself.

On the basis of the theory of surplus value, the limit of the capitalist mode of production is to be seen in the fact that “the development of the productivity of labor creates in the fall of the rate of profit a law which at a certain point comes into antagonistic conflict with this development and must be overcome constantly through crisis.” However, there is more to the regularity of crisis than this. On the one hand, the crisis appears as the breakdown of the continually evolving accumulation of capital that faces collapse due to the tendency of the rate of profit to fall inherent in it. On the other hand, it also appears in numerous additional contradictions, born in the market, which are of course accentuated by, as well as ultimately based on, the social contradiction of the relations of production. These partial crises cannot be understood apart from the general crisis originating in the capital-labor relation, just as market events in general cannot be understood except by reference to the relations of production.

In order to understand the crisis tendency so closely bound up with the system, it is necessary always to bear in mind the dynamic character of the system, which rules out any sort of equilibrium. Against the equilibrium theorists of classical economics, who
confused the process of circulation with direct barter and consequently imagined that
every sale is a purchase and every purchase a sale, Marx maintained that “this gives poor
comfort to the possessors of commodities who, unable to make a sale, cannot accordingly
make a purchase either.” In barter one commodity is directly exchanged for another. But
when exchange value is given a form independent of the object by being embodied in
money, the sale of one commodity is an act distinct from the purchase of another. With
this separation of purchase and sale the possibility of crisis already arises. “The
possibility of crisis, which became apparent in the simple metamorphosis of the
commodity, is once more demonstrated, and further developed, by the disjunction
between the (direct) process of production and the process of circulation.” In this way
demand and supply can fall asunder. Indeed, according to Marx, “in reality supply and
demand never coincide, or, if they do, it is by mere accident, hence scientifically and to
be regarded as not having occurred.” Thus an element of crisis is to be found in
commodity production itself, in the contradiction, embodied in the commodity, between
exchange value and use value. The contradictions and thus the potentialities of crisis
already included in commodity and money circulation must however be explained on the
basis of the specifically capitalist form of the circulation of commodities and money. Real
crises “can only be deduced from the real movement of capitalist production,
competition, and credit,” namely, in terms of the aspects of this movement peculiar to
capital, not those which would follow from the nature of commodities and money as they
would exist in another social system.

In the direct process of production these elements of crisis do not appear, although
they are contained in it implicitly, since the process of production is that of the creation
and appropriation of surplus value. The possibility of crisis appears first in the process of
realization, in circulation, which is implicitly and explicitly a process of reproduction,
that is, of the reproduction of the surplus-value-producing relations of production.

The circulation process as a whole or the reproduction process of capital as a whole
is the unity of its production phase and its circulation phase, so that it comprises both
these processes or phases. Therein lies a further developed possibility or abstract form of
crisis. The economists who deny crises consequently assert only the unity of these two
phases. If they were only separate, without being a unity, then their unity could not be
established by force and there could be no crisis. If they were only a unity without being
separate, then no violent separation would be possible implying a crisis. Crisis is the
forcible establishment of unity between elements that have become independent and the
enforced separation from one another of elements which are essentially one.

Although it first appears in the process of circulation, the real crisis cannot be
understood as a problem of circulation or of realization, but only as a disruption of the
process of reproduction as a whole, which is constituted by production and circulation
together. And as the process of reproduction depends on the accumulation of capital, and
therefore on the mass of surplus value that makes accumulation possible, it is within the
sphere of production that the decisive factors (though not the only factors) of the passage
from the possibility of crisis to an actual crisis are to be found. The crisis characteristic of
capital thus originates neither in production nor in circulation taken separately but in the
difficulties that arise from the tendency of the profit rate to fall inherent in accumulation
and governed by the law of value.

Of course, according to Marx, “the conditions of direct exploitation, and those of
realizing it, are not identical. They diverge not only in place and time but also logically.
The first are only limited by the productive power of society, the latter by the
proportional relation of the various branches of production and the consuming power of
society.” These contradictions contain the possibility of crisis, which is the breaking up of
the unity of production and circulation, and the necessity of a forceful reestablishment of this unity. Under the conditions of capital production, however, the reestablishment of this unitary reproduction process refers not simply to the overcoming of disproportionality and a strengthening of the capacity to consume as such but also to the adaptation of both production and circulation to the needs of capitalist reproduction, in other words, the need of capital for valorization. It is not that the crisis is a result of a lost proportionality of production and consumption; rather, the crisis, as a breakdown of the accumulation process due to other causes, expresses itself in disproportionality and a weakened capacity to consume.

This disproportionality and weakened consumer capacity are constant features of capitalism. It is here not a matter of more or less, not that in crisis the disproportionality is too big and consumption too small, because disproportionality and insufficient consumer power are both conditions and results of accumulation in general and are determined by it. Were this not the case, any crisis could be overcome by increasing consumption capacity and reducing the degree of disproportionality, even if this could only be done, within the framework of market relations, by the violent means of the crisis itself. Up to now however, every real crisis has been overcome without abolishing the disproportionality of production and without increasing consumption capacity in relation to production. On the contrary, the disproportionalities are reproduced as part of the system of capitalist production, and the social capacity for consumption decreases relative to the accumulated capital.

Marx’s critique of capitalism and of its economic theories is always a double one. On the one hand, he steps onto the terrain of these theories in order to demonstrate their untenability in the light of the theory of value. On the other, he takes his stance ultimately outside capitalist Society and its value categories in order to demonstrate its historically limited character. From this viewpoint production cannot be identified with the production of producer and consumer goods, since this takes place only within the framework of the production of capital (self-expanding value), and its possibilities are determined and limited by this framework. The social capacity for consumption is not simply people’s capacity to consume but this capacity as governed and necessarily limited by the requirements of surplus value production. The capitalist economy is thus not only inadequate by its own standards and afflicted with crises, but, seen from a standpoint of opposition to this society, it is a social order antagonistic to the satisfaction of actual and potential social needs. While in the framework of capitalist production the overproduction of Capital is a circumstance that generates crisis, from the standpoint of real social relations there exists no overproduction; indeed there is a lack of means of production capable of satisfying the needs and aspirations of mankind. The consuming power of Society is not only limited by surplus-value production but can only find satisfaction under other social relations. In this way Marx condemns capitalism not only on the ground of its own deficiencies but also from the standpoint of another, not yet existing social order, which alone, by the abolition of value production, will make possible the adaptation of social production to social needs.

Marx stated his double critique of capital, so to speak, in one breath: a mode of exposition which has led to misunderstandings and to interpretations of his theory of accumulation as explaining crises either by the disproportionality (or anarchy) of capitalist production or in terms of underconsumption. On the basis of these interpretations, one would expect to find capitalism in continuous situation of crisis, since surplus-value production presupposes underconsumption, for “the working people can only expand their consumption within very narrow limits, whereas the demand for labor, although it grows absolutely, decreases relatively to the same extent as capitalism
develops." If it is said that the problem is not general overproduction but the existence of a disproportion between the different branches of production, this is no more than to say that under capitalist production the proportionality of the individual branches of production springs as a continual process from disproportionality, because the cohesion of the aggregate production imposes itself as a blind law upon the agents of production, and not as a law which, being understood and hence controlled by their common mind, brings the productive process under their joint control. The proportionality of which Marx speaks here, moreover, has nothing to do with the relationship between production and consumption but concerns the proportion between surplus value and accumulation required for the reproduction of capital and so with the increasing disproportionality of the capital relations, which become visible in crises.

Of course, Marx also wrote that “the more productiveness develops, the more it finds itself at variance with the narrow basis on which the conditions of consumption rest,” so that the contradiction is intensified “between the conditions under which ... surplus value is produced and those under which it is realized.” Thus “the ultimate reason for all real crises always remains the poverty and restricted consumption of the masses as opposed to the drive of capitalist production to develop the productive forces as though only the absolute consuming power of society constituted their limit.” However, these remarks provide no foundation for a theory of crisis based on underconsumption, nor can the realization of surplus value be made the principal problem of the capitalist mode of production. It goes without saying not only that the origin of crisis lies in an insufficiency of surplus-value production but also that crisis must manifest itself as a problem of the realization of surplus value and the insufficient buying power of the working population. For the very circumstances that lead to the fall of the rate of profit and with it to the restriction of the process of accumulation can be seen also on the market in the form of insufficient demand and the growing difficulty of turning commodities back into money— in brief, in the interruption of the circuit of capital that underlies the entire process of reproduction.

In the early days of capitalist accumulation, when the organic composition of capital was low, the contradiction between production and consumption was less pronounced than it has become at a later stage of development, when the situation is the reverse. In the earlier period general poverty can be much greater than it would be at a later stage of accumulation, since with the lower rate of accumulation constant capital grows more slowly. Thus the realization of surplus value by way of capital accumulation still involves fewer difficulties than at later stage of capital expansion. These difficulties multiply together with the difficulties of accumulation, which stem from the tendency of the rate of profit to fall and come to a head in a widening discrepancy between the production and the realization of surplus value between social production and social consumption.

While it is this discrepancy alone that makes capitalist progress possible, at the same time it limits this progress since it comes into conflict with the reproduction requirements set by the law of value for the total capital, that is, at the moment when the production of surplus value no longer suffices to continue a given tempo of accumulation. Only through the improvement of surplus-value production, through the restoration of the rate of profit necessary for further accumulation, can capital again overcome the breakdown of the reproduction process. It will not thereby have overcome the discrepancy between the production and realization of surplus value. On the contrary, the overcoming of the crisis, by way of the realization of surplus value thanks to further accumulation, also reproduces the divergence between the production and realization of
surplus value and that between production and consumption in the sense of the satisfaction of real social needs.

Capital realizes surplus value by means of capitalistically un-productive consumption and by capitalist accumulation. So long as the latter meets with no obstacle, there exists no realization problem. There is none just because the tendency of the rate of profit to fall requires the perpetual increase of surplus value and thus the growth of the rate of accumulation. Capitalist production exclusively serves the accumulation of capital. But this mode of production, ruled by value production, cannot really free itself from the use-value character of social production, which of course, under capitalist conditions, means that it is not free from the limitations that the use value of labor power imposes on it.

Surplus value can never be anything but surplus labor, a portion of total labour; this in itself sets certain limits to accumulation. Thus despite capital’s “accumulation for the sake of accumulation,” there can be for it no unlimited “production for the sake of production.” The rate of surplus value obtaining at any moment and the labor power profitably exploitable at that time set the limits of accumulation, which can be overstepped only through an enlarged production of surplus value. So every momentary over-production of capital must appear as a crisis that has to put an end to this overproduction. This can be accomplished only by the restoration of a lost proportionality between surplus value and the production of capital, with respect to value relations which are at the same time use-value relations, even though the latter aspect is not consciously considered. More of the social labor must fall to capital, less to the workers.

The crisis serves to accomplish this in two different ways: first, by the destruction of capital, and second, by the increase of surplus value, until both processes have produced the needed relation between the rate of profit and the amount of surplus value required for further accumulation. A new cycle of accumulation begins. Like all the preceding cycles, it too must end in the overproduction of capital, when the uncontrollable passion for surplus value again drives accumulation beyond the point at which valorization is possible. Through the crisis “a large part of the nominal capital of the society, i.e., of the exchange value of the existing capital, is once and for all destroyed, although this very destruction, since it does not affect the use value, may very much expedite the new reproduction.” The lowered exchange value lowers the organic composition of capital, raising the rate of profit even with a constant rate of surplus value. But the intensified competition provoked by the crisis leads capitalists to cut their production costs and so to take measures in the sphere of production which in themselves raise the rate of surplus value. Thus the conditions for a resumption of the process of accumulation are re-created within the crisis, and with them the further potential for the realization of surplus value by way of capitalist expansion.

If this potential did not exist, the crisis could not be overcome at all, as neither the proportionality of the different branches of production nor the abolition of the divergence between production and consumption are (as we have seen) possibilities for capitalism. The proportionality of the various branches of production is determined by accumulation and achieved by the same processes that lead to the formation of the average rate of profit.

[The] quantitative limit to the quota for social labor time available for the various particular spheres of production is but a more developed expression of the law of value in general, although the necessary labor time assumes a different meaning here. Only first so much of it is required for the satisfaction of social needs. The limitation occurring here is
due to the use value. Society can use only so much of its total labor time for this particular kind of production under prevailing conditions of production.

This adjustment, which is in practical terms an adjustment to market demand, is naturally accomplished, like the formation of the average rate of profit, “only in a very complicated and approximate manner, as a never ascertainable average of ceaseless fluctuations.” It is, however, accomplished in times of capitalist prosperity no less than in periods of depression and can therefore not be appealed to for an explanation of crisis. The divergence of production and consumption, which allegedly gives rise to crisis, not only persists during the crisis but acquires an even sharper form; nevertheless the crisis situation leads to a new upswing. So the crisis cycle cannot be explained by underconsumption.

A theory of the crisis cycle must explain prosperity as well as depression. But prosperity would be inexplicable if underconsumption and disproportionalities per se led to crisis, for then the first crisis would already have been the last. In fact capital has developed through numerous crises until the present day. This was made practically possible by the increase in the productivity of labor, which augmented surplus value by lowering the value of labor power though without negating the improvement of the proletariat’s living conditions, since a smaller exchange value can represent a greater quantity of consumer goods. Crisis must thus be understood not in terms of the observable phenomena of the market, superficial from the point of view of explanation, but in terms of the laws, directly unobservable yet fundamental to the capitalist economy, of surplus-value production. Here too Marx’s dictum holds; “All science would be superfluous if the outward appearance and the essence of things directly coincided.”

While surplus value is created in production, “the conversion of surplus value into profit ... is determined as much by the process of circulation as by the process of production.” It is this fact, which on the one hand leads to crisis, that on the other hand allows capital to escape from it. The destruction of capital that takes place in a crisis is a precondition for the powerful transformation of capital, concentrated in a short period of time, that is the prerequisite of further accumulation. The destruction of capital always accompanies capital formation, although in periods of economic prosperity, in a relatively moderate form. In the crisis the destruction of capital accelerates and accentuates this tendency, inherent as it is in the competitive concentration and centralization of capital with regard to both production and circulation. This process, together with the improvement of surplus-value production and the devaluation of capital, and despite a further increase in the organic composition of capital, leads to a restoration of the necessary rate of profit. The crisis manifests itself directly in overproduction of commodities and insufficient purchasing power. As “capital consists of commodities ... overproduction of capital implies overproduction of commodities.” From this it is not a big step to the idea that the ultimate cause of crisis is underconsumption. This idea is strengthened all the more by Marx’s statement that “constant capital is never produced for its own sake but solely because more of it is needed in spheres of production whose products go into individual consumption.” If there is insufficient social purchasing power, however, the metamorphosis of money into commodities and the retransformation of commodities into money cannot take place, and this limits the production both of commodities and of constant capital.

Although this is what really happens, it does not explain how capital escapes from its dilemma, since in itself the crisis can only worsen this situation. If, as Marx here appears to maintain, this were really only a question of underconsumption, then the crisis could not be overcome by expanding the production of commodities and constant capital beyond that achieved at the point where prosperity gave way to crisis. But in fact every
new prosperity arising out of crisis leaves the previous prosperity far behind with respect to the production of commodities and means of production. Had this not been the case, there would have been no capitalist development, no continuous accumulation of capital.

Marx’s statement, then, represents either an error of judgement or unclear writing, especially since the disproportionality of the individual spheres of production and that between production and consumption are hardly contested by bourgeois economics. As the economists see it, however, the equilibrium tendencies of the market lead to the overcoming of these irregularities, i.e., the ensuing scarcity of commodities and capital restores the lost proportionality of production and consumption. If “constant capital is never produced for its own sake but solely because more of it is needed in spheres of production whose products go into individual consumption,” then Marx’s crisis theory would not be different from the bourgeois theories of the business cycle. Like them it would be a theory of the market in which the relations of supply and demand decide the extension or contraction of production.

In opposition to this, however, the Marxian theory speaks of accumulation as the factor exacerbating the contradictions of capitalism to the point of breakdown. The underconsumption theory as ascribed to Marx, which can indeed be read in some of his expressions, can be conclusively rejected on the basis of his double critique of capital. On the one hand, the overproduction of commodities and insufficient demand are characteristics of the over-accumulation of capital. On the other hand, from a position opposed to capitalism, the accumulation of capital is based on a perpetually widening divergence between production and consumption, so that the ultimate reason for all real crises remains indeed the poverty and restricted consumption of the masses even if this is only to say that the crisis belongs to capitalism.

The capitalists experience the crisis as an insufficient demand for commodities, the workers as insufficient demand for their labour power. The solution for both lies in the growth of overall demand through the resumption of capital accumulation. But how can the expanded commodity production that goes with this find a market when current production has already outstripped demand? The answer is that capitalism produces precisely not to meet consumer demand but over and above it, until the limits of surplus-value creation are reached, limits that cannot be known when the goods are produced but can only be discovered in the market. Every crisis can be understood only in relation to the prosperity preceding it, just because prosperity derives not from the consuming power of society but from the accumulation requirements, imposed by capitalist competition, of the individual capitals, which at any time are growing to produce not for an existing but for an expected market. This is due to general social development and to the elimination of less competitive capitals, which yields the more competitive a larger market, along with accumulation.

Production always precedes consumption. In capitalism, however, it advances blindly, as each capital strives not only to win the greatest share of a given market but also to enlarge it ceaselessly and so to avoid losing it. The prerequisite of this is the rapid growth of productivity, which lowers costs, and with it the accumulation of capital in the form of means of production and the changing of the organic composition of capital that accompanies this. The general competition thus leads to a more rapid growth of the constant versus the variable capital, for the individual capitals as for the society as a whole. It is this very process that makes possible the realization of surplus value by way of accumulation, without respect for the restriction of consumption this presupposes. Surplus value becomes new capital, which in its turn produces capital. This process, senseless as it is, is actually the consequence of a mode of production oriented exclusively toward the production of surplus value. All good things come to an end,
however, and this same process finds its nemesis in the tendency of the rate of profit to fall. At a certain point the realization of surplus value accumulation is halted, when accumulation ceases to yield the surplus value necessary for the continuation of this process. Then it suddenly becomes apparent that without accumulation a part of the surplus value cannot be realized, since demand is insufficient to transform the surplus value lying hidden in the commodities into profit.

With respect to accumulation Marx asked why the rate of profit does not fall more quickly than it does, despite the enormous development of productivity. He answered his question by pointing to the countertendencies. The point can also be put by asking not how crises begin but how capital has been able to accumulate despite all its crises. The crisis is easier to understand than prosperity, since the phenomena of overproduction, appearing on the surface of the market, are visible. One glance is enough to see that consumption cannot absorb everything that is produced. But it is not so easy to see how capital, given its inherent contradictions, can proceed for long periods of time from prosperity to boom, periods during which supply is often smaller than demand. This is comprehensible through the historically confirmed fact that the market formed by means of accumulation is nothing other than the development of capitalist society itself.

This development includes not only the accumulation of the existing capital but also the continuous creation of new capital: the spread of the capitalist relations of production over ever broader areas. The exploitation of greater masses of workers requires additional means of production which must first be produced before they can be productively utilized a part of the surplus value transformed into capital enters directly into accumulation through the continuous circulation among constant capitals. While one constant capital moves into commodity production others withdraw commodities from circulation without at the same time producing commodities themselves. This uninterrupted process and its acceleration make it possible for the increasing quantity of commodities to find a market, as the latter is continually expanded by the process of accumulation.

Through the acceleration of accumulation, by perpetual reinvestment, the increasing production of final goods (which enter into consumption) can also find an outlet in the general circulation. Under these conditions- when one part of capital sets a series of other capitals in motion, the capitalists can consume more, and the fully employed workers also have more to spend- the accumulation of capital is more impeded than stimulated by the growing mass of commodities, so that the boom already bears within it the seed of crisis. Production shifts to the consumer-goods industries, which impairs the profitability of capital as a whole. The fall of the average rate of profit thereby accentuated then leads to the weakening of the prosperity and finally to crisis.

What this reveals is not simply a level of consumption too high in proportion to the requirements of accumulation but a shortage of surplus value resulting from the process of accumulation itself, which calls for the restriction of consumption if the going tempo of accumulation is to be maintained. If the amount of surplus value created in production was great enough to hasten accumulation even more, the increased consumption would be no hindrance to further accumulation but could grow together with it. The slowing of the rate of accumulation, however, reveals that the changing value relations, leading to a falling rate of profit, no longer allow the maintenance of the existing level of consumption; that is, that the organic composition of capital has reached a point at which the available surplus value is insufficient to secure both growing consumption and accumulation. On the terrain of the market, the declining rate of accumulation means the decline of new investments and its effects on production as a whole. The same process
that opened the way to expansion now reverses direction, seizing on more or less all the branches of social production.

The relation between production and consumption is unaffected in an expanding capitalism, even if the production of consumer goods lags behind that of means of production. On the one hand, the growing productivity of labor makes possible the reduction of the costs of food production; on the other, rapid industrialisation leads to a continuous improvement in the industrial products destined for consumption and thus an improvement in the general standard of living. Although accumulation requires the steady increase of means of production, the commodity market is at the same time continually broadened by the introduction of ever newer kinds of use values. Surplus-value allows the construction of an infrastructure that involves ever greater numbers of people in the process of capital circulation as a whole. If the world market was a precondition of capitalist production, accumulation has led to an ever more rapid capitalization of world production, which does not conflict with the concentration of capital in a few capital-intensive countries as their production is integrated into that of the world. The accumulation of capital is thus not only the prosaic production of profit but also the conquest of the world by capital, an enterprise so demanding that no mass of profit, however great, will be enough.

Capital is always suffering from a lack of profit, in depression and in prosperity. Every capital must continually accumulate in order not to be driven out of business, and accumulation depends on the supply of capital, derived either from its own profits or from those of other capitals. The market grows together with the firms, and with the growth of the market the firms also must grow if they are not to be eliminated by their competition. There has never yet been a business smothered by its own profits, and capital “as a whole” has at no time bewailed an excess of surplus value. That a period or upswing turns into its opposite can only mean, from the standpoint of capital, that profits were too low to justify the expansion of production in terms of profitability. Of course, this situation appears to the capitalists only as a phenomenon of the market, since they do not understand that the level of their own profits is governed by that of the social surplus value, and since knowing this fact, if they did know it, could be of no use at all to them, since the only reaction open to them consists in further attempts to secure or restore their individual profits by the practically possible ways.

Capitalist prosperity depends on the continuous acceleration of accumulation, and this on the expansion of the mass of surplus value. Capital cannot stand still without calling forth crisis. Every equilibrium state that is, every situation in which production does not exceed consumption is a state of crisis or stagnation that must be overcome by an increase in surplus value if it is not to lead to the downfall of the system. Just as the tendency of the profit rate to fall exists in latent form even when the actual rate of profit is rising, crisis is already inherent, though invisible, in every prosperity. But like every other disproportionality of the system, that between surplus value and accumulation can also be altered only in accordance with the needs of accumulation, operating through anarchic market processes—only, indeed, through the violence of the crisis. This is a matter not of the restoration of a lost state of equilibrium between production and consumption but of the restoration of the disproportionality whose content is the “proportionality” of surplus value and accumulation.

If, according to Marx, the real crisis must be explained in terms of capitalist production, competition, and credit, it must be explained in terms of accumulation, for this is the meaning of production. It is hastened by competition and credit but also made increasingly prone to crisis, since the growing demand for surplus value can exceed by far that actually attained due to the tendency of the rate of profit to fall and despite the
development of the productivity of labor. If at this point of overaccumulation the quantity of surplus value can no longer be increased, a situation arises that corresponds to that in Marx’s abstract analysis, framed exclusively in terms of the production process, of an uninterrupted accumulation leading to the breakdown of the system.

However, since this process is that of the reproduction of a total capital constituted by many capitals, the surplus value is accumulated from then on only in part; not only does the process of accumulation slow down, but the potential for structural changes of capital develops, making it possible to adjust the total surplus value to the needs of further accumulation at the cost of many individual capitalists, as well as by higher rates of exploitation. In this sense the overproduction of capital is only temporary, although the tendency to overaccumulate is permanent.

Thus on the one hand capitalist prosperity depends on the acceleration of accumulation, while on the other hand this acceleration leads to the crisis of overaccumulation. For this reason capitalist development is a process shot through with, and inseparable from, crises in which the requirements of the reproduction of the capitalist mode of production assert themselves in a violent way. The reality of these crises naturally does not need to be proven, as they are directly experienced. The only question is whether they arise from the system itself and are thus inevitable, or whether they are caused by factors exogenous to the system and thus can be considered accidental, as imperfections of the system that can sooner or later be eliminated. For Marx accumulation without crisis was inconceivable. While from one viewpoint the crises sweep the difficulties to which accumulation gives birth out of the way, from another they are the surest sign of the ineluctable end of capitalist society.

The world trade crises must, according to Marx, “be regarded as the real concentration and forcible adjustment of all the contradictions of the bourgeois economy.” Even the aspects of the crisis that cannot be traced directly back to the capitalist relations of production derive from this source a particular character peculiar to capitalism. As crises of the world market affect all countries, although in different ways, and as the ultimate reason for crisis – the shortage of surplus value appears on the market in inverted form as an unsaleable excess of commodities, the conditions both of the crisis and its solution are so complex that they cannot be empirically determined. When the crisis will break out, its extent, and its duration cannot be predicted; only that there will be a crisis can be expected with certainty. Nonetheless Marx attempted to relate the periodicity of crisis to the reproduction of capital or, more exactly, to the replacement of fixed capital. As the accumulation of capital is largely a matter of the increase in the means of production, the replacement and enlargement of fixed capital should be at least a contributing factor of the periodicity of crisis.

The value invested in fixed capital is in the course of time transferred to the commodities produced and through their sale transformed into money. The retransformation of money into fixed capital (the replacement of the used-up means of production) is governed by the service life of the latter, which in turn is determined by the particular characteristics of the various branches of production. The replacement of fixed capital is, thanks to the development of technology, at the same time its improvement. This obliges capitalists, in order to remain competitive, to renew their fixed capital before it is worn out. This “moral depreciation” of fixed capital, as well as the general effort to partake in the changing technology, generates capitalist interest in the shortening of the turnover time of fixed capital. The shorter it is, the sooner the new investments can partake in the higher productivity achieved through the continuous revolutionization of the means of production, and the lower the costs of the “moral depreciation” that precedes
the physical exhaustion of capital. As the average service life of fixed capital in his day was ten years, Marx wondered whether this might be related to the ten-year crisis cycle.

Of course, the service life of fixed capital can lengthen or shorten. However, according to Marx, the issue here is not a definite number of years. This much seemed evident to him:

The cycle of interconnected turnovers embracing a number of years, in which capital is held fast by its fixed constituent part, furnishes a material basis for the periodic crises. During this cycle business undergoes successive periods of depression, medium activity, precipitancy, crisis. True, periods in which capital is invested differ greatly and far from coincide in time. But a crisis always forms the starting point of large new investments. Therefore, from the point of view of society as a whole, more or less a new material basis for the next turnover cycle.

Marx did not follow up this vague hypothesis. Although crisis leads to a temporal concentration of investments and so to a sort of “material basis for the next turnover cycle,” in the final analysis this is only to say that “a crisis always forms the starting point of large new investments,” without thereby explaining the crisis or its periodicity. And although it is true that in the meantime the capital transformed into commodities piles up in the form of money, this does not mean that it must remain in this form until the replacement of the fixed capital. Since the service lives of different capitals are different, and since they renew themselves in accordance with their respective starting points, the turnover of fixed capital is being completed throughout the whole period of upswing, along with the new investments that constitute accumulation, which bring the cyclical upswing with them. This process is reversed in crisis, when capital is at first neither replaced nor newly invested. Only as the crisis proceeds are additional funds invested in order to raise the productivity of labor. These attempts give birth to the new prosperity, which is built not only on the replacement of fixed capital but on further accumulation.

Even if the turnover time of fixed capital plays a certain contributing role in governing the production process of capital as a whole, this does not suffice to explain the particular periodicity of crisis. Since crises are, according to Marx, “the real concentration and forcible adjustment of all the contradictions of the bourgeois economy”, contradictions whose particular contributions to the crisis cannot be estimated, the periodicity of crisis also cannot be treated as due to a particular aspect of the process as a whole. From the crisis cycle that Marx observed one can only conclude that the difficulties that characterized the process of development in his time made possible the maintenance of prosperity for no more than ten years at a time, and not that capital is therefore destined to a ten-year cycle.

Friedrich Engels wrote later that:

The acute form of the periodic process with its former ten-year cycle, appears to have given way to a more chronic, long drawn out, alternation between a relatively short and slight business improvement and a relatively long, indecisive depression—taking place in the various industrial countries at different times. But perhaps it is only a matter of a prolongation of the duration of the cycle. In the early years of world commerce, 1845-47, it can be shown that these cycles lasted about five years; from 1847 to 1867 the cycle is clearly ten years; is it possible that we are now in the preparatory stage of a new world crash of unparalleled vehemence? Many things seem to point in this direction. Since the last general crisis of 1867 many profound changes have taken place. The colossal expansion of the means of transportation and communication — ocean liners, railways, electrical telegraphy, the Suez Canal — has made a real world-market a fact. The former monopoly of England in industry has been challenged by a number of competing industrial countries; infinitely greater and varied fields have been opened in all parts of
the world for the investment of surplus European capital, so that it is far more widely distributed and local over-speculation may be more easily overcome. By means of all this, most of the old breeding-grounds of crises and opportunities for their development have been eliminated or strongly reduced. At the same time, competition in the domestic market recedes before the cartels and trusts, while in the foreign market it is restricted by protective tariffs, with which all major industrial countries, England excepted, surround themselves. But these protective tariffs are nothing but preparations for the ultimate general industrial war, which shall decide who has supremacy on the world-market. Thus every factor, which works against a repetition of the old crises, carries within itself the germ of a far more powerful future crisis.

This is to say that the periodicity of crisis also has its history and is affected by historical circumstances. If the ultimate reason for every crisis is capitalism itself each particular crisis differs from its predecessors just because of the continuous transformation of world market relations and of the structure of global capital. Under these conditions neither the crises themselves nor their duration and gravity can be determined in advance, and this all the less as the symptoms of crisis appear after the crisis itself and only bring the crisis to the attention of the population. Moreover, the crisis cannot be reduced to “purely economic events, although it arises “purely economically,” that is, from the social relations of production clothed in economic forms. The international competitive struggle, fought also by political and military means, influences economic development, just as this in turn gives rise to the various forms of competition. Thus every real crisis can only be understood in connection with social development as a whole.

3. The Epigones

The crises of the nineteenth century displayed characteristics which were connected equally with the level attained by capitalist development and with political events. Thus the crisis of 1816 was without a doubt closely connected with the many years of war preceding Napoleon’s fall. In particular English capital, despite the increasing mechanization of labor, had grown too quickly in relation to its valorization requirements to be able to avoid crisis by way of further expansion. The stagnation that set in manifested itself as overproduction, which, as a consequence of the impoverishment of continental Europe, could not be overcome by means of foreign trade. This resulted in a violent collapse of prices, which hit agriculture and the textile industry particularly hard and led to the introduction of protective tariffs in order to stabilize the still predominant agricultural production. There were many bankruptcies and bank failures. Wages were radically reduced, and growing unemployment engendered mass poverty, social unrest, the machine breaking of the Luddite movement, and also the theories, critical of capitalism, of Sismondi and Robert Owens. The general price collapse of the depression period, which was punctuated ten years later by a new crisis, only came to a stop in 1819.

The crisis of 1836 began in England and the United States. In both countries industrial development had led to widespread speculation and to a situation in which the production of profit no longer met the need for it. The crisis took the form notably of a money and stock-market crisis but affected the whole economy, ushering in a long period of depression that soon spread over all of Europe. The apparently permanent crisis led to the revolutionary events of 1848 and to the first beginnings of an anticapitalist labor movement. Even during the upswings within the depression, the living conditions of the
workers improved only in unessential ways, only to sink all the deeper with the first economic downturn.

The low level of wages that prevailed was an expression of the still low productivity of labor. The relatively small amount of surplus value, along with the acuity of competition, stimulated accumulation, which of course soon reached the limits of the still narrow basis of the capitalist relations of production. The autonomous development of capital was not yet sufficient to enlarge the market decisively by itself. Crises appeared as commercial crises and found expression in a disastrous fall of commodity prices, which allowed for no further productive investment. Under these conditions only accidents like the discovery of the California gold fields led to a rise in prices and a new prosperity. Events like the American Civil War, which at first was a factor of crisis, later drove industrial and capitalist development toward at a more rapid tempo. With the geographical extension of capital production, crises required an even more international character, but at the same time enormously promoted every upswing of the economy. However, the actual development of capital allowed no other prognosis than the one Marx had made; his theory was directly confirmed by reality, which thus gave force to the revolutionary expectations connected with it. Although every crisis had a character of its own, to be explained only by reference to the total situation from which it had arisen, crises nevertheless were characterised in common by the interruption of accumulation and the overproduction accompanying it, which gave rise to mass misery. And although the crisis cycle was not a regularly periodic one, it nonetheless really existed as an irregular process. At the end of the nineteenth century, however, as Friedrich Engels said, crises appeared to become less severe and the periods of prosperity to lengthen; at the same time, the economic condition of the workers improved. The productivity of labor had been sufficiently increased to maintain the profitability of capital as it accumulated over longer periods of time. This situation gave rise to social democratic reformism and the abandonment of Marx's theory of accumulation as a theory of crisis and collapse.

While Engels saw in the increasing mildness of crisis the germ of more violent crisis in the future, Eduard Bernstein maintained in 1899 that signs of an economic world-wide crash of unheard of violence have not been established, nor can one describe the improvement of trade in the intervals between the crises as particularly short-lived. Much more does a ... question arise ... (1) whether the enormous extension of the world market, in conjunction with the extraordinary shortening of time necessary for the transmission of news and for the transport of trade, has so increased the possibilities of adjustment of disturbances; and (2) whether the enormously increased wealth of the European states, in conjunction with the elasticity of the modern credit system and the rise of industrial cartels, has so limited the reacting force of local or individual disturbances that, at least for some time, general commercial crises similar to the earlier ones are to be regarded as improbable.

Bernstein answered his own question with the statement that “the formula of the crisis in and for Marx was no picture of the future but a picture of the present day, “so that today, “unless unforeseen external events bring about a general crisis ... there is no urgent reason for concluding that such a crisis will come to pass for purely economic reasons.” For Bernstein and for reformism in general, a theory of class struggle based on a tendency toward crisis was outdated, since a revolutionary situation created by the breakdown of capitalism was no longer to be expected.

In his reply to Bernstein's revisionism, Karl Kautsky explained that there is no theory of breakdown in Marx, but that this was a polemical invention of Bernstein's. “Crises,” Kautsky argued,
work in the direction of socialism by hastening the concentration of capital and increasing the insecurity of the proletarians’ living conditions, thus sharpening the impetus that presses the workers into the arms of socialism.... Furthermore, the constant need to expand the market contains yet a further factor; it is clear that the capitalist mode of production becomes impossible from the historical moment when the market can no longer extend in the same tempo as production; that is, as soon as overproduction becomes chronic. Bernstein understands historical necessity to mean a situation of constraint. Here we have such a situation which, if and when it appears, will infallibly lead to socialism.

Thus the upshot of Marx’s theory, according to Kautsky, is the breakdown of capitalism, although there is no Marxian theory of breakdown. The attempt was made to overcome this contradiction with the hypothesis that chronic overproduction could be a long, dragged-out process, so that it was even doubtful whether the breakdown would actually occur. The class struggle could put an end to capitalism long before the system fell apart.

Heinrich Cunow brought this theory into closer connection with Marx’s theory of accumulation. In his essays on the theme of “breakdown,” Cunow argued that Marx and Engels had derived the system’s collapse on the one hand from capitalist accumulation, and on the other hand from the split between the capitalist mode of production and its mode of exchange, which blocks the full utilization of the existing productive forces. The capital wealth already generated finds no further adequate valorization, either in the process of production or in the process of commodity circulation; the developed expansive power of industry comes into ever sharper conflict with the mechanism of the capitalist form of economy, until the latter finally bursts.

Of course, this process of breakdown was still put off into the distant future, since capital had learned to overcome its contradictions, growing out of commodity circulation, by means of the expansion of the capital and industrial markets on a global scale. Finally, however, the contradiction between social production and its mode of distribution remained decisive and was expected to put an end to capitalist production.

In this way attention remained fixed on the contradictory development of production and distribution, on the increasing difficulty with which surplus value is realized as a result of capitalistically limited consumption. In order to demonstrate the viability of capital, it was necessary to deny the ability of this disproportionality to menace capital. This Tugan-Baranovsky attempted to do. In his book on commercial crises he described the crisis cycle as did all the others who explain crisis in terms of a disturbance of the proportionality of supply and demand. This disproportionality, which also can be understood as a disproportionality between the different branches of production, Tugan-Baranovsky held to be the sole cause of crisis. A distribution of capital in accordance with the real demand for commodities would be enough to eliminate crises. Arising from the planlessness of capitalist competition, they can be made less severe by increasing control over the economy and can in principle be overcome.

If according to Tugan-Baranovsky the origin of crisis is to be found in the disproportionate distribution of capital, it is not to be found in the distribution of the social product between labor and capital. The restriction of consumption does not for him impose a limit on accumulation or on the realization of surplus value, since restriction of the demand for consumer goods is in no way identical with restriction of the demand for commodities per se. “The accumulation of social capital leads to a restriction of the social demand for consumer goods and at the same time to an enlargement of the total social demand for commodities.” Thus the “accumulation of capital can be accompanied by an
absolute decline of social consumption. A relative decline of social consumption relative
to the sum total of the social product is in any case inevitable.”

Tugan-Baranovsky appealed to Marx with regard to two points. Like Marx he saw
the fundamental contradiction “between production as a means to satisfy human needs
and production as a technical aspect of the creation of capital, that is, as an end in itself”
He admitted that “the poverty of the masses of people, poverty not in an absolute but in a
relative sense, in the sense of the insignificance of labor’s share of the total social
product, is one of the preconditions of commercial crises”; but it would be false to
suppose “that the distress of the workers ... makes the realization of ever expanding
capitalist production impossible because of insufficient demand, ... since capitalist
production creates its own market for itself” On the contrary, “the smaller the share of the
workers, the greater is the share of the capitalists and the more quickly capital
accumulates-necessarily accompanied by slowdowns and crises.”

To demonstrate the possibility of unlimited accumulation Tugan-Baranovsky made
use of the Marxian reproduction schemas in Volume 2 of Capital. As he saw it, these
schemas granted the possibility of a continued and crisis-free total reproduction of capital
so long as the requisite proportions between the individual spheres and branches of
production are maintained. Since these proportions are difficult to maintain because of the
anarchy of the economy, crises occur, but not the objective impossibility of further
accumulation. Thus every theory of breakdown must be rejected, and the abolition of
capitalist society must be considered a matter of the development of socialist
consciousness.

In dealing with Marx, Tugan-Baranovsky of course forgot the theory of value on
which the Marxian theory of accumulation is based. Or rather he referred to Marx without
taking account of his theory, as he, like Bernstein and other reformists, had already taken
up the subjective value theory of bourgeois economics. Thus, as he himself said, he did
not utilize “the usual Marxian terminology (constant capital, variable capital., surplus
value),” since, according to him, “in the creation of the surplus product-thus of rent-no
distinction between human labor power and the dead means of labor is to be made. One
ought to call the machine variable capital for the same reason as human labor power,
since both yield surplus value.” Consistently, he accepted (with some reservations) the
equilibrium theory descended from Say, namely the idea that with a proportional
distribution of social production, the supply of commodities must be equal to the demand,
and he interpreted Marx’s reproduction schemas in this sense. In this way the
contradiction of accumulation stemming from the fall in the rate of profit vanished from
his conception, and with it all the limits of capitalist production.

Oddly enough, this fact went unnoticed in the polemic directed against Tugan-
Baranovsky within Social Democracy. Kautsky, though granting that “a lack of
proportionality in production can also provoke a crisis,” nevertheless continued to insist
that “the ultimate reason for periodic crisis is to be found in under-consumption.” He
directed his energies against the equation of human labor power with the dead means of
production, in order, however, only to point out that “in the last instance human labor
alone is the value-creating factor, so that in the last instance the extension of human
consumption determines the extension of production. On this account the accumulation of
capital depends on the workers’ consumption -as there is no insufficiency of capitalist
consumption-and the expansion of capital is tied to human needs, since “the consumption
of the means of production is nothing other than the production of consumer goods.”

For Conrad Schmidt as well the volume of consumption determined the volume of
production, and overproduction arose from the restricted consumption of the working population
Capitalist competition, with the increasing difficulty of finding markets, must, given its tendency, be manifested in an increasing downward pressure on prices and thus in a fall in the rate of return or in the average rate of profit — a fall making the capitalist type of economy ever more unprofitable and risky even for the majority of private entrepreneurs, while at the same time the labor market becomes progressively unfavorable to the workers, and the ranks of the industrial reserve army swell terribly.

Schmidt too did not appeal to Marx’s theory of accumulation, and he rejected the labor theory of value. Like Adam Smith before him, he explained the fall in the rate of profit by the intensification of competition. Although for him the crisis arose from insufficient consumption, he nevertheless agreed with Tugan-Baranovsky that crisis did not imply an eventual breakdown of capitalism, since the improvement in the workers’ living conditions achieved through social struggles would weaken, if not completely eliminate, the roots of crisis, the restriction of consumption.

The vast debate about the crisis and collapse of capitalism (which we will not discuss further here) reflected the ambiguities in Marx’s depiction of crisis. As already pointed out, for Marx the crisis was due, on the one hand, to the fall in the rate of profit inherent in accumulation and independently of all the phenomena of crisis visible on the surface of society; but on the other hand, it also originated in the underconsumption of the workers. Thus Kautsky could appeal to Marx with as much right as Schmidt or Tugan-Baranovsky. The confusion became all the greater since the underconsumption theory could support the conclusion that capitalism must break down. The debates on crisis and breakdown have continued to the present day, in part thanks to the ambiguity of Marx’s statements, although the latter indeed signify no more than Marx’s own unsureseness, as they were written many years before the publication of Volume 1 of Capital and at a later moment would most probably have been reformulated in a less contradictory way.

However this may be, both the actual development of capitalism and the analysis of accumulation in terms of value and surplus value unambiguously show that the continuing accumulation of capital is linked to the disproportionality between production and consumption corresponding to the valorization of capital, and that only the maintenance of this situation makes it possible to overcome the crises that occur. Of course, if the crisis can no longer be overcome in a capitalist way, permanent depression must set in, with an absolute pauperization of the workers and unemployed. This state of affairs would exhibit the contradiction of capital as a conflict between the capitalist mode of production and the consumption needs of society.

With Tugan-Baranovsky’s reference to the Marxian reproduction schemas in Volume 2 of Capital, the debate on crisis took on a new dimension. The problem of crisis was seen no longer as a question of the over-accumulation of capital or of underconsumption but as one of social equilibrium or of the proportionality of the reproduction process. It will be necessary here to go briefly into the Marxian reproduction schemas. The process of production is at the same time a process of reproduction, which is completed through circulation. For theoretical ends and for the illustration of this process it is sufficient to divide total social production into two departments in order to represent the conditions of an imaginary, frictionless exchange. Although capitalist production is the creation of exchange value, it nevertheless remains tied to use value. While every capitalist seeks only to enlarge his capital as capital, he can accomplish this only in the framework of social production, which is at the same time a social metabolism concerned with use values. In the social framework a theoretically conceivable equilibrium of capitalist exchange presupposes the production in the correct proportions of the use values necessary for reproduction.
Just as competition cannot be explained by competition, the circulation process cannot be explained in terms of circulation. It presupposes definite labor-time relations as value and use-value relations and a definite division of them to make reproduction possible. It goes without saying that the Marxian reproduction schemas do not refer to the real production process but to the requirements of capitalist reproduction that underlie the real process, which are indeed not consciously taken into account in capitalism but must nevertheless be satisfied in one way or another if the accumulation of capital is to go on. The function of the reproduction schemas is simply to indicate that accumulation as well as production requires definite proportions of kinds of product, which must be established via the market. The schemas are formulated in such a way that with both simple and enlarged reproduction there is an equilibrium of exchange between the two departments of production. This, however, does not mean that the actual capitalist reproduction process proceeds or can proceed following the pattern of the schemas of simple or enlarged reproduction.

The illustrative and explanatory function of the reproduction schemas was then confused with that of representing a process actually occurring in reality, and the relations of exchange defined by them were treated as examples either proving or disproving the tendency of the system to equilibrium. For Tugan-Baranovsky the reproduction schemas provided proof of the possibility of unlimited capital accumulation, so long as the necessary proportions were maintained. This idea was taken up by Rudolf Hilferding. Lie agreed with Tugan-Baranovsky, and with Marx, that capitalist production depends not on consumption but on the need of capital for valorization. But he also wanted to do justice, in some fashion, to the idea of underconsumption and so maintained that “the conditions of valorization rebel against the extension of consumption, and as they are decisive, the contradiction grows to the point of crisis. To be sure, he immediately took this back, pointing out that “the periodic character of crisis ... cannot be explained in general from a permanent phenomenon (namely, underconsumption).” For Hilferding the crisis is, “in general, a disturbance of circulation” that violates the necessary equilibrium conditions of the social reproduction process. For him the Marxian schemas also show that

In capitalist production reproduction both on the simple and on the enlarged scale can proceed undisturbed so long as the [necessary] proportions are maintained. Conversely, the crisis can arise even with simple reproduction if, for example, the necessary proportion between used-up and newly invested capital is violated. It does not in the least follow from this that the cause of crisis must be the underconsumption of the masses inherent in capitalist production. A too rapid expansion of consumption would in itself give rise to crisis as much as would a stabilisation or contraction of the production of means of production. Just as little can the possibility of general overproduction of commodities be deduced from Marx’s schemas; rather they allow for any expansion of production on the basis of the existing forces of production.

For Hilferding capital’s propensity to crisis due to disproportionality changed with the restriction of competition by the trustification and of capital. Although the overproduction can in part be overcome through a better adaptation to demand, a crisis involves an overproduction not of commodities but of capital. This means only “that capital has been invested in production to such a degree that its conditions of valorization have come into conflict with its realization conditions, so that the marketing of commodities no longer yields the profit on which a further expansion, a further accumulation, depends. Sales stagnate because the expansion of production comes to a halt.” Since for Hilferding the crisis is a “disturbance of circulation,” his explanation is based not on the fall in the rate of profit resulting from a growing organic composition of capital but on a lack of sales relative to too quickly growing production or on a
contradiction between the “valorization conditions and the realization conditions” of capital thus, after all, on a divergence between supply and demand, even if independent of the restricted consumption of the workers. Such “disturbances of circulation” are made not less but more acute by the advance of cartelization, without thereby leading to a breakdown, since an economic breakdown is for Hilferding “in general not rationally conceivable.”

The abolition of capitalist society can therefore be achieved only by a political process, which in any case is prepared for to an ever greater extent by the cartelization of capital and the absorption of industrial capital by bank capital, a process described by Hilferding as the formation of finance capital. “Finance capital signifies the tendency to establish social control over production. But it is socialization in an antagonistic form; control over social production remains in the hands of an oligarchy. The struggle for the dispossession of this oligarchy is the final phase of the class struggle between the bourgeoisie and the proletariat.” For this it is sufficient “for society to take control of finance capital through the conscious organ of the people, the state captured by the proletariat, in order immediately to extend control over the most important branches of production.”

While in Hilferding’s view there were no economic limits to capitalist accumulation, it was nevertheless a process marked by crises that only the socialization of production by socialism could overcome. Under capitalist management accumulation compelled, along with the perpetual expansion of production, the export of capital and a struggle for markets and for sources of raw materials in order to increase the surplus value of the nationally organized capital. Imperialism, a direct consequence of the capitalization of the world economy, was as much a factor of crisis as the overcoming of crisis. Inseparable from capitalism, imperialism took on particularly ominous forms around the turn of the century, as the imperialist powers prepared for new confrontations. Imperialistic policy and colonialism found opponents and supporters even in the Social Democratic camp, a situation reflected in Rosa Luxemburg’s work on the accumulation of capital.

Taking Heinrich Cunow’s crisis theory as a point of departure, but completely ignoring Hilferding’s, Luxemburg saw imperialism as an immediate consequence of capitalist production. This she wished to prove scientifically. The attempt to give a “strictly economic demonstration” of the necessity of imperialism led her, in her own words, “to Marx’s diagrams at the end of the second volume of Capital, which have seemed weird to me for a long time, and which I now find full of hot air. “ By “hot air” she meant the equilibrium conception of capitalist reproduction she took Marx to have. Luxemburg’s analysis of Marx’s schemas of enlarged reproduction led her to the reverse of Marx’s apparent results, namely to the impossibility of equilibrium. “If we take the schema literally,” she wrote, “... it appears that capitalist production would itself realize its entire surplus value, and that it would use the capitalised surplus value exclusively for its own needs.” But, according to Luxemburg, this would mean that “these capitalists are thus fanatical supporters of an expansion of production for the sake of the expansion of production. They see to it that ever more machines are built for the sake of building with their help ever more new machines”; that is, they accumulate their surplus value not as capital but in the form of a pointless production of means of production. This conception surplus value would be created “from the very beginning... in a natural form exclusively designed for the requirements of accumulation.” This, however, is not the case in reality, as capital must first sell in order to be able to accumulate. But where are the capitalists to find the buyers who will allow them to realize their surplus value?
accumulation, for Luxemburg, is “the heaping up of money capital,” which presupposes the realization of the surplus value produced. How can this be accomplished,

if the capitalists as a class are themselves always the only buyers of their total product apart from the portion which they must at the moment pay the working class for its maintenance if they must always buy their commodities from themselves and must “cash in” the surplus value contained in them with their own money then the heaping up of profits which is accumulation must be impossible for the class of capitalists as a whole.

She found the answer to her questions “in the dialectical contradiction that capitalist accumulation needs non-capitalist social formations as the setting for its development, that it proceeds by assimilating the very conditions which alone can ensure its own existence.” Internal capitalist trade can, as she saw it, “at best realise only certain quantities of value contained in the social product: the constant capital that has been used up, the variable capital, and the consumed part of the surplus value. That part of the surplus value which is earmarked for capitalization, however, must be realized “externally.” “Thus capitalism.

thanks to its interactions with non-capitalist social strata and countries, expands itself more and more, in that it accumulates at their expense but at the same time erodes and displaces them step by step in order to take their place. But the more capitalist countries participate in this hunt after territories for accumulation, and the scarcer the non-capitalist areas still open to the global expansion of capital become, the more bitter will be the competitive struggle of capital over each such territory and the more its campaigns in the world theatre will turn into a series of economic and political catastrophes: world crises, wars. revolutions.

Imperialism can be explained apart from Luxemburg’s “strictly economic reasoning.” It can be treated in connection with accumulation, without reference to the need for non-capitalist markets for the realization of surplus value, as for example in Hilferding’s theory. The importance of Luxemburg’s work, however, lay not so much in the explanation of imperialism as in the demonstration that capitalism has absolute, impassable limits, and that the more closely the system approaches them, the greater the social shocks will be. It was the idea of Tugan-Baranovsky and Hilferding, based on the reproduction schemas, that nothing stands objectively in the way of accumulation, which impelled Luxemburg to investigate the equilibrium conditions of the schemas and thereby to conclude that the impossibility of realizing surplus value within the capital-labor relationship gives rise to a perpetual element of disequilibrium, in the form of an unsalable quantity of commodities that cannot be turned into money and the value of which can only be realized as capital outside the system. Thus it was not the problem of the production of surplus value and the difficulties it encounters as accumulation proceeds but that of the realization of surplus value which Luxemburg saw as decisive for the future of capitalism. The periodic crises were accordingly for her crises of overproduction, characterized by quantities of unsold goods, and could not be overcome within the system. This idea had a certain plausibility, as capitalism had in fact spread geographically and incorporated one new country after another into the world economy; but it had nothing to do with Marx’s theory of accumulation. As a result Luxemburg’s theory came in for extensive criticism both from the right and from the left wing of the social democratic movement. The discussion around Marx’s theory of accumulation and crisis led to the development of two antithetical views, each giving rise to several variants. One insisted that the accumulation of capital has absolute limits and that an economic breakdown of the cistern is inevitable. The other held this to be absurd, maintaining that the system would not disappear from economic causes. It goes without saying that the reformists, if only to justify themselves, adopted the latter position. But
even ultraleftists – Anton Pannekoek, for example – saw the idea that the breakdown of capitalism would be a “purely economic” process as a falsification of historical materialist theory. Pannekoek thought the problematic itself was false, whether it led to Tugan-Baranovsky’s conclusion that accumulation has no limits or to Luxemburg’s breakdown theory. He thought the shortcomings of the capitalist system as Marx described them and the concrete phenomenon of crisis, produced by the anarchy of the economy, were sufficient to provoke the development of revolutionary consciousness among the proletariat and thus to lead to proletarian revolution.

Although Pannekoek attacked Tugan-Baranovsky’s harmonizing interpretation of Marx’s reproduction schemas on the grounds that the circuit of capital is in reality a process shot through with crises and that the function of Marx’s formulas in his theoretical analysis was only that of a preliminary and simplified description, he also held Luxemburg’s critique to be a misunderstanding, since in his opinion capital is able to realize its surplus value without the help of a non-capitalist market. By the same token, imperialism, while an incontestable fact, was not a necessary presupposition of capitalist production. The whole hypothesis of a final and automatic breakdown of capital, he thought, contradicts Marx’s approach, in which the objective and subjective conditions of revolution cannot be separated. The revolution depends on the will of the working class, even if this will develops in response to economic circumstances. Thus the proletariat is not going to meet a final crisis but will experience many crises, until the decisive element, revolutionary consciousness, is sufficiently constituted to put an end to the capitalist system.

Luxemburg’s Accumulation of Capital met with almost universal rejection among the theoreticians of Social Democracy, not so much because she dared to criticize Marx or to explain the reality of imperialism by the realization difficulties encountered by accumulation, but because by evoking the inevitable end of capitalism she supported a politics of proletarian class struggle diametrically opposed to the dominant reformist attitude. On the other hand, it was just her insistence on the inescapable end of capital that assured her a following among the workers of the left opposition, whether or not they accepted her specific argument for it, as they did not care very much whether and how capital would break down from these or from any other causes, as long as it was doomed to break down from some cause.

Among the many theoreticians who argued against Luxemburg, Otto Bauer and Nikolai Bukharin merit particular attention. Bukharin’s delayed critique reflected not only theoretical interest but also the struggle the Bolsheviks were waging at that time against “Luxemburgism” in order to clean the tradition linked to her out of the communist parties. Bukharin found nothing to object to in Marx’s reproduction schemas and rejected Luxemburg’s critique on this subject. Of course, the circuit of capital, represented at a very high level of abstraction, required later completion on a lower, more concrete level of abstraction. In any case, the reproduction schemas admitted of neither Tugan-Baranovsky’s nor Luxemburg’s interpretations. According to Marx and Lenin, even in a “pure” capitalist system nothing stands in the way of accumulation and the realization of surplus value. Bukharin saw the basis of Luxemburg’s false theory in her identification of the accumulation of capital with that of money capital. She imagined that the share of the surplus value that must be accumulated as additional capital must first be transformed into money already at hand within the system. Only then would the surplus value be realized, and the expanded reproduction would be the reproduction of capitalist accumulation. Without this metamorphosis of surplus value from the commodity form into the money form, accumulation could not take place. Bukharin, however, pointed out that, like capital itself surplus value appears in various forms: as commodities, as money,
as means of production, and as labor power. For each of these the money form is not to be identified with the total surplus value in its various forms. Surplus value must go through its money phase, only not as a whole, at one time, but rather bit by bit, through innumerable commercial transactions, in the course of which a given sum of money can repeatedly accomplish the transformation of commodities into money and money into commodity. The total surplus value does not have to encounter a sum of money equivalent to it, although every commodity, in order to be realized, must be turned into money. The fact that the growing capital is accompanied by an increasing mass of money does not mean that capital and money capital have to accumulate at the same rate. Capital is objectified in many forms, of which that of money is one, but not the exclusive, functional form of realized surplus value.

This critique of Luxemburg’s theory was related to Bukharin’s own crisis theory, which relied on Lenin. It did not differ essentially from the disproportionality theories of Tugan-Baranovsky and Hilferding, although Bukharin attempted to take a position opposed to Tugan-Baranovsky. This putative opposition consisted in the inclusion of underconsumption within the disproportionality between the production of producer’s goods and that of consumers’ goods. One might consider this a tautology, but for Bukharin it was the decisive factor that distinguished Marx’s theory from Tugan-Baranovsky’s. Here we find ourselves facing the question raised earlier, whether Marx had two crisis theories, one deriving crisis from the theory of value as the falling rate of profit, and the other deriving it from the insufficient consumption of the workers. Neither Lenin nor Bukharin saw a contradiction here. On the one hand, they maintained that the production of means of production took place in complete independence of that of consumer goods; on the other hand, it was for them the insufficient consumption of the workers that set limits to the accumulation process, because Marx had declared that in the final analysis the production of means of production always only serves consumption. Accordingly they held Tugan-Baranovsky’s hypothesis of the limitless expansion of capital to be false, even though they did not deny the possibility of a balanced proportionality of the different departments of production.

It was thus not the falling rate of profit resulting from accumulation which Lenin and Bukharin opposed to Tugan-Baranovsky’s imaginary unlimited capital expansion but the under-consumption of the workers, which, in the context of all the other disproportionalities, limited accumulation in a particular way. It followed that the increasing consumption of the workers would help make possible the realization of the surplus value destined for accumulation. Thus Bukharin suggested that variable capital are together with constant capital, with the result that an increasing part of the surplus value could be realized. Of course, in practice this could only mean that the capitalists would give back to the workers a part of the surplus value just extracted from them; they could have saved themselves the trouble if they had only taken that much less surplus value from the workers in the first place! Although it is sometimes (but not always) true that additional means of production require additional labor power, this in no way alters the fact that the ratio of constant to variable capital shifts in the course of accumulation in favor of constant capital. Despite the absolute increase of the number of workers, they become fewer relative to the more rapidly growing constant capital, so that the surplus value extracted from them increases, and the problem of its realization if there is such a problem not only remains but becomes more severe.

Now Marx’s theory of accumulation as a whole is based on the assumption that the workers are always paid according to their value, measured by their production and reproduction costs. The surplus value can therefore only go to the capitalists and must be realized by them through their own consumption and their accumulation. Assuming for
the moment that nothing stands in the way of this realization, Marx pointed out that even under these benign circumstances, accumulation depresses the profit rate until accumulation finally founders on the lack of profit. This does not mean that the process of realization proceeds as smoothly as the general theory of accumulation makes it appear; but it does mean that, quite independently of all its difficulties with realization, capital meets a limit in surplus-value production itself. If the accumulation process can be depicted in abstraction from the circulation process, the process of reproduction can also be traced without considering the realization problems it encounters in reality in order to explain the meaning of the circuit of capital. One can find this mode of procedure reasonable or not; at any rate Marx believed that although his abstract model of the capitalist process of circulation did not correspond to reality in some ways, it could nevertheless contribute to a better understanding of reality. But just as Tugan-Baranovsky’s conclusions cannot be justified by appealing to the reproduction schemas, they also cannot be contested by the meaningless assertion that the workers realize a part of the capitalists’ surplus value and that a crisis must set in if this no longer happens to a sufficient degree.

For Bukharin the crisis results from a conflict between production and consumption or (what is the same) from overproduction. The anarchy of capitalist production includes in its various disproportionalities that between production and consumption. From this it would follow that without these disproportionalities the capitalist reproduction process could proceed frictionlessly. And as the crisis only appears periodically, prosperity appears when the elements of the system are adequately proportional. Moreover, it follows from this that with the correct proportionality the process of reproduction would proceed as portrayed in Marx’s schemas. If we bear this in mind, it becomes comprehensible why Lenin took the side of Otto Bauer in the debate between Luxenbug and Bauer, with which we shall now deal. That it occurred to neither Lenin nor Bukharin to investigate the problem of crisis from the standpoint of the theory of value is already evident in the fact that Bukharin agreed with Luxemburg that if the fall in the rate of profit were to be responsible for the end of capitalism, this “would take as long as the cooling of the sun.” At the same time, however, he turned this remark against Luxemburg herself since her theory also depends on the continuous fall in the rate of profit, though due to the disappearance of non-capitalist markets.

Since the whole debate about the Marxian reproduction schemas can be followed in the original writings of the participants, and since the particular, arbitrarily chosen magnitudes of these diagrams are of no consequence for us, it is enough here to repeat: Marx wanted to show that with certain exchange ratios between the department of production producing means of production and that producing consumer goods, both can not only renew their constant and variable capital but also grow through capitalizing their surplus value. Marx represented this process first as a closed circuit, i.e., as the “simple reproduction” of a given state of the economy, and then as a process of expansion, or “expanded reproduction,” in which simple reproduction is included as a part of the total process. The static case appeared to all the participants in the debate as equally clear; only when it came to expanded reproduction were minds divided. For with the inclusion of circulation the static circuit become “a spiral, winding higher and higher, as if under the compulsion of a mathematically measurable natural law.”

According to Marx, Luxemburg explained, reproduction expands in strict conformity with the laws of circulation: the mutual supply of the two departments of production with additional means of production and consumer goods proceeds as an exchange of equivalents. It is an exchange of commodities in the course of which the very accumulation in one department is the
condition of accumulation in the other and makes this possible. The complicated problem of accumulation is thus converted into a diagrammatic progression of surprising simplicity.

Just because of this it is necessary to take care lest we should only have achieved these surprisingly smooth results through simply working out certain foolproof mathematical exercises in addition and subtraction, and we must further inquire whether it is not merely because mathematical equations are easily put on paper that accumulation will continue *ad infinitum* without any friction.

Nevertheless Luxemburg began by busying herself very intensively with these equations in order to establish that Marx’s calculations did not work out right and that the surplus value cannot be realized within the terms of his model, which rules out the reproduction process on an expanded scale as he presented it. Otto Bauer then took on the task of repulsing this attack on Marx. He maintained, to begin with, that every society with an increasing population has to enlarge its productive apparatus, so that accumulation is unavoidable.

One part of the surplus value is transformed into capital; this means that one part of the surplus value accumulated goes to variable, another to constant capital. The capitalists carry out this accumulation in order to increase their profits, but its social effect is the provision of the consumer and producer goods necessary for population growth.

While in this way, according to Bauer, the capitalists increase their capital, despite their self-interestedness, in a way that conforms to social needs, as a result of the anarchic character of production the danger always exists that accumulation will lag behind population growth or get ahead of it. Thus the first thing to investigate is “how the accumulation of capital should be carried out if it is to remain in equilibrium with population growth.” Taking various hypothetical starting points (such as that of a 5 percent yearly growth of population and so of variable capital and a constant rate of surplus value), Bauer calculated a series of transformations of the economic system. His tables indicated that with an increasing organic composition of capital, the rate of accumulation must rise yearly if the equilibrium between accumulation and population is to be maintained.

Bauer dealt first with the total capital, subsequently differentiating between the two departments of production. A higher organic composition of capital implies the transfer of a part of the surplus value accumulated in consumer goods production into the department producing means of production. In Bauer’s opinion there is nothing to prevent this, since it results directly from the requirements of production and the relations of exchange. Bauer did not deny the arbitrary elements Rosa Luxemburg criticized in Marx’s schemas; but believing that Marx’s reasoning was nevertheless correct, he sought to answer her criticisms with a better schema. In Bauer’s schema the only remaining arbitrary elements were the hypotheses defining the starting point of accumulation; given these the magnitudes represented in his schemas followed with mathematical necessity. The only result of interest to us here is that all the commodities of both departments could be sold and realized.

Bauer then asked how Luxemburg could have come to the opposite view and thought he could explain this as the result of a misunderstanding. She assumed that, following the schema, the surplus value to be accumulated must be realized year by year. However, this was only a simplifying assumption, made for heuristic reasons— in reality the surplus value created in one year may be realized over a period of many years. The unrealizability of a part of the surplus value is “only a transitory phase in the whole
Economic Crisis and Crisis Theory

The workers’ consuming power grows as quickly as their numbers. The capitalists’ consuming power grows first as rapidly, since with the number of workers the mass of surplus value also increases. The consuming power of the whole society thus grows as rapidly as the value product. Accumulation alters nothing in this; it means only that fewer consumer goods and more production goods are required than with simple reproduction. The extension of the domain of production, which is a presupposition of accumulation, is here made possible by the growth of the population.

How can such harmonious circumstances lead to a crisis? The equilibrium of accumulation and population growth can only be maintained, according to Bauer, “when the rate of accumulation grows so rapidly that despite the rising organic composition of capital, the variable capital grows as quickly as the population.” Otherwise a situation of underaccumulation arises. This leads to unemployment and downward pressure on wages, but also to a rise in the rate of surplus value. Assuming a constant rate of accumulation, if the rate of surplus value rises, the portion of surplus value accumulated will also grow. “Thus the mass of surplus value invested in the enlargement of the variable capital also grows. It will continue thus to increase until the equilibrium between the growth of the variable population and the growth of the population is reestablished.” In this way the underaccumulation is always counteracted again, so that the periodic crisis represents only a transitory phase of the industrial cycle. Underaccumulation is the obverse of the overaccumulation described by Marx.

Prosperity is overaccumulation. It provides its own counteraction in the crisis. The depression that follows is a period of underaccumulation. It resolves itself by creating out of itself the conditions of a return to prosperity. The periodic return of prosperity, crisis, and depression is the empirical expression of the fact that the mechanism of the capitalist mode of production by itself overcomes overaccumulation and under-accumulation, perpetually adapting the accumulation of capital to the growth of the population.

Rosa Luxemburg had the opportunity to answer her critics. Against the theoreticians of harmonious development, she held that under the assumption of limitless capitalist accumulation, “socialism loses the granite bedrock of objective historical necessity. We are lost in the fog of the pre-Marxist systems and schools that want to derive socialism from the pure injustice and wickedness of the modern world or from the pure revolutionary will of the working class. That objective necessity could also have another foundation did not enter her mind. Therefore she found nothing to revise in her theory. Despite her insight “that mathematical schemas in general prove nothing with respect to the question of accumulation,” she nevertheless stuck too doggedly to her interpretation of Marx’s reproduction schemas to be able to give her theory of imperialism another basis.

Giving special attention to Bauer’s criticism, but without going into his calculations, Luxemburg attacked his theory of population, rejecting it as senseless. In this she stood completely on the terrain of Marx’s theory, for which it is the mechanism of production and accumulation that adapts the number of employed workers to the valorization requirements of capital, and not accumulation that is adapted to population growth. She also rejected Bauer’s speculation that she had interpreted Marx’s schemas as referring to calendar years, although without going deeper into the implications of this. She drew attention to the necessary distinction between the realization of the surplus values produced by the individual capitals and those produced by the total capital, without noticing that the total surplus value can only be realized via the realization of the individual capitals’ surplus values, for the total capital exists only as the sum of all the
individual capitals. While the magnitudes postulated by Marx’s reproduction schemas were for her a “scientific fiction,” operating with theoretical assumptions about total capital and total surplus value can itself be only a heuristic procedure; a means to the understanding of reality, not reality itself. In general Luxemburg was never clear about the function of the reproduction schemas, as can be seen from her hypothesis that they “anticipate the actual tendency of capitalist development.” Marx assumed, she wrote, “that the complete and absolute domination of the whole earth by capitalism, the furthest extension of the world market and the world economy, toward which capital and the whole of present-day economic and political development in fact are heading, had already been achieved.” If this was Marx’s procedure, then it would speak not for Luxemburg but against her, for without a doubt the reproduction schemas show that even under the conditions they assume, the circuit of capital is conceivable on an expanded scale. Since according to Luxemburg capitalism can simply not exist under these conditions, Marx on her interpretation would have imagined an absolute impossibility. In fact, however, Marx’s intention was to view the process of reproduction in its basic form in which obscuring minor circumstances have been eliminated— in order to get rid of the false subterfuges that furnish the semblance of “scientific” analysis when the process of social reproduction is immediately made the subject of the analysis in its complicated concrete form.

Thus Marx was dealing not with a future state of capitalism but with the investigation of the fundamental structure of capitalist reproduction, its inner relations, unobservable at the surface level.

While Rosa Luxemburg did not go into Otto Bauer’s calculations, Henryk Grossmann accorded them all the greater attention. Grossmann completely rejected her theory, but he also rejected Bauer’s critique of it. His own interpretation of Marx’s theory of accumulation started from Marx’s theory of value and treated the problem of accumulation as one of valorization that arises out of capitalist production, although it manifests itself in the process of circulation. But he could not resist entering into the whole discussion about accumulation, and particularly into Bauer’s contribution to it. Grossmann emphasized that Bauer had succeeded “in constructing a reproduction schema that indeed meets... the formal requirements that can in general be set for this type of construction and presents none of the defects for which Rosa Luxemburg criticized Marx’s reproduction schema.” Certainly Bauer’s population theory is “a pure and simple abandonment of the Marxian theory of population,” but “in and of itself Bauer’s reproduction schema has nothing to do with his population theory and can be considered independently of it. On the basis of Bauer’s assumptions, Grossmann showed that extending Bauer’s calculations from the period of four years worked out by Bauer to one of thirty-five years led to results fully at odds with Bauer’s conclusions.

Bauer knew, of course, that the rising organic composition of capital implies a falling rate of profit, a phenomenon that can of course be accompanied by a more rapid growth of the rate of surplus value. But in his schema the rate of surplus value remains constant instead of increasing with the growing organic composition, a contradiction that Luxemburg had already pointed out in her Anti-Kritik According to Bauer this contradiction could be eliminated by supplementing his schema by introducing a rising rate of surplus value, although he himself did not undertake this task. Were this done, the rate of profit would fall in his schema, in which the constant capital grows at twice the rate of the variable capital. But this fall of the rate of profit does not prevent the growth of capital and increasing capitalist consumption during the period considered by Bauer. By extending Bauer’s schema beyond this period, Grossmann showed that on Bauer’s own assumptions there necessarily comes a point after which the surplus value no longer
suffices to continue accumulation. Thus, in Grossmann’s eyes, Bauer’s schema itself provided proof that the system faces an objective limit set by the tendency, inherent in it, of the profit rate to fall.

The law of the falling rate of profit, however, has nothing to do with the reproduction schemas, either Marx’s or Otto Bauer’s. It follows from the rising organic composition of independently of the exchange relations between the two chief departments of production. According to Marx crises can arise also from disproportionalities within the production and circulation processes. But as these disproportionalities maldistributions of capital among branches of production can also in turn be overcome by way of these same crises, the process of reproduction can be represented as crisis free, just as an equilibrium of supply and demand, which in real life does not exist, can be imagined. Crises of this kind, arising exclusively from the disproportionalities of the system, are only an expression of the anarchy of capitalism and not of the exploitative character of the relations of production that underlie this anarchy; they are resolved, therefore, by the redistribution of surplus value, without the production of additional surplus value. The crises that arise from the nature of capitalist production, in contrast, do not solve themselves but can be counteracted only by the adjustment of surplus value production valorization needs of the altered capital structure only, that is, by an increase in exploitation.

Otto Bauer did not concern himself with crisis resulting from the relations of production and the production of capital. He explained crisis as a result of disproportionality, not as Tugan-Baranovsky and Hilferding understood it but as the disproportionality between accumulation and population growth. On this basis he showed that Marx’s reproduction schemas can be used to prove the potential for accumulation of a “pure” capitalism. With this Grossmann agreed, but at the same time he showed that this did not eliminate the crisis problem, since it ignored the valorization problem involved with accumulation. Since the whole discussion of crisis turned around Marx’s reproduction schemas, it was necessary for Grossmann to deal with them. This was all the more important as the preoccupation with the schemas gave rise to the impression that this was Marx’s real crisis theory, while the theory, advanced in the first volume of Capital, of breakdown engendered by accumulation was taken to be an idea later abandoned by Marx. In this interpretation crisis remained a matter solely of the disproportionality of the system, which awakened the conviction that any crisis could be overcome through the restoration of the lost proportionality and that crises could perhaps be completely eliminated by a better organization of the system. Indeed it was just these views that led Rosa Luxemburg to attack the harmonizing interpretations of the reproduction schemas, with the upshot that in the end she denied that they had any heuristic value.

For Grossmann no conclusions about reality can be drawn directly from the reproduction schemas. In the form Marx gave them, they indicated neither an equilibrium nor a disequilibrium state of the economy. Since they dealt only with the value side of reproduction, they were unable to “represent the real process of accumulation with respect to both values and use values."They must be understood, Grossmann thought, in the light of Marx’s method of approximations, which require subsequent modification and completion to give a full picture of reality. With the reproduction schemas “Marx wanted to bring out that the exchange of commodities is a necessary presupposition of the capitalist mode of production; he therefore necessarily had to describe not one capitalist but at least two independent commodity producers or production groups”; hence the two departments of the reproduction schemas. But the reproduction schema “does not claim to be in itself a replica of concrete capitalist reality; it is only a link in Marx’s chain of
approximations, which, together with the simplifying assumptions that lie at the base of the schema and the subsequent modifications in the direction of a progressive concretization, form a coherent whole.”

This particular step in a series of approximations leading to an understanding of capital as a total process was of particular importance for Grossmann, as in his view it was the central element in the structural plan of Capital. Pointing out that Marx had altered the plan of his work by 1863, Grossmann held it to be very likely ‘that this was connected with Marx’s discovery, made at the same time, of the reproduction schema. This interpretation is supported by the “methodological viewpoint actually adopted in the final version of Capital the arrangement of the empirical material by reference to the functions that capital carries out in its circuit.

In 1857, when he wrote the Grundrisse, however, Marx had already developed a reproduction schema, though a simpler one, illustrating the circulation between different departments of production. Grossmann could not have known this at the time of his own work, since Marx’s earlier text had not yet been published, but the idea of the reproduction schemas did not, therefore, have to await Marx’s discovery of 1863. Although the latter may well have influenced the final form of the schemas, it did not determine the structural plan of Capital. In any case, what is important is that already in the Grundrisse, Marx subordinated the problem of exchange to that of the valorization of capital. In the process he called simple reproduction,

At a given point in the development of the productive forces— for this will determine the relation of necessary labor to surplus labor—a fixed relation becomes established, in which the product is divided into one part—corresponding to raw material, machinery, necessary labor, surplus labor and finally surplus labor divides into one part which goes to consumption and another which becomes capital again. This inner division, inherent in the concept of capital, appears in exchange in such a way that the exchange of the capitals among one another takes place in specific and restricted proportions—even if these are constantly changing in the course of production... Exchange in and for itself gives these conceptually opposite moments an indifferent being; they exist independently of one another; their inner necessity becomes manifest in the crisis, which puts a forcible end to their seeming indifference toward each other.

The valorization of capital is for Marx “production of new and larger values,” so that the reproduction of capital can be understood only as accumulation. Every revolution in the productive forces alters the relations of exchanges, “whose foundation from the standpoint of capital and hence also of that of realization through exchange always remains the relation of necessary to surplus labor or... of the different moments of objectified to living labor.” However this may affect exchange, “the relation of surplus labor to necessary labor” must remain “the same for this is equal to the constancy of the valorization of capital.” The crisis makes its appearance “in order to restore the correct relation between necessary and surplus labor, on which, in the last analysis, everything rests.” Exchange, Marx continues,

does not change the inner characteristics of valorization; but it projects them to the outside, gives them a reciprocally independent form, and thereby lets their unity exist merely as an inner necessity, which must therefore come forcibly to the surface in crises. Both are therefore posited as the essence of capital: the devaluation of capital in the production process, as well as the suspension of devaluation and the creation of the conditions for the valorization of capital.”

The crisis appears here not as the result of the disappearance of a proportionality in the relation between production and consumption, but as a means to restore the “proportionality” between necessary labor and surplus labor that has been lost through the
uncoordinated movement, rendered independent, of exchange and production. In other words: the process of production and of circulation, although a necessary unity, is actually unified and is co-ordinated temporarily only through the crisis. Regulation here means essentially nothing but the reestablishment of valorization, which of course must manifest itself also in shifts of the relation between the spheres of production and in those of circulation. The changes in the process of capital as a whole are thus determined by the changes of profit and of accumulation. The concrete forms these phenomena take could, according to Marx, be developed only with a treatment of competition and an analysis of real capital.

The titles of the three volumes of *Capital* “The Process of Production,” “The Process of Circulation,” and “The Process of Capitalist Production as a Whole” illustrate the structure of the work. The process as a whole, as a unity of the production and circulation processes, represents the real process of capitalist reproduction. It is presupposed by the separate analyses of production and circulation, which is as much as to say that the volumes on the process of production and circulation, based on the theory of value, deal with matters that appear in a different form in reality. This does not mean that the analysis of production in terms of value, or of circulation in terms of the exchange of values, is not an analysis of the real world. It is, but its categories represent the world as experienced in a modified form. Just as “capital in general, as distinct from the particular real capitals, is itself a real existence,” the exchange of values, like the labor-time value of commodities, also really exists, although these too can only be seen in the capitalist economy’s submission to the laws of value intrinsic to it. The transformation of values into prices of production makes neither value nor reproduction schemas framed in terms of value fictional, since the basis of the prices of production encountered in reality is nothing other than the labor-time values.

Thus a study of circulation in isolation from the system as a whole does not require investigation of the actual exchange relations of reproduction. Even on the abstract basis of the reproduction schemas, the process of reproduction requires a definite proportionality of exchange relations. It was to represent them that Marx devised the schemas, which make no further claim to description of reality save that they represent a process that must be carried out in actual reproduction, although in forms different from those of the abstract model. As accumulation can only proceed when there is a proportional or adequate relation of surplus labor to labor as such, this relation must also appear in the proportions obtaining between the two departments of production and the exchanges between them. Where this proportionality is not present, crisis will ensue in order to produce the proportionality required for further accumulation. If one wanted to call the presence of the necessary proportionality between profit and accumulation an “equilibrium” state (which it certainly is not), one could describe the absence of this proportionality as a state of “disequilibrium.” But both terms would signify no more than a rate of profit either sufficient or insufficient for accumulation.

To Grossmann’s observation that the reproduction schemas are not designed “to represent the real process of accumulation in terms of value and use value,” it must be added that Marx did not intend the schemas as pictures of the “real process of accumulation”; the schemas nevertheless deal with values as much as with use values. Their function was precisely to indicate that while in reference to the individual capitals, the bodily form of the commodities produced was wholly immaterial for the analysis, ... [t] his merely formal manner of presentation is no longer adequate in the study of the total social capital and of the value of its products. The reconversion of one portion of the value of the product into capital and the passing of another portion into the individual consumption of the capitalist as well as the working class form a movement
within the value of the product itself in which the result of the aggregate capital finds expression; and this movement is not only a replacement of value but also a replacement in material and is therefore as much bound up with the relative proportions of the value components of the total social product as with their use value, their material shape.

The analysis of production in terms of value was for Marx the unavoidable precondition for understanding capital and its laws of motion, even though not value but prices of production govern the market, and the prices coincide with values only in the theoretical analysis of the total capital. In the same way, the analysis of the circulation process in terms of value was a necessary first step in the scientific understanding of capitalist production, although here too exchange is governed by prices of production, which in the first place reflect the use values of commodities. What Marx sought to make clear was that independently of the modifications of the value relations due to market relations, the value relations themselves already carry the germ of crisis. As a result, just by being based on value-regulated exchange, which is at the same time an exchange of use values, the reproduction of capital is a process shot through with crises.

The fact that the production of commodities is the general form of capitalist production implies the role which money is playing in it not only as a medium of circulation but also as money capital, and it engenders certain conditions of normal exchange peculiar to this mode of production and therefore of the normal course of reproduction, whether it be on a simple or on an extended scale-conditions which change into so many conditions of abnormal movement, into so many possibilities of crises, since a balance is itself an accident owing to the spontaneous nature of this production.

Marx then showed how the double character of the commodity, as value and use value, transforms even the apparent equilibrium of simple reproduction into disequilibrium. Thus, for example, the wear and tear and replacement of fixed capital can produce dislocations in the value-defined conditions of exchange, destroying any possibility of equilibrated reproduction. Without going into Marx’s examples of the appearance of disproportionality within simple reproduction, it here needs to be stressed only that they apply exclusively to capitalist reproduction.

Once the capitalist form of reproduction is abolished, it is only a matter of the volume of the expiring portion-expiring and therefore to be reproduced in kind of fixed capital. . . varying in various successive years. If it is very large in a certain year . . . then it is certainly so much smaller in the next year. The quantity of raw materials, semi-finished products, and auxiliary materials does not decrease in consequence. Hence the aggregate production of means of production would have to increase in the one case and decrease in the other. This can be remedied only by a continuous relative overproduction. There must be on the one hand a certain quantity of fixed capital produced in excess of that which is directly required; on the other hand, and particularly, there must be a supply of raw materials, etc., in excess of the direct annual requirements. . . This sort of overproduction is tantamount to control by society over the material means of its own reproduction. But within capitalist society it is an element of anarchy.

Thus the point of the schemas of simple and enlarged reproduction is not the demonstration of the possibility of a frictionless exchange bringing the two departments of production into equilibrium but the demonstration that such a hypothetical situation could arise neither in capitalism nor in a socialist society. Moreover, while in socialism overproduction would be indispensable to assure the satisfaction of social needs and would therefore be considered normal, the same situation in capitalism, where it must appear as an excess or deficiency of reproduction, represents a problem bound to manifest itself in disorganization and crisis. It did not occur to Marx that the idea of a harmonious
course of capitalist accumulation could be derived from his reproduction schemas, if only because the first volume of Capital, which unambiguously predicted the breakdown of capitalism, preceded them.

Perhaps, however, to forestall all harmonizing interpretations, it would have been better not to treat the circulation process on the basis of value exchange, since calculation with values only makes sense in reference to the total capital. Grossmann’s explanation, that the reproduction schemas were necessary because the exchange of commodities requires at least two exchanging social groups, is not convincing, for this obvious fact needs no demonstration, and since actual exchange takes place in price, not value, terms, so that the division of the system into two parts can be represented using prices of production, without any preliminary description using values. Rosa Luxemburg’s objections were directed at Marx’s construction of his reproduction schemas in value terms, on which basis she showed that the equilibrium assumed by Marx cannot be maintained (something Marx himself had demonstrated, although with different arguments). Grossmann corrected Luxemburg by showing that the disequilibrium in the value-based reproduction schema could lead to equilibrium in a schema based on prices of production. Thus he showed that the portion of the surplus product she had thought to be unsaleable within the system could be completely absorbed by it thanks to the formation of an average rate of profit due to competition and the ensuing distribution of the total surplus value.

Nevertheless, according to Grossmann Marx’s reproduction schema represented the median line of accumulation, thus the ideal normal path on which accumulation takes place equally in both departments of production. In reality there are departures from this median line, but these deviations are only understandable on the basis of that ideal average line. Rosa Luxemburg’s error consists exactly in the fact that she treats as an exact description of the real process what is supposed to represent an ideal normal course among many possible cases.

This explanation, however, brings us back to the theories of Tugan-Baranovsky, Hilferding, and Otto Bauer, which indeed also deal only with an “ideal normal course,” which in reality would be disrupted by all manner of disproportionalities or “deviations” from the “median line.” With these authors too it is a matter only of a theoretically conceivable “normal course” of accumulation in which the “deviations” from the “median” always lead back to it, so that equilibrium asserts itself as a tendency, thus justifying the assumption that the system has no objective limits. In this way Grossmann’s attempt to counterpose a Marxian equilibrium to Luxemburg’s disequilibrium (once as the “midline” of the fictive reproduction in value terms and then as the solution of the dis-equilibrium by means of the transformation of values into prices by competition) leads to the completely unnecessary concession that the reproduction schemas, in one version or another, demonstrate the possibility of a frictionless exchange between the departments of production.

For Marx, as stated above, the difficulties basic to capitalism arise not from the exchange relations between the different capitals, although these also exist, but from the production relations which appear as exchange relations. The realization of surplus value is a problem that capital must solve for itself and is a consequence of the production relation of exploitation that underlies it. If capital could not realize the surplus value, it could not exist, for it is nothing but surplus value. The very existence of capital proves that it is able to transform surplus value into capital. The increasing accumulation furnishes the proof that it is in a position to realize an increasing mass of surplus value. The realization of surplus value has, in general, nothing to do with the workers, since they produce both their own value and the surplus value and realize their own value in their
consumption. The surplus value is realized in accumulation and capitalist consumption (which includes the unproductive costs of the society).

What mattered to Rosa Luxemburg was not so much the realization of the surplus value itself, which could not be doubted, but the mechanism through which it took place. This mechanism was not visible in the reproduction schemas, as it was already implicit in the assumption that the surplus value is realized in the circulation of capital. Now, Marx could also have elaborated a reproduction schema in which this was not the case; but this would have been pointless, as the accumulation of capital, theoretically and practically, presupposes the realization of surplus value. Luxemburg thought this presupposition would not hold for a closed system, even entirely apart from the reproduction schemas, since she could not see how the transformation of the accumulated surplus value into money could be accomplished.

It was clear to her that foreign trade between capitalist nations provided no solution here but only repeated the problem on a wider plane. There must be buyers who do not themselves sell but exchange money for the surplus value created in the capitalist lands in the form of commodities. She did not explain where these buyers would obtain the necessary money, but it must derive from non-capitalist exploitation relations, which accordingly must be fruitful enough to absorb all the surplus value produced in the capitalist countries and destined for their accumulation. Thus the production of surplus value indeed depends on the exploitation of the workers in the capitalist countries, but without ensuring its accumulation, so that the accumulation of capital has as its ultimate condition the exploitation of non-capitalist countries.

It follows from this fantastic idea that the total accumulated capital of the capitalist world is only made possible by the exploitation of the non-capitalist world and that the latter must absorb a quantity of commodities with a value great enough to be adequate, when realized in money, for accumulation to continue. If this were possible, which it is not, it would only mean as is true for foreign trade in general that “the involvement of foreign commerce in analyzing the annually reproduced value of products can... only confuse without contributing any new element of the problem or of its solution.” Money is also a commodity; and the exchange of commodities for money, whether within capitalist areas alone or on the world market, remains the exchange of commodities, in which the money form of the commodity is only one phase of the process of circulation.

Marx also recognized a problem of realization. But for him it was a problem specific to the capitalist world, which could not be solved through the existence of non-capitalist countries. The anarchy within capitalist production and accumulation permanently excludes the realization of a part of the produced surplus value, so that the realized surplus value is always different from that produced. Whether commodities are over- or underproduced relative to the market can only be discovered after their production. The value and surplus value contained in unsaleable commodities is lost and cannot be capitalized. When the production oriented toward expansion reaches a point that puts its valorization in jeopardy, it ceases to expand and thereby produces an unsaleable mass of commodities whose value cannot be realized by accumulation and so cannot be realized at all. In this way the suspension of accumulation appears as a problem of realization, since in fact produced commodities cannot be sold. Overproduction, as the appearance in the market of the overaccumulation of capital, is only perceived in the form of the increasing difficulties of realization and is therefore explained in terms of them, although its real origin is the (un-observable) increasing divergence between production and valorization. Thus for Marx there are two sorts of realization problem: first, the ever present expression of capitalist anarchy; and second, the crisis problem, as the appearance
on the market of the divergence between the profit produced and the surplus value requirements of an enlarged reproduction.

It is therefore not the accumulation of capital that depends on the realization of surplus value, but the realization of surplus value that depends on accumulation. To say this, however, is not to explain the mechanism of the realization process. For every individual capital the sum of money resulting from the sale of its commodities must be greater than the sum of the capital advanced. In the same way in comparison to the total capital expressed in money the total surplus value must amount to a greater value in money terms. What is the source of this additional money? Marx saw no problem here but located this source provisionally, but completely adequately for the purposes of his abstract analysis of the circulation problem, in gold production and credit. Only a discussion of the concrete market relations would, in his opinion, make it necessary to go more deeply into the broader development of the money function within the circulation process of surplus value.

In the earlier discussion of the answers given by Bukharin and Otto Bauer to Rosa Luxemburg’s question as to the source of the money for the transformation of commodity values into additional capital, we already encountered Marx’s answers to this question. In addition, this problem was for Marx not so much a question whether gold production could furnish a sufficient and so perpetually increasing supply of money, but just the reverse: he saw it as important for capital to restrict the production of gold for monetary use as much as possible in the interest of accumulation.

The entire amount of labor power and social means of production expended in the annual production of gold and silver intended as instruments of circulation constitutes a bulky item of the *faux frais* of the capitalist mode of production, of the production of commodities in general. It is an equivalent abstraction from social utilization of as many additional means of production and consumption as possible, i.e., of real wealth. To the extent that the costs of this expensive machinery of circulation are decreased, the given scale of production or the given degree of its extension remaining constant, the productive power of social labor is *eo ipso* increased. Hence, so far as the expediencies developing with the credit system have this effect, they increase capitalist wealth directly, either by performing a large portion of the social production and labor process without any intervention of real money, or by raising the functional capacity of the quantity of money really functioning.

As a means of circulation, commodity money in gold and silver represents a great and unnecessary expense. For this reason capital has always striven to replace commodity money by symbolic monetary instruments. Commodity money lost its earlier importance with the development of banking and credit. As the social category of money is already included in that of the commodity, the gold standard was a historical but not a necessary phenomenon of commodity circulation. Since all commodities potentially represent money, and money has all commodities at its command, on the national level and increasingly on the international level also, any instrument of payment can serve as a means of exchange. Money is created within the banking system. The volume of credit offered by the banks is determined by the governmental creation of money through note issues and treasury certificates and by varying reserve requirements set by the government as a function of deposits. If credit is only partially covered by bank reserves, it is nevertheless generally guaranteed by capital owned by the borrowers. Where there is no capital equivalent at hand, there is also no credit, which thus relates not to the *money* on hand but to the existing *capital*.

In the process of circulation the accumulated capital takes on the commodity form at one moment and the money form at another. Means of production and commodities
can be transformed into money and vice versa, so that the ownership of capital can be expressed as ownership of money. Although “capital” means money, it also includes all commodities, so that any commodity has the capacity to take the place of money. Although the quantities put on the market must be transformed into money, they embody only a part of the existing capital, so that only a part of capitalist property needs to take on the money form. In general the necessary volume of money is determined by the prices of the commodities entering into circulation and by the turnover velocity of money, modified by the mutual cancellation or the postponement of payments.

Aside from the fact that money has been accumulated for centuries in the form of commodity money (which has continually increased also through the production of precious metals) and therefore be directly exchanged against other commodities, capitalist accumulation has freed itself from these limitations by the mechanism of credit, based on capital already accumulated. The transformation of surplus value into additional capital can be accomplished without additional commodity money, and capital can be accumulated in its commodity form. No actual commodity money corresponds to the credit money necessary for this; it is the “symbolic form” of an additional sum of money that does not exist in reality; but it suffices to carry out the transformation of the commodity values into additional capital: additional capital in turn determines the future expansion of credit. Thus it is the accumulation of capital itself which solves the problem of the additional money necessary and eliminates the difficulties of realisation by means of the techniques of finance.

For money to function as capital, it must first of all cease to be money i.e., it must be invested in means of production and labor power. The transformation of surplus value into money is only a stage, carried through in the market, in its transformation into additional capital. It is of no consequence at all whether this transformation is accomplished with commodity money or symbolic money. The latter, however, can be increased at will and so adapted to the needs of accumulation. Its growth accompanies that of the accumulating capital but is also limited by the latter. In this way we return to the point which appeared so unlikely to Rosa Luxemburg, namely the production for the sake of production, which she believed impossible in a closed system, having failed to find an explanation for the additional money required.

If capital can realize its surplus value through accumulation, then the enlarged capitals are represented as increased sums of money capital. But accumulation depends not on money or credit but on profitability. If profits fall, and with them the rate of accumulation, then the demand for credit declines along with the total demand. The insufficient demand appears as a lack of money and the crisis of production also as a financial crisis. It therefore seemed important to Marx “first and foremost to assume here, as everywhere, metallic circulation in its simplest, most primitive because then in the flux and reflux, the squaring of balances, short all elements appearing under the credit system as consciously regulated processes present themselves as existing independently of the credit system, and the matter appears in primitive form instead of the later, reflected form.”

In addition, at the time Marx was writing Capital, the expansion of production and the creation of new money capital were favored by a credit system of which “metallic circulation remain[ed the] basis,” a situation that has changed with modern modes of credit creation. But the perpetual development of new methods for realizing surplus value in additional capital is only of historical interest and only shows the effect of the increasing weight of the accumulating capital. The system of credit based on metallic money served no other function than the creation of credit without this basis. In both cases credit is governed by the movement of capital. It cannot become autonomous, as it
has meaning only in relation to the actual processes of social production on which it rests. Like money, credit can create nothing; it can only provide the means by which the surplus value created in production finds its way into accumulation. If the actual surplus value is insufficient to be capitalized and at the same time valorized, credit cannot alter this and will fail as an instrument facilitating capital accumulation.

Accumulation for the sake of accumulation that is, without regard for actual social needs or even for the valorization requirements of capital is exactly what is characteristic of surplus value production and nothing to be wondered at. Competition on the basis of value production impels every capital, in the interests of self-preservation, to accumulate. It must grow or go under, and the total result of all these strivings is the growth of the total capital and the resulting changes of the value relations, which bring with them the fall in the profit rate as soon as the blind drive to accumulate overshoots the actual productivity of labor.

If the surplus value is not sufficient to pursue the process of accumulation profitably, it can also not be realized through accumulation; it becomes the unrealized surplus value of overproduction. Where there is no surplus value to be transformed into additional capital, there also no additional money and no credit can transform surplus value into capital. In order to avoid this crisis state, capital must accumulate without cease, but this is only possible with a simultaneous, continuous increase in labor productivity, which keeps the tendency of the rate of profit to fall latent. That such a coordination of material production with the value requirements of capital accumulation is denied to capital is apparent in the crises, which must restore from outside the lost inner coherence of capitalist production if a further expansion of capital is to be possible.

Surplus value is the decisive element of capitalist production. It can become too small as a result of the tendency of the rate of profit to fall, but it can never be too big. This holds not only for the society as a whole but also for each individual capital. Capitalist production therefore always aims at the enlargement of surplus value in order to secure its own existence. For capital the increasing surplus value always seems insufficient, no matter what its magnitude. If the market limits capital in one branch of production, capital emigrates into another or opens up new branches, until these too reach the limits imposed by the market. In the course of accumulation the material side of market relations thereby changes, bringing with it the elaboration of new needs as an expression of the expanding productive forces of society and their application on a greater scale and in broader areas. Material wealth grows along with the development of accumulation in value terms. The capitalists’ consumption can increase enormously, the mass of the unproductive strata of society can grow, and even the workers can improve their situation thanks to the fall in the value of consumer goods. With all this the pressure on surplus value also grows, compelling always new attempts to increase it in order to keep the process going. Under these conditions there can be no excess of surplus value but only a lack of it, which must finally appear on the market as overproduction and insufficient demand. Every equilibrium state is therefore a state of crisis, which in this dynamic economy can lead only to a breakdown or to a new takeoff. Any concept of equilibrium thus contradicts capitalist reality and can at most serve as a methodological means for the investigation of particular properties of the dynamic course of the economy. Nevertheless, Marxists, in unison with bourgeois economists, have spoken of supposed equilibrium tendencies of the capitalist economy and its development. To take only one example, according to Bukharin

The whole construction of Capital... begins with the analysis of a completely stable equilibrium system. Complicating factors are gradually introduced. The system fluctuates, becomes dynamic. Its fluctuations, however, remain regulated by laws, and
despite the sudden breakdowns of equilibrium (crises), the system as a whole continues. The disruption of equilibrium leads to a new equilibrium, so to speak, of a higher order. Only after we understand the laws of equilibrium can we go on to investigate the system’s fluctuations. The crises themselves are treated not as the destruction but merely as disturbances of equilibrium; and yet Marx thought it necessary to discover the law of this movement and to understand not only how the equilibrium is disturbed but also how it is re-established.

Bukharin summarizes his equilibrium conception in the following way;

The law of value is the law of equilibrium governing the system of simple commodity production. The law of production price is the law of equilibrium governing the modified commodity system, the capitalist system. The law of market price similarly governs the fluctuations of this system. The law of competition governs the continual reestablishment of disrupted equilibrium. The law of crises governs the necessary periodic disturbance of the system’s equilibrium and its restoration.

This postulate of equilibrium is the starting point of all disproportionality and underconsumption theories, which accordingly view crises as disturbances of equilibrium and their overcoming as its restoration. Marx, in contrast, uses the idea of equilibrium only as a provisory methodological hypothesis with a role to play in the elaboration of his abstract theory but with no claim to represent processes in reality. Often it is a matter of pure tautology, as with the assumption of an equilibrium of supply and demand, which plays no role either in the analysis of the total capital or in that of the process of production in isolation from the total system; and often the concept is a starting point for the description of the development of capital, and which in the framework of that development itself no longer has any significance. For Marx it is not equilibrium tendencies that govern the economy but the law of value, which asserts itself in the same way as “the law of gravity ... when a person’s house collapses on top of him.”

Crisis therefore represents not an insurmountable disturbance of equilibrium but a temporary breakdown of the valorization of capital, which neither before nor after its collapse is characterized by any equilibrium. The fact that the crisis is overcome likewise indicates not the restoration of a lost equilibrium but shows that despite the continuing dynamic of the system, it was possible to increase the surplus value enough for a further round of expansion. “With respect to the volume of production there is no equilibrium state to which the system returns after some deviations... [T]he industrial cycle is no oscillation around some mean given by some necessity.” Even though Marx writes in one place that “permanent crises do not exist,” this does not mean, as Bukharin maintained, that “the disturbance of the equilibrium leads to a new equilibrium of a higher order” but only that the accumulation interrupted at a certain level of capitalist production can be continued at another level. That this cannot always be the case follows from the abstract analysis of value-determined accumulation. But so long as capital is actually able to adapt the surplus value to the needs of accumulation by way of crisis, every crisis is temporary.

But even a crisis theory disregarding all considerations of equilibrium must deal with the problem of how capitalism can collapse when it can overcome all of its crises. Thus, for example, Otto Benedikt demanded of Henryk Grossmann, for whom the breakdown of the system would be an insurmountable crisis, “why its ‘economic end point’ is different from the surmountable crisis? Why is the last crisis no longer surmountable?” Following Lenin’s disproportionality theory, Benedikt came to the conclusion that aside from its validity or lack of it, Grossmann’s crisis theory is just a theory of crisis and not a theory of breakdown. According to Benedikt the question of crisis concerns neither the possibility nor the impossibility of continuous accumulation, “but a growing, inevitable dialectical process of disturbances, contradictions, and crises
not an absolute, purely economic impossibility of accumulation, but a constant alternation between the overcoming of crisis and its reproduction at a higher level until the destruction of this schema by the proletariat.”

Grossmann could have given the same answer as Benedikt himself gave, along with all the discussants of the crisis problem, with either different reformist or revolutionary variations. In the final analysis there cannot be a “purely economic” or “automatic breakdown.” For Tugan-Baranovsky, Hilferding, and Otto Bauer it is ethical and politically conscious social movements that will transform the evil into a better social order; for Rosa Luxemburg and Anton Pannekoek it is the class-conscious workers who, long before any theoretically determinable final stage of capitalist expansion, will put an end to capitalism; so also for Grossmann “no economic system, no matter how weakened, collapses by itself in an automatic fashion. It must be ‘overthrown.’ ... [T]he so-called ‘historical necessity’ does not operate automatically but requires the active participation of the working class in the historical process.” But this is a matter for the class struggle, not for economic theory, which can only bring to light the objective conditions under which the class struggle unfolds and which determine its direction.

Oddly enough, he most diverse analyses of crisis were all offered to explain the inevitability of capitalism’s decline and the abolition of the system to be effected by political movements evoked by this decline. We have already seen this in the example of Rosa Luxemburg and Henryk Grossmann. But disproportionality theorists like Bukharin as well maintained “that the process of capitalist decadence necessarily sets in once the enlarged negative reproduction has swallowed up the social surplus value. Theoretical investigation cannot determine with absolute certainty exactly when the period of decadence begins and by what specific figures this process is characterized. This is already a question of fact. The concrete situation in the European economy in the years 1918-20 shows clearly that the period of decadence has already begun and that there are no signs of a resurrection of the old system of production relations” A consistent application of the underconsumption theory could also lead to the conclusion that capitalism must collapse. For instance, Natalie Moszkowska wrote that

if the gap between production and consumption reaches a certain size, and if the deficiency of consumption reaches a certain amplitude, relative pauperization becomes absolute. Production is reduced, and the workers are thrown into the streets. If classic capitalism was characterized by relative pauperization, late capitalism is characterized by absolute pauperization. And this absolute pauperization, not supportable for long, leads to the end of capitalism.

That the economic conditions during and after the First World War gave support to the idea of capitalist decline is not surprising. Even in the bourgeois camp this period not only awakened a deep pessimism but also undermined the earlier conviction that society can master its crises. Indeed, Adolf Lowe remarked that “the crises intrinsic to the economic system have lost their virulence; but if we consider an international destruction of value like the world war as the modern form of crisis in the age of imperialism, and there is much to be said for this view, there is little room for extravagant hopes for spontaneous ‘stabilization.’ In such a situation there was not much sense in maintaining that for capital there is “no situation absolutely without a way out” or in assuming the opposite. Under the circumstances both were conceivable. Since for Marxism it is not the economy that conditions the given class relations but the capitalist relations of production—qua class relations—that under the conditions of the market economy take on the fetishistic form of economic relationships, every “purely economic” conception of capital and its laws of motion is from the start inappropriate. Nevertheless, although for Marx “the whole economic shit ends in the class struggle,” he took pains during decades of
work to demonstrate the transitory nature of capitalism even when viewed in terms of its own economic categories.

The trend of capitalist accumulation toward its abolition can only be demonstrated with a model respecting the essential bases of the system. In Marx’s theoretical construction capital must perish as a result of its contradictions; and since history itself does nothing but is made by people, it follows directly that the historical limit of capital lies in proletarian revolution. Conversely, however, such an upheaval presupposes a disintegration of capitalism. Through its accumulation capital produces its own gravediggers, so that the process of accumulation already contains its final end, and one can rightly speak of the theory of accumulation as a theory of breakdown, without thereby adopting a “purely economic” or “automatic” breakdown theory.

The interpretation of the great crisis between the two world wars as a possible final crisis of capital made the wish the father to the thought. But this could only be known afterwards. In principle in developed capitalism any great crisis can become the final crisis. If it does not, it remains a presupposition of further accumulation. This is not to say that there cannot arise a situation of “permanent” crisis, since this concept must also be construed not as referring to eternity but only in contrast to temporary, quickly surmounted crises. In this sense the “permanent” crisis is just as conceivable within the Marxian system as surmountable crises. When Marx denied that there are permanent crises, he was referring only to the business cycle of the previous century and to Adam Smith’s theory of accumulation, in which the profit rate must always fall. That under the present-day conditions of world capital a state of persistent economic and political crisis can arise is just as possible as that the crisis will give capital a chance to begin a new expansion.

4. Splendor and Misery of the Mixed Economy

The second global economic crisis of this century was transformed due to the provocation of imperialist competition, into the First World War. To the usual devaluation of capital by crisis, combined with its concentration and centralization, was now added the physical destruction of means of production and labor power. Connected to this was a shift in the balance of economic power from the European nations to the United States. America became the greatest exporting and creditor nation in the world. The territorial changes brought about by the war, the removal of Russia from the world economy, the capitalist reparations policy, the breakdown of currencies and the world market—all this made the reconstruction much more difficult than it would have been in the case of a “purely economic” crisis. The revival of the European economies proceeded so slowly that with the exception of America, the Crisis that had turned into the First World War extended through it into the Second World War. America’s special situation was thus a limited privilege, which came to an end in 1929. The American economic collapse drove the world economy into a general decline. Capital had indeed made an effort, in the form of American loans, large-scale cartellization, rationalization of production, and inflation, to escape the crisis, but without success. To look only at the poorest and the richest capitalist countries of that time, we note that between 1929 and 1932 industrial production in Germany fell by around 50 percent, while the unemployed numbered seven million, and the national income fell from 73.4 to 42.5 billion marks. In America around 1932 the national income had also fallen by about half, from $87.5 to $41.7 billion, and the sixteen million unemployed reflected the 50 percent contraction of industrial production. A world economic crisis of this extent went beyond all previous
experience and could not, like the first postwar crisis, be ascribed to the circumstance of the war.

The partisans of Marx’s crisis theory, of all shades, saw in the persistent crisis the confirmation of their critique of capital, and they looked for an overcoming of the crisis either in reform of the system or in its overthrow. The static theory of general equilibrium was unable to explain the crisis, as the postulated equilibrating tendencies refused to work. And because the various governments of the capitalist nations relied, at first, on the deflationary crisis mechanism to solve the problem and did not interfere in the economic process, the deepening of the depression could not be blamed on erroneous government policies. There was nothing left to blame for the crisis but the workers’ unwillingness to accept lower wages. The persistence of the crisis and the constantly increasing unemployment, however, finally impelled the bourgeois economists to a revision of their theory, which has taken its place in history as the “Keynesian Revolution.”

Without opposing neo-classical theory in general, Keynes recognised the evident fact that the traditional theory was not in accord with the actual situation. The full employment assumed by the theory appeared to him now as a possible but not necessary presupposition of economic equilibrium. Say’s thesis, that supply and demand must always coincide, was now, a hundred years later recognized as erroneous, since “savings” do not necessarily lead to new investments. In Keynes’s view, while production must serve consumption, the latter decreases with the increasing satisfaction of needs, so that the extension of production must decrease and with it the labor market. Thus in mature capitalist society new investments would be always less and less profitable, even in the case of a radical reduction of wages. And while it is true that low wages yield high profits, so inducing new investments, it is nevertheless not only wrong but dangerous to leave the economy at the mercy of the economic course of events, in view of the difficulties that stand in the way of such wage decreases and of the inevitable long-run decline of the rate of accumulation. The depression therefore must, according to Keynes, be combated with a policy of state stimulation of expansion, based at once on an inflationary monetary policy and on public works paid for by the public debt.

Although Keynes tried to explain the cyclical movement of capital as due to the changing profitability of capital, he really developed no theory of crisis. According to him it was the declining propensity to consume that reduced the rate of accumulation and induced the capitalists to stop transforming their money into capital. Were they to continue to invest, it would be only to earn a declining rate of profit, which would find its lower limit in the given rate of interest. In order to escape the depression, it would be necessary to add new anti-crisis measures to the familiar ones. Wages would have to be cut by means of inflation, the profit rate supported by lowering the interest rate, and the remaining unemployment absorbed by public works, until these measures produced the beginning of a new prosperity, at which point the economy could be left once again to the automatic mechanism of the market. Since Keynes was essentially concerned with the overcoming of the crisis of his day, the long-term developmental tendency described by his theory remained only a philosophical ornament, which drew no great interest at the time. This theory remained on the terrain of static equilibrium and was therefore unable to come to terms with the dynamic of the system.

The Keynesian theory was necessarily restricted to the national economy rather than to the capitalist world economy, as the state interventions it called for could be applied only in a national framework. Of course, it included the hope that the increase in production in individual countries would favorably influence world trade, so that international competition would become less fierce. The measures required to counter unemployment compelled a return to classical macroeconomics, which investigated
society as a whole in its economic aggregates, in contrast to micro-economics—then almost the only kind of economics cultivated which concerned itself only with the fragmentary analysis of isolated economic processes. Whatever practical proposals were made, of course, hardly represented new discoveries but rather the re-employment of expedients that had been relegated to the background during the flowering of laissez faire. Despite an enormous flow of technical economic neologisms, the pretensions of the “new economics” clothed only the ordinary capitalistic principle of increasing profits by means of governmental interventions in market relations.

The need for state intervention dictated by the crisis soon became, in the hands of the economic theorists, a virtual principle of economic management. The traditionally dominant view that all public expenditures have an unproductive character was now seen as an error, and it was asserted that public spending has the same beneficial effect on production and income as private investments. According to Alvin Hansen,

The development of a public park, swimming pool, playground, or concert hall makes possible a flow of real income no less than the erection of a radio factory... . [P]ublic expenditures may also be... income-creating in the sense that they tend currently to expand income and employment.... [W]ars not only promote employment during the emergency, but may stimulate postwar private investment by creating accumulated shortages in housing and other investment areas... . Indeed, when private business outlays decline, the government alone is in a position to go forward and sustain the income through increased expenditures.

Since the economists do not distinguish between economy in general and the capitalist economy, it is impossible for them to see that “productive” and “capitalistically productive” means two different things and that public, like private investments are capitalistically productive only if the create surplus value not because they supply material goods or amenities.

Contemporary economists imagine that both private capital and the government contribute to the national income, as both draw from the great “stream” of income. Although the government’s contribution depends on taxes and borrowing, the debt service that goes with this is supposed to be paid out of the increased national income achieved through public works. Inflationary consequences were held to pose no danger so long as the increasing money supply could be balanced by an equal increase of production and real income. In order to demonstrate this, economists appealed to a so-called “acceleration principle” and to a “multiplier effect,” or to a combination of the two, whose operation could be established mathematically on the basis of certain imagined assumptions. Whether these “principles” yield the same or similar results in reality can of course not be proven due to the empirical complexity of economic processes. But even theoretically nothing follows from them but the obvious insight that like all other spending, state expenditure also can lead to further private expenditure, so that the total new purchasing power is higher than that contributed by the original state expenditure.

Alvin Hansen denied that his theory could be included under the ordinary rubric of underconsumption theories. In his view crisis resulted not from insufficient demand for consumer goods but from spontaneously originating over-investment. As the dynamic of the system drives the production of means of production forward faster than social consumption, the rise in consumption must be raised to a dominant principle of the system if overproduction is to be avoided. In modern capitalist society investments are no longer determined by consumption, according to Hansen, so that the cycle theories of the classical and neo-classical economists, with their supply-demand equilibrium, are in conflict with the actual facts. Consumption is now a function of accumulation, as a result of which the crisis cycle is an inevitable result of capitalist expansion. In order to
eliminate unemployment and overproduction, *public consumption* must be increased by means of public spending to produce a kind of mixed economy in which the price relations are so integrated with monetary and fiscal measures that the economy can continue to develop.

This “revolution” in theoretical economics had already been preceded by a matching practice born of necessity. It took different forms in different countries. While, for example, in the United States unemployment relief paid out of public funds, counteracted a noticeable radicalization of the working population, the make-work program in Germany had the form of rearmament in order to undo the results of the First World War and overcome the crisis imperialistically at the expense of other nations. Thus the integration of the market economy with state economic management served, on the one hand, the defense of the political status quo and, on the other, the attempt to disrupt it. The general crisis situation and the conflicting capitalist interests mixed the fight against the crisis with a series of imperialist adventures and social conflicts, which more or less affected all countries and finally resulted in the Second World War, which powerfully advanced the integration of state and economy. The fully developed mixed economy began in the form of a war economy that put an end to the apparently permanent state of crisis through the destruction of unbelievable quantities of capital value and the mutual extermination of the producers.

Only after the war did the “new economics” become the ideology of the ruling classes, when state involvement in the economy could not be eliminated in the chaos of the postwar period. With the exception of America, the world, in the eyes of the bourgeoisie, had been utterly shattered and required political and military intervention if total anarchy was to be avoided. The economic functions of the state, evolved in the course of war and crisis, could be altered but not eliminated. The confrontation that immediately broke out between the victorious powers over the division of the spoils of war and the creation of new spheres of influence gave the governmental institutions yet greater influence on economic affairs. The newly established borders had to be secured and the capitalist world economy put on the road to reconstruction with the help of the state. An increasing part of social production was devoted to these ends, and the state budgets continued to swell thanks to taxation and borrowing.

The idea that “mature” capitalism is inevitably doomed to stagnation and increasing unemployment, which can be overcome only by public expenditure, remained a leitmotif of the “new economics.” The fact of full employment during the war was held to be sufficient proof that state interventions could have the same results under all conditions and that the state-integrated economy could end the crisis cycle and make possible an unbroken expansion of the economy. The incorporation of economic growth into economic analysis necessitated the construction of a dynamic the-Tory that could be adjoined to the static equilibrium theory. Among others, R. F. Harrod and E. D. Domar attempted to provide theoretical proof of the possibility of an equilibrium economic growth rate by a dynamization of the Keynesian model of income determination, together with the accelerator and multiplier principles.

This equilibrium growth rate was supposed to be determined, on the one hand, by the propensity to save and, on the other, by the capital required and the returns from it. Growth, however, would mean the departure from an equilibrium state; once embarked upon, growth would tend to continue autonomously in the same direction and thus to become always more unstable. Since new investments have two sides, increasing incomes and productive capacity the first representing demand and the second supply a growth rate guaranteeing economic stability must harmonise the increasing productive capacity with the increasing demand. For this to be possible, it is not sufficient to achieve an
equilibrium of savings and investment, but investments must exceed savings if unemployment is to be avoided. As a result, economic growth, while a means of fighting unemployment, becomes a source of new unemployment as soon as growth leaves the path of equilibrated development.

If the static equilibrium is already recognised to be an illusion, a balanced rate of development is even less credible. But what an autonomous process of growth cannot achieve may be accomplished by its conscious direction! The economy and its development can, according to Paul Samuelson, be compared to “an unmanned bicycle, which is unstable if disturbed from the vertical” but “can be converted into a stable system by a steadying and compensating human hand.” In the same way “a Harrod-Domar growth path that would be unstable under laissez-faire [can] be made stable by compensating monetary and fiscal policies in a mixed economy. And “although nothing is impossible in an inexact science like economics,” at the present day “the probability of a great depression a prolonged, cumulative, and chronic slump like that of the 1930s, the 1890s, or the 1870s has been reduced to a negligible figure.”

This confidence appeared to be justified by the facts of economic development and had in addition the “merit of having proved that among other possibilities of development, that of growth without disturbances of equilibrium also exists, something which was earlier contested by various investigators (including Marx, with his breakdown theory).” In this way the question of the dynamic of capitalism was expounded in a manner satisfactory to bourgeois economics, without abandoning the equilibrium approach, and was developed in the neo-neoclassical theory, in which static and dynamic analysis were united.

The various growth theories, however, were less concerned with the economic processes of the developed countries than with the question, raised by the outcome of the Second World War, of the capitalist development of the underdeveloped nations. Of course, this question could be answered quickly and easily, though the realization of the proposal contained in these answers namely, to repeat the process already completed in the developed countries, ran into insurmountable difficulties. Nevertheless, concern with underdevelopment opened up a new branch of theoretical economics that sought to explain the success of the mixed economy to the whole world and recommend it for imitation. As this evolutionary theory of development, however, has nothing to do with the problem of crisis, we can neglect it here.

From the standpoint of Marx’s crisis theory, the prosperity which began, with some delay, after the war is not surprising, since it is the function of crisis to lay the groundwork for a new upswing. This is not to say that every crisis can introduce a new period of accumulation; it may lead also only to a situation of relative stagnation, as was the case in many countries after the First World War, and thence to a new crisis. With the growing destructive powers of capital, war as crisis becomes an obstacle to rapid recovery and can only slowly give way to a new expansion. Under these circumstances it is necessary to continue state intervention in the economy, and this in fact appears to be an essential instrument of the new upswing.

If the stagnation of the capitalist economy leads to state intervention in order to restart the economy and conquer unemployment, it does not follow that these interventions are to be thanked for the new prosperity that finally arises. It may be due instead to the restoration of the profitability of capital, achieved at the same time as, but relatively independently of these interventions, as in earlier crises, in which the state’s deflationary policy aggravated rather than attenuated the crisis. The reduction of the state budget failed as a means to improve the profitability of capital, and likewise an increase in public works does not guarantee a solution to the crisis. In both cases the continuation
of accumulation depends in the final analysis on transformation of the capital structure and a rate of surplus value that can valorize the expanding capital. Without a doubt the expansion of capitalist production after the Second World War can be explained only by the still unbroken, or restored, expansive power of capital, and not by the effect of state-induced production. But if this is true, a new over-accumulation crisis is certain, and with it the necessity of further state intervention.

From the standpoint of the “new economics,” however, a sufficient autonomous expansion of capital could no longer be counted on, so that continuing capitalist development was thinkable only in the form of the mixed economy. A skeptical minority of economists remained true to the principle of laissez faire and saw the mixed economy as the pure and simple destruction of the market economy, which must lead in the end to the collapse of private capitalism. The sustained prosperity in the Western countries, which could not be simply explained as the result of state interventions, pushed the Keynesian conceptions into the background, and in the academic world microeconomics again took the dominant place. Governmental involvement in the economy was considered not only superfluous but as obstructing the free movement of capital, and it was thus seen as a hindrance to development. Of course, this new capitalist self-confidence was rooted in the prevailing prosperity; and just as the “new economics” could not completely vanquish the laissez-faire doctrine, the latter was not able to compel the “new economics” to retreat purely because of the fact of prosperity. The mixed economy had already become the unalterable form of modern capitalism, although the mix itself could be altered. State interventions could be increased or decreased to meet the changing needs of the yet uncontrolled development of the economy.

The expansion of Western capital was unexpectedly rapid and durable. Economic downturns were of such brief duration as to inspire the replacement of the concept of “depression” by that of “recession,” and the share of state-induced production increased more slowly than production as a whole. This affected not only the tenor of Keynesian theory but also Marxist views, leading in the end to various new revisions of Marx’s theory of capital a crisis. Drawing nearly universally on the Keynesian theory of sufficient demand as the cause of stagnation, a series of author represented the position that capitalism’s difficulties arise no from a shortage of surplus value but from an excess of it. Structural transformations favorable to capital production such as the cheapening of constant capital due to modern technology and the arbitrary manipulation of prices that accompanies monopolization were held to result in the production of more surplus value than could possibly be accumulated, and which could be spent only by way of public expenditures. As the capitalist mode of production rules out an improvement in the working population’s standard of living proportional to the rising capacity to produce, the economy fluctuates between stagnation and overcoming it through a policy of waste in the form of space exploration, armaments, and imperialistic adventures. Thus crises were not eliminated by the excess of profit while they did not arise from the tendency of the rate of profit to fall. In other words, these authors, taking their own routes, had returned to the conviction of Tugan-Baranovsky and Hilferding that capital has no objective limit since it can increase production indefinitely despite its antagonistic conditions of distribution, even if a portion of it must be “irrationally wasted.

Without going into the internal contradictions intrinsic to these theories here, it should be noted that they reflect the visible upswing of capitalism in the West, which not only made possible further accumulation with a simultaneous improvement in the workers’ standard of living but also remained undamaged by the growth of public spending. Contrary to what had been assumed during the depression, it was not the additional public spending that kept the economy going but the high profits that permitted
the luxury of waste production and, beyond that, the alleged transformation of capitalism into an “affluent” or “consumer society.” Of course, this period of prosperity does call for an explanation, which can only be found in the actual course of economic events. For Marxism the general explanation of prosperity is simply the existence of profits sufficient to continue accumulation, just as crisis and depression arise in the absence of this state of affairs. Every cyclical wave can be explained more specifically, if only in retrospect, in terms of the phenomena it displays.

If the long depression of the pre-war years was characterised by a general lack of profit, disinvestment’s, and an extremely low rate of accumulation, this was not because the productivity of labor had suddenly decisively decreased but because the existing productivity was not great enough to assure the existing capital a further profitable expansion. The average rate of profit determined by the existing capital structure was too low to inspire the individual capitals to increase their production by enlarging the productive apparatus, although they experienced the fall in the average rate of profit not directly but as the growing difficulty of selling their commodities. The need for profit on the part of capital-swelled by fictitious and speculative capital values cannot be satisfied by the mass of profit at hand, and the resulting decline of profit for each individual capital leads through the interruption of further expansion to a general situation of crisis.

The way out of this situation lies in its reversal, in the creation of a capital structure and a mass of surplus value that make further accumulation possible. The combination of the destruction of capital throughout the long period of depression with the enormous acceleration of this process by the destruction of capital values during the war created a new world for the surviving capital in which the given mass of profit was at the disposal of a much diminished capital, which accordingly increased its profitability. At the same time, the technological development forced by the war led to a significant rise in labor productivity, which, in connection with the altered capital structure, raised the productivity of capital sufficiently to increase production and enlarge the productive apparatus.

American capital was unable to accumulate during the war, since about half the national product was used for military ends. The post-war period was a period of making up for lost accumulation and the replacement of the means of production that accompanies this. The result was prosperity in which unemployment was for a time reduced to its indispensable minimum. The years between 1949 and 1968 saw “a 50% increase in the amount of capital for each unit of labor employed.” This was largely responsible for “the marked acceleration in output per man-hour from 2.3% to 3.5%.” As this increase in the productivity of labor was “in excess of the increase in real wages,” the rate of profit on capital, while relatively low, was nevertheless stable.” The reconstruction of the European and Japanese economy was in part initiated and financed by American grants and loans, which stimulated American exports and secured markets for the growing output far greater than those due to domestic accumulation alone. The private export of capital followed the lead of the government at the first signs of profitability, above all in the form of direct investments, which internationalized the accumulation of American capital! and facilitated its valorization. Access to advanced technology, together with restriction of wages, gave the capital newly forming in the reconstructing countries a competitive position in the world market in a number of areas of production.

The productivity of labor rose in Germany, for example, by around 6 percent yearly, and a quarter of total production was invested as additional capital. With the exception of England, things were not much different in the other European countries, while in America the rate of accumulation remained below its historic average. The higher profit rates in the more rapidly accumulating European countries caused an
accelerated export of American capital, and this in turn hastened the general economic development of the capital-importing countries. Conditions due to the outcome of the war led to an extraordinary increase in multinational corporations, largely American in origin, which further hastened the general process of capital concentration through actual fusions and liquidation's. Without going further into this well-known story, which was widely celebrated as an “economic miracle” and has been excessively documented, it should be said that it represents no more than an accelerated rate of accumulation which, just because of this acceleration, raised the profit rate to a point permitting an increase in the product share intended for consumption along with production as a whole.

The “new economies,” however, had been developed to meet the challenge of a crisis apparently without end. Keynesianism had taken two directions. One tendency aimed at overcoming the crisis by state interventions (“pump priming”) in order to give the economy free rein again once expansion was achieved. The other was convinced that capitalism had already reached a stationary state and would therefore always require state intervention. As we know, the actual development of the economy confirmed neither of these views but led to a combination of prosperity and continuing state management of the economy. In Western Europe this took the form of a state-forced acceleration of accumulation, so that the “social market economy” did not differ from the “mixed economy.” In America, however, it remained necessary to keep the level of production stable by means of public spending, which led to slow but sure growth of the national debt.

The growth of the public debt can also be traced to America’s imperialistic policy and, later, to the war in Vietnam in particular. But since unemployment did not fall below 4 percent of the total labor force and production capacity was not fully utilized, it is more than plausible that without the “public consumption” of armaments and human slaughter, the number of unemployed would have been much higher than it actually was. And since about half of world production was American, despite the upswing in Western Europe and Japan, one cannot really speak of a complete overcoming of the world crisis, particularly not when the underdeveloped countries are taken into consideration. However brilliant the prosperity was, it was nevertheless confined to no more than a part of world capital and did not result in a general upswing encompassing the world economy.

However this may be, what the “new economics” maintained was that capitalist crisis had lost its inevitability, as every downturn could be counteracted by governmental measures. The crisis cycle was supposedly a thing of the past, for every setback to private production could be compensated by an equivalent increase of state-induced production. A whole arsenal of methods of economic management was now available to secure economic equilibrium and equilibrated development. An expansive monetary policy to stimulate private investments, fiscal flexibility, built-in stabilisers like unemployment insurance such means, together with the deficit financing of public expenditure, guaranteed a regulated economy with full employment and price stability, which needed only the government’s decision to be made a reality.

To demonstrate the illusory character of the idea of a state regulation of the economy by way of compensatory measures, the Marxian critique of economics only has to point out the profit-oriented nature of capitalist production. This is not to deny all efficacy to Keynesian methods. Just as the expansion of private credit can stimulate economic activity beyond the level to which it would otherwise be limited, the expansion of public spending realised through credit can also at first have a stimulating effect on the economy as a whole. But both methods find their limits in the actual production of profit. Because of these limits it is possible to abstract from credit in the theory of capitalist development without thereby denying the actual role of credit. Where there is no profit to
be had, credit will not be sought; and when the economy is in a downturn, credit is seldom granted. Of course, capitalist production has been based on credit for a long time without this affecting its susceptibility to crisis. While the extension of the credit system can be a factor deferring crisis, the actual outbreak of crisis makes it into an aggravating factor because of the larger amount of capital that must be devalued, although in the end this devaluation in turn is a means to overcome the crisis.

The fact that state-induced production has been expanded by means of credit already indicates that the private expansion of it has not been able to sustain prosperity. Since state-induced production in competition with private capital would increasingly aggravate the economic difficulties of the latter without changing the low profitability, the state produces not goods for the market, where their value could be realized and accumulated, but goods for “public consumption.” This “public consumption” is at all times paid for by taxation of the workers and the surplus-value-producing capital in order to satisfy the general needs of capitalist society. The extension of “public consumption” through deficit financing also implies a deduction from surplus value and a decrease in private consumption, although with a delay, since this financing is accomplished not through additional taxation but through the mobilization of private money; capital for a long period i.e., through the public debt.

The whole matter finally comes down to the simple fact that what is consumed cannot be accumulated, so that the growth of “public consumption” cannot be a means to transform a stagnating or declining rate of accumulation into a rising one. If the rate of accumulation is improved, it is due not to public expenditures but to a restored profitability of capital, accomplished by the crisis, sufficiently vigorous to launch a new expansion despite the increase in public expenditures. This also is not altered by the fact that the economic stimulation due to state expenditures can be an impetus to further expansion, since the expansion itself can only be achieved through the actual increase of private surplus value. Without this, state-induced production can lead only to a further collapse of the rate of accumulation.

"Mixed economy” means that a part of the national production remains production for the profit of private capital, while a smaller part consists of state-induced production yielding no surplus value. Thus the total production has a smaller mass of profit at its disposal. Since in general the state does not own means of production and raw materials, it must make use of unutilized capital to get state-induced production going; that is, it must place orders with various enterprises that sell the product requested to the state. These enterprises must valorize their capital and extract surplus value from the workers they employ. This surplus value, however, is not realized on the market by exchange against other commodities but is realized by the money borrowed by the government. The products themselves are either used or wasted.

For the capitalists filling the state’s orders, life has been made easier, as they do not have to worry about production and realisation. The part of capital blessed with government orders realizes its profit exactly like the part that produces profitably for the market. But its income has an equivalent in taxation and public debt. It seems as if the state-induced production has increased the total profit. But in reality only the surplus value realized on the market is newly produced surplus value while the surplus value “realized” through state purchases is surplus value previously produced and objectified in money capital.

If the crisis would completely and generally destroy the profitability of capital, capitalist production would stop. In reality, even in the depth of crisis a portion of capital remains sufficiently profitable to continue producing, although on a reduced scale. Another part falls victim to the crisis and thus helps preserve the profitability of the
remaining capitals. If this process develops freely, as was generally the case with the crises of the nineteenth century, a shorter or longer period of suffering gives way to a situation in which capital, with an altered structure and a higher rate of exploitation, can recommence accumulation, pushing it beyond the level reached before the crisis. Under the circumstances of the present day, this “healing process” is socially too risky, requiring state interventions to avoid social upheavals.

Due to the high level of capital concentration already achieved, the devaluation of capital by way of competition and the improvement of profitability by way of concentration have lost much of their effectiveness unless these processes are extended beyond national boundaries to the world economy, which must lead to armed confrontations. Since the concentrated capitals totally disregard social needs, even as capitalistically defined, these needs must be supplied by political means, for example, by state subsidisation of profit-poor but necessary branches of production. In short, the viability of society requires state intervention in the distribution of the total social profit. This redistribution of the social profit in the form of state-induced production in no way changes the quantity of this profit.

Since the additional production yields no profit of its own, it is of no service to the accumulation of capital. Since the crisis results from insufficient accumulation, it is not eliminated by state-induced production. On the assumption of a capitalism incapable of further accumulation, thus of a situation of permanent crisis, which is a real possibility, the attempt to combat the crisis through deficit-financed, unprofitable public spending would take the following form: the state borrows money to buy products that otherwise would not have been produced. This additional production has an immediate positive effect on the economy as a whole (although this cannot be ascribed to the fashionable but purely speculative “multiplier,” based on the untenable bourgeois economic theory). It is obvious that every new investment, whatever its origin, must stimulate economic activity unless it also leads to disinvestment counteracting this stimulative effect. Products are manufactured and workers hired, and the general level of demand must rise along with the new investments. But since the additional production yields no profit, the accumulation difficulty of capital is not solved. At first, however, this difficulty merely persists, without being aggravated by the state-induced production.

Since under our assumption private capital is not accumulating and state-induced production, as production for “public consumption,” can contribute nothing to accumulation, the maintenance of the existing level of production continually requires additional state expenditures and therefore the perpetual growth of the national debt. Its interest obligations require the state to impose correspondingly higher taxes on productive capital. Of course, these interest payments are a source of income for the state’s creditors and as such re-enter consumption or are again invested in the private economy or in state paper. But we are dealing here in any case with one and the same sum which is given up as profit in order to appear elsewhere as interest. Since a non-accumulating capitalism is not simply a stationary state but implies a regressive situation, the decline in the economy must lead to more and more governmental interventions, which increasingly weaken any new possibility of an upswing for private capital. The compensatory state-induced production thus changes from the means of easing the crisis it originally was to a factor deepening the crisis, as it divests an increasing part of social production of its character as capital, namely its ability to produce additional capital.

The purpose of this picture of a state of permanent crisis is only to demonstrate that unprofitable state-induced production, far from being a means of overcoming crisis, must in the course of time call the capitalist mode of production itself into question. However,
since the crisis develops within itself the conditions required to surmount it, the need for continually increasing state-induced production disappears, apart from the fact that the governments concerned, since they are capitalist governments, themselves feel the need to dismantle state intervention at the point at which it becomes dangerous for the system. To preserve the capitalist economy not just production but the production of profit is required. If profit could be increased simply by additional production, capital would see to it itself and state intervention would not be needed.

Bourgeois economics does not think in terms of the categories of value and surplus value. From its point of view profit is not seen as the determining factor of the economy and its development; indeed, it disputes even the existence of profit. “Much of what is ordinarily called profit,” writes Paul Samuelson, for example, “is really nothing but interest, rents, and wages under a different name.” When no distinction is made between wages and profits, the relationship between production and profit production is also obscure, and every sort of activity is represented equally in the national income, from which every individual draws his share \( \frac{1}{2} \) in proportion to his contribution. In the total production expressed in money terms, the difference between profitable and unprofitable production disappears, and state-induced production and private production are confused in a night in which all price relations, like all cats, are gray. As a result bourgeois economics is unable to foresee the consequences of its own prescriptions.

Nevertheless, the “new economics” claimed the honor of having found the key to the solution of the problem of crisis. Only later was it apparent that it had strutted in borrowed plumes, and that the actual overcoming of the crisis owed nothing to the Keynesian anti-crisis mechanism. As already pointed out, this is no reason to deny that it has had any economic effect, since it can serve to initiate a new prosperity when the potential for such a prosperity already exists. In itself, however, additional state-induced production cannot increase the social surplus value and \( A \) must decrease it if it continues to expand. Nevertheless, the extension of production that accompanies it, like any extension of credit, can mitigate the conditions of crisis, since its negative effect on the total profit will only be visible at a later point. In the short run the state-induced production offers private capital a wider range for action and an improved basis for its own efforts to escape from the shortage of profits for accumulation. If in the meantime private capital succeeds in extricating itself from the crisis, this may appear to be a result of the state’s interventions, although the latter would have had no success without the improvement, independent of them, of capital’s ability to expand itself.

There is therefore no contradiction in seeing both a crisis-mitigating and a crisis-sharpening factor in governmental fiscal policy. The additional production made possible by deficit financing does appear as additional demand, but as demand unaccompanied by a corresponding increase in total profits. The additional demand consists of money injected into the economy by the state in the form of governmental credit. It nonetheless functions immediately as an increase in demand that stimulates the economy as a whole and can become the point of departure for a new prosperity if insuperable barriers do not stand in the way of such a prosperity. But only under such circumstances can the unprofitable expansion of production smooth the way for a profitable expansion without even then losing its capitalistically unproductive character. It is the capitalistically unproductive nature of state-induced production that sets definite limits to its utilization in capitalist society, limits that are reached more quickly the longer capital remains in crisis.

In all circumstances the production it induces is due not to the state itself but to its creditworthiness. It is private capital that must foot the bill and spend the money to increase demand. Thus it is private capital itself that finances the deficit, and it is ready to
do so precisely because it is unable to operate or even think in terms of society as a whole. The money placed at the government’s disposal yields interest, and it is this interest that gives some number of capitalists sufficient reason to lend their money to the state. Once this process is set in motion, it leads to the imposition of a growing tax burden on the capital still producing at a profit, which is thereby drawn into the financing of the deficit. In this way the total capital, both money capital and productive capital, becomes bound up with unprofitable production. The part of capital that (as we saw above) makes a profit even during the crisis, without transforming it into additional capital, sees its profitability cut even further as a result of the growth of state production, until in the course of time the unwillingness to invest becomes the objective impossibility to do so. In this sense, in the absence of a spontaneous reprise of profitable accumulation, state-induced production will change from a result of a crisis into a cause of its further aggravation.

The positive effect of state intervention on the economy is thus only temporary and turns into its opposite if the expected stimulation of profitable production does not occur or takes too long. The representatives of the “new economics” had, so to speak, a stroke of luck, in that the new prosperity, which they did not expect, developed along with the state interventions. If it had not developed, the stimulating effect of the state-induced increase in production would have progressively declined, until the government’s action itself became an obstacle to the surmounting of the crisis. If Keynesianism does not deserve the credit for the actual prosperity, it does not provide weapons for fighting crisis either; hence the capitalist law of crisis continues to dominate the system, just as before the discovery of the “new economics.”

The lengthy period of upswing, however, was impressive enough to stimulate the expectation – just as at the turn of the century that the business cycle was tending to flatten out, so that the periods of depression, now grown milder, could be counteracted by less stringent state measures. Those breaks in expansion that still occurred were seen as no more than “growth recessions,” which did not threaten the existing level of production, or simple “pauses” within a continual increase of production. At the onset of such pauses the governmental money and fiscal policy would be enough to overcome the gap between demand and supply and so clear the way to further growth.

The relative reduction of the deficit financing of public expenditures made possible by the rapid development of profitable production strengthened the conviction that the interplay of the market economy and state economic regulation had once and for all eliminated the crisis problem. While taxation absorbed a great part of the national income in America, e.g., 32 percent and in West Germany 35 percent state expenditures nevertheless did not grow faster than total production. And while the national debt continued to grow, it was at a slower pace. In America, for example, the national debt amounted to $278.7 billion in 1945 and $493 billion in 1973. The interest obligations increased during the same period from $3.66 billion to $21.2 billion. The share of interest costs in the national product nonetheless remained the same, namely 1.7 percent. Similar proportions held in other countries. What is important here is to see that with a more rapidly growing total production, the interest burden can be kept stable despite a growing national debt.

The increased share of the state in the national product represents a drain on the total surplus value, absorbing a portion of the surplus value that can therefore not enter into the accumulation of private capital. But the fact that private capital accumulation did continue kept the size of the state’s share of surplus value relatively stable; it grew slowly though absolutely. The resulting relationship between state-induced production and total production, between national debt and national income, can manifest itself as a steady
growth of production with a constant rate of accumulation along with a relatively lower rate of profit. But this relationship is extremely delicate just because of the low profit rate, which in addition is influenced adversely by the continuation of accumulation. On the one hand, as we know, accumulation increases the productivity of labor; on the other, by raising the organic composition of capital it depresses the rate of profit. Every new divergence between profitability and accumulation will turn a hitherto supportable state deduction from the total social profit into a factor impeding the accumulation process. Thus private capital’s first reaction to the fall in the already low rate of profit is to demand the cutting of public expenditure or the reestablishment of a relationship between state-induced production and total production that does not threaten accumulation.

The more capital accumulates, the greater is its sensitivity to the quantity of profit. To escape the pressure of the declining average rate of profit and to safeguard the valorization of the existing capital, monopolizing capital seeks to set its supply price to meet its own profit requirements so as to make its own accumulation independent of the market. Of course, this is possible only within certain limits. Since neither the total social product nor the total surplus value can be enlarged by price manipulations, monopoly profits can only arise from the further fall of the profits of the competitive capitals, still ruled by the average rate of profit. To the extent that monopoly profit exceeds the average profit it reduces the latter and thus continually destroys its own basis. In this way monopoly profit tends toward the average profit, a process that is of course retarded by the international extension of monopolization. But this unequal appropriation of the total social surplus value cannot change the magnitude of this surplus value unless monopolization affects not only price determination but also the production process, as when the destruction of competitive capital leads to an increase in the productivity of labor and so the growth of surplus value.

The development of capital in the mixed economy and under the pressure of monopoly is far more dependent on the rapid increase in the mass of surplus value than it was under laissez-faire conditions. Since the growth of production excludes an equivalent growth of profits and must therefore grow more rapidly than profit if the latter is to remain adequate to the requirements of accumulation, a slowing rate of accumulation must lead to crisis. Inversely, accumulation in turn depends on sufficient profits. But just as monopoly profits can be achieved for a long time at the expense of the general profit, so also the general profit can be maintained for a considerable time at the expense of the society as a whole. The means to this end are to be found in the state’s money and fiscal policy.

The accumulation of capital in itself represents no problem so long as the necessary profits are available, and capital was accumulated for a long time in general independence of state expenditures. The utilization of state monetary and fiscal policy to influence the economy indicates a situation in which accumulation has become a problem, and one that can no longer be handled without conscious management of the economic process. The problem is summed up in the single word “profit.” Each capital must worry about its own profit, but it is just this that leads to the crisis (of overaccumulation whose periodic appearance becomes ever less bearable. The consequences of the crisis overproduction and unemployment can be mitigated by increasing public works, but the cause of the crisis the lack of profit that hinders further accumulation cannot be dealt with in this way. With public works as without them, it is up to capital to get itself out of the crisis. In order not to place further difficulties in capital’s path, the increased public expenditures are financed by way of deficits. The taxation of capital can therefore be fairly restrained at first in order not to diminish further the needed surplus value. This, however,
engenders an inflationary process which, once under way, conditions the further development of capitalist production.

Inflation is a weapon in the Keynesian arsenal. Through the more rapid increase in prices relative to wages, the profit necessary for expansion grows, while the accelerated creation of money reduces the interest on debt, which makes investment easier. Inflation is here seen as a method for enlarging surplus value. The surplus value gained in this way, equal to the reduction in the value of labor power plus the surplus value transferred from money capital to productive capital, permits a corresponding increase in accumulation.

The money borrowed by the government is injected into the economy through the conduit of profitless production. Although its \textit{final products} fall in the sphere of “public consumption” and so do not appear on the commodity market, this production directly enlarges the total demand. The increased sum of money entering into circulation allows the prices of commodities intended for private consumption also to rise. This process is clearly observable in war time, and governments attempt to avoid the inflation then resulting from the interaction of a decreased or constant commodity supply with the increased money income due to war production by such means as forced savings and the rationing of use values. If in a weaker form, the increase in the money supply due to deficit financing leads to an endless process of inflation, since nothing opposes the increase in prices the expansion of the money supply makes possible.

The increased sum of money entering into circulation confronts, at first, an unchanged total surplus value in the form of a certain quantity of commodities. The increase in prices made possible by monetary growth improves the profitability of capital. To the surplus value created in production is added the value derived from price increases or the loss in the buying power of money. This increase in profit represents a new division of the total social income to the advantage of capital; it cannot alter the size of the total product or its value as such. The value of labor power is lowered by the detour of circulation, as is the income share of those groups within the population who live on surplus value, with a corresponding increase in the share going to capital. Only if the additional surplus value extracted via the circulation process is accumulated, so as to increase the productivity of labor and thereby the social product, has the increased mass of profit changed from money form into the capital form. Otherwise the increased profit ability leads only to a further fall in private demand and to more unused capital.

The real gains that inflation yields to capital are thus only another form of the devaluation of labor power, which happens in every crisis. What used to be accomplished by deflationary means is now effected by inflationary means, not by lowering wages but by raising prices or by a combination of both. The increase in profits by means of inflation encounters definite barriers, however, as the reduction of the value of labor power has absolute limits, and even these cannot be reached because of the resistance of the workers. Moreover, the increase in total demand brings with it an increase in the demand for labor power, which in itself restricts the lowering of wages by price inflation.

The crisis can only be said to have been overcome when capital value can be expanded without reducing the value of labor power, so that the new prosperity brings increasing wages with it. This cannot be achieved through the “public spending” of the government, as this, in the final analysis, accomplishes only the draining of a growing portion of the surplus value existing in the form of money into “public consumption.” If the policy of public spending is nonetheless adopted, it is because there is no other alternative for capital to the risk of increased unemployment and an extensive destruction of capital. “Public consumption” also represents destruction of capital, accepted and regulated in the hope that the system on its own will create the conditions for a
continuance of capital accumulation; it represents, in other words, management not of the economy but of the crisis.

If the growing public expenditures are not to become a factor deepening the crisis, capital must succeed, first, in keeping the growing national debt within the limits set for it by the actual creation of surplus value, and second, in re-establishing the conditions of further accumulation that is, in increasing profit more quickly than it is spent in unprofitable production. A certain amount of surplus value is absorbed by the state in any case, apart from the amount used for the reduction of unemployment by state-induced production. This share has steadily grown. Here, however, we are concerned only with the increase in the additional amount deducted from surplus value for state-induced production. This presents a further obstacle to capital accumulation, although it is an obstacle that can be pushed aside if capital succeeds in abolishing unemployment by continuing to accumulate. This, however, requires a rate of accumulation high enough for the absolute number of surplus-value-producing workers to increase fast enough to off-set its relative decline (the rising organic composition of capital). Such a rate of accumulation was approached in the postwar decades by several Western European countries; the ensuing prosperity even led to the import of labor power, although this of course indicated the persistence of unemployment in other countries. In the United States the unemployment level stabilized at about 4 percent of the total active population an officially recognized percentage that came to be accepted as “normal” and as compatible with the concept of “full employment.”

The fact that state-induced production, insofar as it was represented by the national debt, has so far amounted only to a rather small fraction of total production, together with the fact that its costs were at first limited to the interest payments on the national debt and so claimed only a fraction of the capital disappearing into “public consumption,” postponed the reckoning imposed on private capital and had no immediate negative effect. Of course, the money loaned to the government has turned into the national debt, backed by nothing but the government’s promise to meet its obligations some day and meanwhile to pay the creditors the interest due them. The money capital utilized by the government is not invested as capital and so preserved but disappears into “public consumption.” If the state debt is ever paid off which may well not happen—it can only be paid out of new surplus value freshly created in production. And this would in no way alter the fact that the surplus value represented in the national debt has vanished without a trace instead of adding its volume to the accumulation of capital.

It follows that the state’s use of increased public spending to fight crisis ends by consuming capital. This consumption of capital appears as a growth of production and employment, but due to its unprofitable character, it is no longer capitalist production and really amounts to a hidden form of the expropriation of capital by the state. The state uses the money of one group of capitalists to buy the production of another group, with the intention of satisfying both groups by assuring for one the interest on and for the other the profitability of its capital. But the incomes that appear here as interest and profit can only be paid out of the total social surplus value actually produced, even if the reckoning can be deterred. As a result, from the standpoint of the system as a whole the proceeds of state-induced production must count as a deduction from the total profit and therefore as a diminution of the surplus value needed for accumulation. Since the crisis results from a shortage of surplus value, it can hardly be overcome by increasing this shortage.

It is true, of course, that the profit shortage manifested in the form of crisis is neither aggravated nor diminished directly by state-induced production, and that production, employment, and income increase just because means of production and labor power, which would not have been utilized without the state’s intervention, are set in
motion. But the means of production and the consumer goods consumed by workers employed in this part of production do not form part of capital, if viewed from the standpoint of the system as a whole. For the individual capitals involved, their outlays on means of production and labor power function as capital and yield them profits. But their profit means a loss of profits for all other capitalists and so stimulates their attempts to shift this loss to the shoulders of the population as a whole by means of price increases. Since the loss of profits due to state-induced production is spread over the society as a whole, it remains tolerable for a long time, without thereby ceasing to diminish the total profit.

This is not the place to go into the wider implications of state-induced production. What is important for us is only to see clearly that capitalism’s susceptibility to crisis cannot be overcome by this means. Whatever effects state-induced production may have in a crisis situation, it cannot increase profits and is therefore no instrument for overcoming crisis. Its continuing use can only enlarge the unprofitable portion of society’s production and in this way progressively destroy its capitalist character. True prosperity, in contrast, depends on the increase in surplus value for the further expansion of capital. It must be admitted that capital has succeeded in creating, out of its own resources, the prosperity of the recent past; but with it has also created the conditions for a new crisis.

However, this statement must be qualified. Just as the last great crisis differed from its predecessors, and in its length, extent, and violence shook the world uniquely, so the prosperity that began after the Second World War had a particular character differentiating it from earlier prosperities. It was accompanied from the start by an extraordinary growth of credit and so of money, which left the increase in production far behind and stimulated and sustained the prosperity by means of inflation. The growth of credit is a characteristic of every prosperity, and its acceleration, according to Marx, is a symptom of approaching crisis. Bourgeois economic theory also the rapid expansion of credit and the accompanying price inflation have been viewed as signs of a prosperity nearing its end and the approach of a period of economic downturn, since the reserve requirements of the banks set definite limits to the extension of credit. As these limits are approached, the price of credit soars, and the demand for it falls, bringing the inflationary effects of the boom to an end. If the prosperity does not rest on resources sufficient to continue it, i.e., on a rate of profit sufficient for accumulation, it can, however, be sustained by a looser state monetary and credit policy, though at the cost of increasing inflation.

A “cheap money” policy cuts down on the general debt burden and lightens the interest service on the national debt, on the one hand, and adds to the state’s demand for credit the demands of industry and consumers, on the other. It makes possible a rapid advance of production at the cost of increasing indebtedness and rising inflation. In the United States, for instance, the total product grew between 1946 and 1970 by around 130 percent in real terms, but by around 368 percent in money terms. Total debt excluding government debt rose during the same period by 798 percent. Just like the government’s demand for credit for the deficit financing of public expenditure, the expansion of private credit also increases economic activity beyond the level it would otherwise have reached, but without thereby being able really to change the productivity of labor and the quantity of surplus value, which develop independently of the growth of credit. Like governmental deficit financing, private indebtedness also depends on the expectation that production will grow without limit and can be extended in proportion to the expansion of credit.

What this proportion is, however, cannot be established. In the expectation of continuous and increasing production, with the higher incomes this will allow, and driven
by capital’s need to expand if it is to maintain itself, capitals compete by means of the credit system, which thus runs the danger of development far beyond the basis afforded by the actual level of social production. “Of course, the danger is not so great for the creditors, who, to a great extent are freed to raise the price of credit and can include their apparent losses in setting interest rates, which in itself leads to higher prices. In part the risk is shifted to the population as a whole by allowing capitalist debtors to deduct debt and interest payments from their taxes. Nevertheless, inflationary credit escapes the control of governmental monetary and credit policy, since inflation itself counteracts the state’s raising of the cost of credit by manipulating the interest rate, and since the demand for credit can increase even with higher interest rates. Naturally, the government can halt the expansion of credit by increasing reserve requirements, but this would threaten the prosperity on which the government itself depends. Whenever this way of halting inflation has been tried, the resulting recession has forced a return to the inflationary credit policy. If the extraordinary growth of private debt was a means of maintaining the prosperity thanks to which the growth of the state debt could be slowed down, the money and credit inflation w~ both a cause and a consequence of a prosperity that to an increasing extent was based on future profits, and that was therefore bound to collapse when they did not appear. As the inflation-caused differential between price and wage formation allowed profits to rise, the pressure of accumulation on the rate of profit was less noticeable. However, the sole result of this at least for America, as noted above was a profit rate stabilized at a relatively low level, which without the government’s inflationary policy would not have sufficed to enlarge production to the degree attained. Of course, the inflation contains its own contradictions; from a stimulus to the economy it can turn into a factor undermining it, since the real contradictions of capitalist production cannot be eliminated by techniques of finance. If the expansion of private credit reaches the limits set by the actual profitability of capital, then the prosperity it has engendered comes to an end, requiring additional state-induced production if the economic decline is to be halted, without thus being able to prevent it.

From the standpoint of the “new economics,” the inflationary money and credit policy was a method of surmounting crisis and restoring full employment. The illusion that this policy could lead to the restoration of an equilibrium based on price stability soon disappeared, however, in response to empirical facts if not to theoretical insight. The economist A. W. Phillips, in a historical investigation of the relation between wages and employment levels in England, made the not very surprising observation that rising wages and prices are correlated with decreasing unemployment, and falling wages and prices with increasing unemployment. Following the custom of economists, this observation was graphed, by the so-called Phillips curve, which represents changes of wages and prices as a function of employment. This was supposed to show clearly that growing employment implied wage and price inflation, so that the only choice is between inflation and unemployment. For example, it was calculated on the basis of the Phillips curve that in postwar America, without inflation unemployment would rise to between 6 and 8 percent of the working population, while with a 3 or 4 percent rate of inflation it could be reduced to 4 or 4.5 percent. Thus there was not only the choice between unemployment and inflation but also the possibility of using state intervention to restore the balance between unemployment and inflation necessary for prosperity. Any excessive increase in unemployment could be overcome through a corresponding increase in inflation, which, in the eyes of the economists, was really not too high a price to pay for permanent prosperity. This is because, in the words of a theoretician of “functional finance,”
Inflation does not constitute a reduction in the goods available for people to buy. The idea that the buyer’s loss from inflation can be treated as a social loss contravenes the first principle of elementary economics: the principle of remembering that if anybody pays any money somebody else must be getting it. Every 1% increase in prices, although it means that the buyers have to pay 1% more, also means that the sellers receive 1% more. Since both the sellers and the buyers are members of the society, society in the aggregate neither loses nor gains. Indeed, most people are both buyers and sellers, at different times of the week or even of the day; so that the greater part of the losses when buying and the gains when selling cancel out, and perhaps only one quarter of the 1% of the national income involved is an actual transfer from some people to other people. This net transfer of 1/4 of 1% from the buyers to the sellers changes the distribution of income and wealth, but there is no more reason for supposing that the new distribution is worse than the old distribution than for supposing that it is better.

This cold-blooded falsification of the real function of inflation enabled the representatives of the “new economics” to see their theory empirically confirmed by an inflationary prosperity with a stable level of unemployment until one day, the increasing rate of inflation was accompanied by growing unemployment, and the theory was revealed to be false. With this bourgeois economic theory fell into a second crisis, if we see its first crisis in the general confusion that preceded Keynesianism and was seemingly resolved by it. It was realized that the regulative measures suggested by Keynesian theory are not only limited and double-edged but also subject to contradictions inherent in the capitalist system. Economics, which according to Paul Samuelson had been transformed, thanks to Keynesianism, from a dismal into “a cheerful science,” relapsed into its original gloom. “In the post-Keynes era,” Samuelson explained,

we have at our disposal the instruments of a monetary and fiscal policy that can create the purchasing power necessary for the avoidance of great crises. No well-informed person still worries himself about the size of the public debt; so long as the Gross National Product and the nation’s fiscal capacity keep pace with the growth of the interest on the national debt, this problem is only a worry of the seventeenth rank, and no one is losing sleep over growing automation or business cycles. However, along with all our triumphant satisfaction there is still a spectre that haunts us: galloping inflation. It is the new scourge, which the pre-1914 theoreticians did not foresee. – . . With what we know today, we are indeed able to avoid a chronic recession, or to initiate a needed spending policy. But we don't yet know how to stop a cost-push inflation, without the cure being nearly worse for the economy than the disease.

It completely escapes Samuelson that the dread “scourge” of inflation and the “triumphant” monetary and fiscal policy are one and the same and that inflation cannot be fought with inflation. Of course, he distinguishes between two types of inflation: first, one stemming from an excess demand pushing up prices, which can be easily controlled by cutting incomes; and second, the supply inflation of recent times, which arises “from the pressure of wage costs along with the attempts made by giant firms to maintain undiminished profit margins.” For this second type no solution has yet been found, for experience teaches that government-imposed wage and price controls have only short-term effects.

Since the capitalist crisis was supposedly caused by insufficient demand, which was mastered exactly by means of the “triumphant” monetary and fiscal policy, it is difficult to understand how this triumph over crisis has itself turned into an inflationary state of crisis that is manifesting itself once again in growing unemployment. To surmount this new crisis situation, according to Samuelson, profits and wages must be
decreased, which would inevitably result in an insufficient demand, which in turn would have to be mastered anew with the “triumphant monetary and fiscal policy.”

Samuelson considers it “a truism, that the price level must rise when all the factors of cost rise more quickly than the volume of production.” But why doesn't the volume of production rise? Because “wages rise more quickly than the average productivity of labor,” answers Samuelson. But why doesn't labor productivity rise faster than wages? Since the rise in productivity depends on technological development, and this depends on capital accumulation, it must be because capital is not accumulating fast enough. But why not, when “the giant firms maintain undiminished profit margins”? Well, we just don't know. “A good scientist,” says Samuelson, “must be able to admit his ignorance” the ignorance that for this good scientist led to the Nobel Prize.

Another Nobel Prize winner, Kenneth Arrow, observed with resignation that the resolution of any problem always creates a new problem. From the beginning of the Keynesian era, the fear has been expressed that vigorous full-employment policies will lead to inflation. Standard economic theory has been built in large measure about the idea of equilibrium, that an exact balancing of supply and demand on all markets, including the labor market, will lead to steady prices, while an excess of supply leads to a downward pressure. Thus, unemployment ought to lead to wage declines; they manifestly have not done so in recent years. The coexistence of inflation and unemployment is thus an intellectual riddle and an uncomfortable fact.

Until this riddle is solved, together with the elimination of this uncomfortable fact, we should nevertheless bear in mind that the rates of inflation with which we have had to contend impose no insuperable problem or even major difficulty to the operation of the economic system, nothing comparable to the major depressions of the past. Individuals will learn and have learned to deal with inflation, making theft plans to take expected inflation into account.

The ignorance that Samuelson admits and Arrow’s unanswered riddle cannot be dealt with on the basis of bourgeois economic theory. But this theory cannot be renounced without giving up an important component of the ideology necessary to capitalist society. However, it is not only that the “riddle” of inflation with growing unemployment spells the bankruptcy of the Keynesian theory of full employment in its neo-classical version; in view of present-day conditions, the whole conceptual scheme of bourgeois economics has lost even that semblance of relevance to reality required by its ideological function. Even many economic ideologists have come to find the encumbrance of the neoclassical equilibrium price theory insupportable and have attempted to free themselves from it and to develop theories that fly less in the face of real economic relations. Of course, the so-called crisis of academic economics is not a general phenomenon. The majority of economic theorists still remain undisturbed by the divergence between theory and reality. This is not to be wondered at, since this phenomenon can be noted in other ideological areas also: there is no God but there are many hundreds of thousands of theologians.

For another group of theorists the “second crisis” of economics stems not from the riddle of the failure of monetary and fiscal policy to sustain full employment but from the problem of distribution, left unexamined by the neo-classical economists. Along with neo-Marxists like Baran and Sweezy, “left” Keynesians accepted the proposition that Keynesian methods could achieve full employment. In contrast to the neo-Marxists, the “left” Keynesians do not believe in the necessity of waste production. Full employment, they believe, can also be maintained by increasing the consumption of the population. Theoretically the concept of marginal productivity is seen as untenable as a basis for
explaining the distribution of income and as no more than an apologia for the prevailing unfair mode of distribution.

Practically the Keynesian methods of increasing production by state intervention should be matched by a politically determined distribution co-ordinated with it. By concerning itself with problems of the distribution of the social product, as in Ricardo’s original formulation of its goals, economics should return to its origin in political economy.

Thus, while the current state of affairs presents the representatives of the “new economics” with an unanswered riddle, “left” Keynesianism is still occupied with the hypothesis of a crisis-free economy in which the only problem is how the benefits of steadily increasing production are to be shared among the whole society. This would require not only a different principle of distribution than the existing one but also a different division of social labor, transferring resources from waste production to production for private consumption. Since this would require the direct competition of state-induced production with production for private account, which would only lead to the further subordination of the private sector of the economy to the state sector, this program could be carried out only through a struggle against private capitalism. And in fact “left” Keynesianism inclines toward state-capitalism and in this sense converges with neo-Marxism, without thereby losing its lack of relation to reality.

The still unsolved “riddle” of economic stagnation with growing unemployment and an increasing rate of inflation, given a name with the concept of “stagflation,” is in fact no riddle but a phenomenon known for a long time and put to use in the drive for higher profits under conditions unfavorable for the production of surplus value. Mass unemployment accompanied the “classic” German inflation after the First World War. Today it accompanies the forced accumulation in the capital-poor countries. The creeping inflation that is a constant feature in the capitalistically developed countries also indicates a level of profitability too low for the accumulation requirements of capital, which is certainly masked, but not overcome, by the increase in production. Inflation is not a natural phenomenon but the result of monetary and fiscal policies that could also be discontinued. If a government is unwilling to abandon the inflationary course, it is because of anxiety about the resulting economic stagnation, for this would be as injurious to it as to capital itself since every deflationary measure, every economic downturn also decreases the share of surplus value going to the government.

It is impossible to establish empirically either the accumulation requirements of capital or, therefore, the mass of surplus value that would satisfy them. That the relation between the two is not “in order” is only indicated indirectly through events in the market. Whether the state’s interventions through money and fiscal policy are able to restore the necessary relationship between profit and accumulation can likewise be discovered only in further market events. Thus the state can only react blindly to uncomprehended economic fluctuations in its attempt both to stimulate the economy and to secure the profitability of capital and its accumulation. But the first of these contradicts the second, although of course this, too, becomes apparent only later, in the market, through the combination of inflation with growing unemployment.

If the inflationary monetary and credit policy is a means to increase production, then the newly arising unemployment should in turn disappear with the acceleration of inflation. But the theoreticians of inflation themselves shrink before this consistent application of their theory, which would lead from creeping to galloping inflation. The deficit financing of public expenditures and the inflationary monetary and credit policy ought, they say, not be pushed too far, for this would call the future existence of the system itself into question. This confession is of course also an admission that creeping
inflation can be useful to capital only insofar as it fosters an increase in profit at the expense of society as a whole. But his does not mean that the increase in profit makes possible a rate of accumulation that could be described as capitalist prosperity. The appearance of growing unemployment with creeping inflation reveals that profits cannot be sufficiently increased by means of inflation to head off the incipient stagnation.

Inflation is a world-wide phenomenon. This indicates not only the mutual interdependencies and the complexity that characterise the global economy but also the sharpening general competition, which is also waged with the weapons of currency policy. The hunger for profit is universal, and the longing for additional capital can find no satisfaction in a world in which ever greater capital masses oppose each other competitively and must always continue to grow, not only to be able to hold their own but also to escape the economic stagnation that would otherwise set in. It is without a doubt true that monopoly profit can be maintained and indeed increased even under the conditions of stagnation, but only at the cost of aggravated stagnation and an irresistible decline in the economy. From this arises the need for further state interventions, which of themselves contribute to the disintegration of the system. Thus the future of capital still depends upon accumulation, even if accumulation promises it no future.

Just as the long years of prosperity did not affect all capitalist countries equally, the onset of crisis has different effects in different countries. But everywhere the change from prosperity to stagnation is already visible, and to the fear of further inflation is joined the fear of a new crisis. Whether the spreading crisis can once again be halted by state interventions, which will combat today’s difficulties at the cost of capital’s life expectancy, cannot be theoretically determined. Without a doubt it will be attempted, but the result may very well lead to no more than the temporary consolidation of the given precarious circumstances and with this to a prolonged decay of the capitalist system. Sooner or later we will daily find before our eyes the empirical confirmation Marx’s theory of accumulation: capitalism’s susceptibility to crisis and decay.

5. Ernest Mandel’s “Late Capitalism”

In the field of present-day Marxism, Ernest Mandel occupies a leading position. His industry and ambition have produced a small library of Marxism to which even bourgeois economists pay some respect. In his book Late Capitalism, Mandel practices a sort of self-criticism with respect to his earlier works. In particular he criticizes his Marxist Economic Theory, first, for its “exaggeratedly descriptive character,” and then for its “too small effort to explain the contemporary history of capitalism by its immanent laws of motion” (p. 7, German ed.). Since the later book contains Mandel’s corrections of his earlier works, Late Capitalism must be seen as representing, if not Mandel’s final conception, at least his ideas of the moment, which makes a look back at his Economic Theory largely superfluous.

In the course of his various works, Mandel came to the conclusion, which should have been obvious from the beginning, “that our explanation of the history of the capitalist mode of production is only possible through a mediation between the laws of motion of ‘capital in general’ and the concrete forms of appearance of the ‘many capitals’” (p.7, German ed.; see English ed., pp. 8-9). The contemporary concrete form of appearance Mandel condenses into the concept of “late capitalism,” although this does not feel quite right to him, since this term is not intended to suggest “that capitalism has
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changed in essence,” although its purely chronological significance is also “unsatisfactory.” In any case, calling the present state of the system “late capitalism” can in no way make “the analytic findings of Marx’s Capital and Lenin’s Imperialism out of date” (p.10).

Since Lenin also claimed to hold to the analytical findings, Marx’s Capital, one cannot speak of the analytical findings of Lenin’s Imperialism: it only represents Lenin’s interpretation of a particular situation, namely the First World War, on the basis of the incorrectly understood, to be sure Marxian laws of motion of capital. Thus Mandel can make but little appeal to Lenin, even when his political position compels him to place Lenin next to Marx, although, as Mandel himself points out, Lenin “does not provide a systematic theory of the contradictions of capitalist development” (p.38, n.).

Up to now, according to Mandel, the relationship between the Jaws of motion and the history of capitalism has not been satisfactorily explained. He wants to fill this gap, which necessarily brings him into opposition with nearly every previous interpretation of capitalist development. Mandel nevertheless devotes the customary introductory pages to the “dialectical analysis,” now become a “commonplace” which traditionally precedes every explanation of development, in order to emphasize that “to reduce Marx’s method to a ‘progression from the abstract to the concrete’ ... is to ignore its full richness” (p. 14).

The concrete is the real starting point, as it is the goal, of the process of knowledge. The truth of the laws of development produced by theory must be empirically proven. Although there is nothing to object to here, the question remains whence the empirical proof will come.

Mandel attacks those who think that the capitalist mode of production stands in the way of a direct empirical verification of the Marxian theory, and who therefore restrict themselves to the abstract analysis of developmental tendencies. In opposition to them, he wants to describe not only the “tendencies” discovered by the abstract analysis but also the development of capitalism as a concrete, historical process, since Marx “categorically and resolutely rejected this quasi-total rift between theoretical analysis and empirical data” (p.20). In this respect there is certainly little to be found in Marx, unless one sees empirical proof of his theory of capitalism in the fact that the production process, examined in the first volume of Capital in isolation from the rest of the system, is represented in the third volume as the process of production as a whole in the concrete forms in which it is experienced. But even in terms of the process as a whole, and despite the many illustrations taken from reality, one cannot speak of quantitative and empirical proof of the validity of Marx’s developmental theory, since the data necessary for such a proof are in capitalism neither available nor to be expected.

But, Mandel objects, “In the first volume of Capital Marx calculated the mass and rate of surplus value for an English spinning mill, basing himself on exact data (declarations) from a Manchester manufacturer, as they had been given him by Engels...” (p.21 n.). Now it goes without saying that one can represent the process of surplus-value extraction on the basis of the data, given in prices, for each capitalist enterprise. These data can also illustrate the degree of exploitation of the workers by the capitalists, and similar data on investments can be used to illustrate the organic composition of various capitals. In none of these cases, however, is any light shed on the developmental tendencies of capital. But this is the point of Marx’s theory, not proving that capitalist production is the production of surplus value and is based on the exploitation of labor power something known long before Marx and felt by every worker in his own life. It is impossible to prove the detrimental consequences of value and surplus value production by empirical statistics as long as capitalism’s internal contradictions can be overcome by accelerated accumulation. What Mandel claims to show, namely how “the real history of
the past hundred years” can be represented “as the history of the unfolding development of the internal contradictions of this mode of production” (p. 22), comes down, for him as for everyone else, to the concentration and related centralization of capital and to capitalism’s susceptibility to crisis. The tendency to crisis arises from the valorization requirements of capital under the conditions of blind market processes. The “regulation” of the capitalist economy by the law of value means that the contradictory movement of capital cannot be continuously known and followed directly in its concrete manifestations. If this could be done, there would be no need for the theory of value to understand the history of the last hundred years.

For Mandel the law of value is not a key to the understanding of capitalist development but a sort of law of nature that must also apply to the pre-capitalist period. In this connection he cites Engels, who in a letter to Werner Sombart (and also in other places) declared that in pre-capitalist times, at the “beginning of exchange,” commodities were evaluated by reference to their labor-time content, so that value had “a directly real existence.” Only in capitalism is labor-time value so thoroughly modified that it can no longer be recognized in prices. Both Engels and Mandel, however, are laboring under a misconception that is not alleviated by Marx’s suggestion that the value concept has historical as well as theoretical significance. It makes no difference whatsoever whether commodities were exchanged in precapitalist times in accordance with their labor-time contents or not. In capitalism, in any case, this possibility is excluded, since here we find the special commodity labor power that produces a surplus value in addition to its value. The production of value and surplus value obviously had roots in precapitalist exchange, and in this sense these social categories have a historically factual aspect arising from the general necessity of taking the labor time involved in production into account. But labor time and value are not the same thing. Whether or not the exchange of labor-time equivalents takes place, it has nothing to do with the value character of capitalist production, which reflects the social relations of production peculiar to this system.

Capitalism is ruled by value not because production is regulated by labor time but because the exploitation of the workers is accomplished by means of exchange. To say that the value of the commodity labor power is determined like that of every other commodity is to explain the origin of surplus value (that is, extra labor for the capitalists). While the commodity market is constituted by the exchange of the products of the total labor time employed, there is no exchange of labor-time equivalents, since the capitalists have nothing to exchange but only appropriate a portion of the workers’ total product. Thus the law of value can have neither a “directly” nor an “indirectly” real existence in exchange.

The law of value does not operate in reality as in the theoretical model developed to understand reality. It is based on the dual character of labour as a process both of production and of capital expansion, which appears in the dual character of the commodity, including the commodity labor power, as use value and exchange value. Capitalist production is the production of exchange value, and the use value of commodities is only a means to this end. With the increasing productivity of labor the quantity of goods produced increases while their exchange value falls, the one change counteracting the other. In this way the increasing productivity of labor results in the accumulation of capital, and the opposite movements of use value and exchange value have no visible detrimental effect on capitalist development.

The accumulation of capital thus expresses the growing productivity of labor, while the growth of productive capital in turn improves the productivity of labor. This process indicates that expansion of capital is tied to changes in labor-time relations. More total labor time is expressed in more products, or more products expressed in labor time, is
needed if the goal of capitalist production, the growth of capital, is to be attained. Every capitalist firm attempts to expand production in order to make the maximum profit, and the general result of these attempts is the accelerating accumulation that overcomes the decline of exchange values by the more rapid growth of the mass of use values.

The increase in the productivity of labor implies that the use value—for the capitalists—of the commodity labor power rises more rapidly than its exchange value. In other words, productivity races ahead wages. Expressed in terms of labor time, this means that a growing part of the total labor time—in any particular enterprise or in the society as a whole—must serve the ends of accumulation, while a decreasing part appears as the exchange value of labor power. In practical terms this implies that less labor must valorize (expand) a greater capital, i.e., that the organic composition of capital changes in favor of constant relative to variable capital. In this sense capital is only continuing the general development of society, insofar as this can be described as the improvement of the forces of production and the increase of production with less labor, although on the basis of a set of social relations compelling accumulation this is occurring at a previously unknown tempo and to a previously unknown extent.

In the change of the organic composition of capital, which is only another expression for the growing productivity of labor, the contradictory movement of exchange value and use value manifests itself as a contradictory movement of accumulation and profit. The increasing use value of labor power, or the rise in the rate of surplus value, confronts the tendency of the rate of profit to fall or the tendency of exchange value to decline relative to use value. But this too is a matter, at first, of mutually counteracting tendencies. So long as the rate of surplus value can be increased more rapidly than the rate of profit falls, these tendencies are factors stimulating accumulation without being distinguishably visible in it.

Aside from the fact that the price mechanism of the market economy, together with the competition-enforced tendency to the formation of an average rate of profit, makes exact observation of changes in the labor-time relations underlying this process impossible, capitalism’s economic data are produced from the viewpoint of capital, not from that of Marx’s theory of value. These data cannot be translated directly into Marxian categories, although the latter are embodied in market events and find in such phenomena as the fall of prices of production and of the level of the average rate of profit in the course of capitalist accumulation some confirmation of their relevance. Even if it were possible to transform all the available data into the terms of the labor theory of value, however, this would still lead only to the discovery that with sufficient surplus value, capital accumulates, and that with less it does not a piece of knowledge that can be ascertained directly from the data of the bourgeoisie and of which everyone becomes aware in the course of the actual crisis cycle, without any need of further investigation.

The demonstration that commodity prices must be derived from labor-time values is not the goal of Marx’s theory of value but its starting point. The aim of the value theory is rather to gain insight into capital’s laws of motion. All price relationships only mirror the exchange relations, not the production relations which underlie them. In a system like the capitalist one, continuous and accelerating accumulation is the prerequisite for progressive development. If the level of exploitation cannot be increased more than the rate of profit falls, the capitalist dynamic turns to stasis, thus destroying the essence of the capitalist mode of production, the production of capital. The exchange value of labor power is necessarily the equivalent of the labor time, embodied in products, required to produce and reproduce it; this is not contradicted by occasional and partial departures from the norm. The use value of labor power yields profit, the capitalist share of the total labor time, likewise in the form of products. Given a constant number of workers, the
process of accumulation would require a continuous increase in their exploitation, which can be accomplished either by lengthening the absolute labor time or by shortening the labor time necessary to secure the workers’ existence. If the possibilities of the first method are exhausted in the course of accumulation, those of the second will also be exhausted, since the necessary labor time is not reducible to zero. If exploitation can no longer be increased, accumulation will come to an end. The number of workers must therefore increase absolutely if the process of accumulation is to continue. And of course the accumulating capital requires further growth in the number of workers, while at the same time the potential for exploitation of these workers is progressively diminished.

This narrowing of the basis of accumulation appears in the changing organic composition of capital. While more and more workers are involved in the production process, the number of workers falls relative to the growing mass of capital (which is only another way of saying that less labor is used to produce more commodities). As a result the production of surplus value tends to decline, as the use value of labor power its production for capital cannot be extended to fill the total labor time but must stop at the point where the exchange value of labor power would fall below its reproduction requirements. The contradiction of capitalist accumulation, then, lies in the fact that the very process that increases the number of workers exploited, and with this the mass of profit, at the same time calls the continuation of accumulation into question. The increasing productivity of labor decreases the quantity of labor time employed, and therefore the surplus value produced, in relation to the growing mass of capital. This is manifested in the fall in the rate of profit (which is the ratio of surplus value to the total capital).

The rate of accumulation at any moment determines both the growth of labor power and its displacement by the extension of production and the increase of exploitation. The increase of exploitation, however, is the prerequisite for the extension of production; and so long as the latter does not come up against objective limits, the former has an unobstructed path. These objective limits are set by labor-time relations, specifically by the relation between value and surplus value, between wages and profits. If the surplus value produced by a given quantity of labor power cannot be increased, it becomes impossible to exploit additional labor power, since this would require additional means of production, made available by accumulation.

The complex interrelationship of all these factors should be enough to show that the consequences of the process of capitalist accumulation can only be represented abstractly, by an analogical model based on the fundamental capitalist social relations. Although, according to the logic of the theory of value, the whole development of capitalism is to be explained in terms of the capital-labor relation, the incredible complexity of the real capitalist world forms an impenetrable agglomeration of apparently unconnected factors, which in practice cannot be made use of to provide empirical proof for the abstract theory. (It should be noted that if this is a “deficiency,” Marx’s theory shares it with bourgeois “economic science,” which, despite its exclusive concern with prices, is also compelled to construct models if it is to become comprehensible a state of affairs in no way altered by either the theoretical or the practical use of the modern apparatus of econometrics.)

It is thus an essential feature of capitalism that the quantitative linking of market phenomena to Marx’s basic categories, which Mandel claims he is attempting (p.21), is quite impossible to achieve. Even apart from this, what data there are for market phenomena are quite inaccurate. Although economic statistics has come a long way, it is still largely a matter of unreliable and inadequate indices that can hardly be taken seriously as a basis for conclusions about the laws of motion of capital. What partial
notice has been taken of the development of production prices and commodity prices, of investment and employment, of income and its distribution, of trade relations, etc., provides no understanding of capitalist accumulation that can be correlated with Marx’s basic categories.

Capital produces for the market, to which it abandons the regulation of social production within the framework of the production of surplus value. Its representatives can therefore understand neither the allocation of the total labor time necessary for the satisfaction of the social needs peculiar to capitalism nor the valorization difficulties that arise from the accumulation process. Without regard for social consequences, unknowable in any case, each firm seeks to maximize the profit it can realize on the market, and in accordance with this goal it seeks to reduce its costs of production to the minimum. This general effort alters the relation of social surplus value to the mass of the existing capital, influencing the continuation of the accumulation process in a positive or negative way. This influence is negative when the organic composition of capital does not permit an increase in profits sufficient to continue accumulation under the given conditions of production. The slowdown in accumulation itself indicates that not enough surplus value is being produced or, to put the same thing in other words, that too much capital has been accumulated in relation to the going rate of exploitation.

This state of affairs, engendered by changes in labor-time relations, appears from the capitalist viewpoint not as a problem of surplus-value production but as a phenomenon of the market, since the latter is not only viewed as the regulator of the economy but actually is its only regulator. It must be demonstrated in the market whether or not the preceding production was adequate to “social needs,” and whether or not this production has yielded a surplus value sufficient for a profitable expansion of capital. Were it possible to explain market processes in terms of the law of value, it could be shown, in the negative case, that the relationship of labor to surplus labor does not meet the valorization requirements of capital, and (since the needs of society in general are defined within the framework set by these valorization requirements) that the discrepancy between surplus value and capital’s need to expand affects all economic relations.

Since the market is the actual regulator of the capitalist economy, the changes in labor-time relations occurring in the sphere of production work their way through the system in the form of market processes, although in truth it is the value relations at the point of production that govern the market. The power of the law of value over social production manifests itself above all in economic crisis, which is experienced in the market, not directly as the overaccumulation of capital but in the form of insufficient demand and the overproduction of commodities. The fact that the reality of the law of value is demonstrated in the capitalist crisis indicates that this law had been infringed throughout the previous production period, to the point where the labor-time relations governing the production of surplus value and so the process of capital’s self-expansion, together with the allocation of the total social labor time bound up with it, objectively excluded an unlimited continuation of accumulation. Just as the law of value works its way through crisis, the overcoming of crisis is nothing but the restoration – realized in the market but essentially concerning the sphere of production – of labor-time relations yielding a mass of profit adequate for further accumulation.

Instead of explaining the crisis cycle and capitalist development as governed by the law of value, Mandel does the reverse: he seeks confirmation of the law of value in the surface appearances of capitalist accumulation. He bases this attempt on the idea that
history cannot be reduced to theory. Although there is without doubt more to the history of capitalism than is covered by the theory of value, the latter is nonetheless necessary if the general developmental trend of the history is to be recognized. According to Mandel, however, all previous Marxist theories of capitalist development led to no useful result, since they illegitimately attempt “to reduce this problem to a single factor” (p.34), while in his view, reference to “the interplay of all the laws of motion of capital” is necessary in order to explain a particular result of this development (p.42). His understanding of this leads Mandel to oppose, to begin with, Rosa Luxemburg, Henryk Grossmann, Nikolai Bukharin, and Rudolf Hilferding, all of whom are supposed to have derived their theories of accumulation exclusively from the reproduction schemas of the second volume of *Capital*, thanks to which their work must be judged a failure.

While this criticism may tell against Luxemburg, Bukharin, and Hilferding, it does not bear on Grossmann, who explained capitalism’s tendency to breakdown on the basis of the law of value and accumulation. Although Mandel’s rejection of the theories of development based on the reproduction schemes must be seconded, his performance in this regard indicates insufficient knowledge of the material, something that cannot be made up for by appealing to the writings of Roman Rosdolsky. It did not occur to Marx, as Mandel peculiarly maintains it did, to prove by means of the reproduction schemas "that it is possible for the capitalist mode of production to exist at all" (p. 25). (It could not have occurred to him simply because no one doubted the existence of capitalism.) According to Mandel Marx saw capitalism’s existence as dependent on an equilibrium of the relations of exchange between the production of producer goods and that of consumer goods, although the reality of capitalism is “a dialectical unity of periods of equilibrium and periods of disequilibrium” (p. 26). Thus for Mandel Marx’s reproduction schemas represent a one-sided, undialectical view of capitalist reproduction, incapable of yielding insight into capitalist’s laws of motion.

Mandel would like to correct this by proposing an outline which of course remains unrealized of “other schemes which incorporate from the start this tendency for the two Departments [of production] and all that corresponds to them to develop un-evenly.” Of these schemes “Marx’s reproduction schemas will only constitute a special case just as economic equilibrium is only a special case …” (p.27). Now Rosa Luxemburg, unlike Bukharin and Hilferding, had, to be sure, seen Marx’s reproduction schemas as implying a perpetual disturbance of equilibrium; but this, according to Mandel, is also wrong, since capitalism is really a dialectical unity of equilibrium and disequilibrium. For Mandel the one arises from the other, both concepts referring to actual states of the economy.

For Marx, in contrast, any equilibrium, whether in the relations between departments of production or in the market generally, was a pure accident, obstructed as a rule by disproportionality. This did not prevent him from starting from the *assumption* of equilibrium in order to expose the essential traits of capita production and accumulation. Thus, for example, he used the assumption of an equilibrium of supply and demand in order to lay bare the laws of motion underlying competition. In the same way the reproduction schemas represent assumptions that certain contradict reality but can nevertheless help in explaining it. T production process is at the same time a process of reproduction that requires circulation for its completion. For the *demonstration* of this process it is sufficient to analyze total social production into two departments in order to represent the conditions of imaginary frictionless exchange. Although capitalist production essentially the creation of exchange value, it nevertheless remained tied to use value. While the individual capitalist strives only to enlarge his capital as accumulated surplus value, he can do this only within the framework of social metabolism, which is also a social metabolism operating on use values. In the social context the theoretically
conceivable equilibrium of capitalist exchange presupposes an equilibrium of the use values necessary for reproduction.

Just as competition cannot be explained by competition, the circulation process cannot be explained in terms of circulation. The possibility of reproduction, simple or expanded, depends on the circulation of goods containing definite quantities of labor time, represented in the form of values and use values and distributed in a definite way. To show this is the sole task of the reproduction schemas. They are depictions not of the real process of reproduction but of the necessities underlying this process. Since they make themselves felt only through capitalist categories, these necessities are unnoticed, but nevertheless must be respected, behind the backs of the producers if the accumulation of capital is to be possible. The reproduction schemas are a further illustration of the working of the law of value in the capitalist production and reproduction process. This means that the process represented abstractly in the schemas is in reality shot through with disproportionalities and crises.

The reproduction schemas constitute neither an equilibrium nor a disequilibrium model but simply the demonstration that accumulation depends on a certain proportionality between the departments of production, which must be established in the market but is determined by the law of value. For Mandel, however, the reproduction schemas are a method of equilibrium analysis to which he wants to add an apparatus of disequilibrium analysis. In this he follows in the footsteps of Rosdolsky, for whom the reproduction schemas on the one hand represent a “heuristic device” but on the other picture a real state of the economy. Thus Rosdolsky writes, for example, that in the capitalist mode of production the proportional development of the various branches of production, and the equilibrium between production and consumption, can only be obtained... in the midst of continuous difficulty and disturbances. Naturally, this equilibrium must at least be attained for short periods of time, or else the capitalist system would not function at all. In this sense, however, Marx’s schemes of reproduction are in no way a mere abstraction, but a piece of economic reality, although the proportionality of the branches of production postulated by these schemes can only be temporary, and “spring as a continual process from disproportionalities.”

There are thus, according to Rosdolsky and Mandel, periods of equilibrium and periods of disequilibrium, without the first of which capital cannot survive. The contradictions intrinsic to capital thus only appear from time to time, which suggests the question, why they are sometimes there and at other times not. Rosdolsky answers, citing Marx, with the observation that accumulation is broken by “pauses,” namely “periods of rest, during which there is a mere quantitative extension... on the existing technical basis,” for which the reproduction schemas are valid, since they show “the possibility of extended reproduction through the mutual adjustment of the production-goods and consumption-goods industries, and hence also the possibility of the realisation of surplus-value.” This of course implies that the capitalist system can only function when accumulation is very slow and that any quickening of the pace must lead to crisis. And Rosdolsky actually explains that with the introduction of technological progress into the reproduction schemes, “the conditions for equilibrium of production turn into conditions for the disturbance of equilibrium,” so that the equilibrium schemas must be supplemented by Marx’s theory of crisis and collapse.

Of course, it is correct that capital can accumulate even without technological progress simply by the expansion of production. Only then it reaches the limits of accumulation more quickly, since under such circumstances it has only the resources of absolute surplus value (derived from lengthening the working day) to draw on. But apart
from this it is obvious, according to Marx-and also aside from him-that the capitalist mode of production, under the compulsion of accumulation, increases the productive forces to an extent undreamed of earlier by concentrating on relative surplus value and only in this way develops its full potential. It is the acceleration of the rate of accumulation, not its retardation, that keeps capitalism viable by allowing it temporarily to overcome its immanent contradictions, only to bring them forth again at a higher level of accumulation.

Rodsoky's, and so Mandel's, strange conception of the reproduction schemas can be accounted for by reference to their theory of crisis. Although Mandel is of the opinion that no crisis theory can be derived from equilibrium analysis, the reverse seems possible to him. Both, Rodsoky and latterly also Mandel, are adherents of an underconsumption theory of crisis, namely the primitive idea that the realization of the surplus value is difficult because the workers cannot buy back their surplus product. Given this idea it is understandable, if incorrect, to hypothesize that capital accumulates best when it accumulates least, and that when accumulation is restricted, it approaches a state of equilibrium in which consumption equals production; for, says Rodsoky, “as long as accumulation progresses, and a portion of accumulated sun plus-value is used to employ additional labor-power, i.e., workers, then these will help to realise the surplus-value created in the previous period of production by spending their wages.” And Rodsoky says this even though he also sees that the surplus value is the part of the social product that is taken from the workers and whose value can therefore only be realized through accumulation and capitalists’ consumption. How the realization of the surplus value through accumulation can decrease the gap between production and consumption remains his secret.

Although capitalism’s susceptibility to crisis can be neither denied nor affirmed by reference to the reproduction schemas, the latter are still based on the law of value, which represents the contradiction intrinsic to capitalist production and accumulation. The schemas are not needed to prove the contradictory movements of capital, for they are already given in the theory of value. On the basis of this theory it is quite the same if accumulation proceeds quickly or slowly, if capital finds itself in a “period of rest” or in a state of hectic expansion, since under all circumstances an adequate part of the total product must be claimed as surplus value if accumulation is to take place. Otherwise there would be only simple reproduction, which is contrary to the capitalist mode of production and implies a state of crisis. It is of course true that accumulation requires additional labor power and thus additional consumption, without thereby affecting the realization of surplus value. The absolute increase in consumption through accumulation is at the same time its decrease relative to the expanded production.

What Mandel and Rodsoky have in mind is of course the rapid rise in the organic composition of capital attendant on technological change, which, together with the displacement of workers by machinery, decreases consumption. But since accumulation can take place only with a relative reduction of consumption, this has nothing to do with the problem of the realization of surplus value but is simply the condition that has characterized capitalism from the start and from which it cannot escape without abolishing itself. Thus it is Rodsoky’s and Mandel’s underconsumption theory that lead them to project a provisional theoretical assumption, used by Marx to analyze the process of reproduction, onto the real process of circulation. This misunderstanding would have been spared them had they analyzed accumulation with the help of the theory of value.
While Marx explained all the fundamental phenomena of capitalism on the basis of the law of value, Mandel takes as his starting point six distinct developmental tendencies, or “basic variables of the capitalist system. He emphasizes “that up to a certain point all the basic variables of this mode of production can partially and periodically perform the role of autonomous variables naturally not to the point of complete independence but in an interplay constantly articulated through the laws of development of the whole capitalist mode of production” (p.39). By “basic variables” Mandel means: the organic composition of capital in general and of the two departments (of producer goods and of consumer goods, as in the reproduction schema) in particular; the division of constant capital between fixed and circulating capital, again in general and for the two departments separately; the development of the rate of surplus value; the development of the rate of accumulation; the development of the turnover time of capital; and the exchange relations linking the two departments of production.

The history of capitalism, and its law-governed regularity, can, according to Mandel, “only be explained and understood as a function of the interplay of these six variables” (p 39). It does not occur to him that with this he is saying that the history and inner regularity of capital can only be understood by reference to the history and inner regularity of capital. The consequences of the production of value and surplus value show themselves, among other ways, in the phenomena of accumulation picked out by Mandel, all of which are governed by the law of value and in accordance with it are manifested by fluctuations in the rate of profit. For Mandel, however, these fluctuations “are only results which must themselves be explained by the interplay of the variables” (p.39). Again, it does not occur to him that he is explaining the profit rate by the rate of profit when he explains the history and inner regularity of capital by its history and inner regularity.

It is in this way that Mandel wishes to bridge the gap between theory and reality. Abstractly considered, all the fundamental phenomena of capital follow from the postulates of the value theory. But in reality, Mandel assumes, the various aspects of capitalist accumulation resulting from the law of value have autonomous functions, at least at times, and independently influence the process as a whole. Therefore special attention must be devoted to these aspects, and their effects must be empirically investigated. This naturally presupposes a criterion by which the empirically determined facts can be made comprehensible and their connections with other such facts exhibited. For capitalism the theory of value is this criterion, as it deals with the basic production relations of this system. The value analysis makes it possible to discover the general tendency of capitalist development from any particular set of changes in Mandel’s variables, while the observation of these variables, without application of the value analysis, permits no conclusion about the trend of development but remains the mere description of given circumstances.

Mandel gives a few examples to demonstrate the correctness of his thesis. He shows that the rate of surplus value is at all times a function of the class struggle. “To see it as a mechanical function of the rate of accumulation, ... is to confuse objective conditions which can lead to a particular result ... with the result itself. Whether or not the rate of surplus-value does in actual fact rise depends among other things on the degree of resistance displayed by the working class to capital’s efforts to increase it” (p.40). “Other things” refers to the influence on the rate of surplus value of the industrial reserve army of the unemployed. Thus for Mandel there are “numerous variations” in the determination of the rate of surplus value, as “can readily be seen from the history of the working class and the labor movement over the past 150 years.” But this history also shows that
accumulation, despite its interruption by crisis, was a continuous process that presupposed an adequate rate of surplus value and thus confirmed Marx’s dictum that “the rate of accumulation is the independent, not the dependent variable; the rate of wages is the dependent, not the independent variable.”

Since capitalism still exists today, the “numerous variations” in the determination of surplus value have done it no apparent harm during the last 150 years, in any case not with respect to its developmental tendency. Despite all class struggles the rate of surplus value has remained sufficient for accumulation. As a “partially autonomous basic variable,” the development of the rate of surplus value has had no effect. All that Mandel’s approach allows him is to follow the history of the class struggle in the context of surplus-value production a history that points not to the limits of accumulation but to the limits of the class struggle within the capitalist system. It was not only because the opacity of the market economy makes it impossible to follow the quantitative changes in the rate of surplus value and their empirical consequences for the process of accumulation that Marx developed his theory of accumulation on the assumption that the value of labor power is always determined by its costs of production and reproduction. While in reality the wage can lie above or below the value of labor power, it can never without calling capitalist society itself into question depress the surplus value below the level required for capital accumulation. This limit of wage formation is not only determined by the supply and demand of labor power, and thus regulated by accumulation, but is also determined by the fact of capitalist control of the means of production. Thus the “numerous variations” in the formation of surplus value produced by the class struggle can be abstracted from in describing the accumulation process without the description thereby losing its realism.

To go into one more of the examples Mandel offers, “the rate of growth of the organic composition of capital” cannot, according to Mandel, be regarded simply as a function of technological progress arising from competition. This technical progress does admittedly cause living labor to be replaced by dead labor in order to reduce costs... But... constant capital is comprised of two parts: a fixed part... and a circulating part.... The rapid growth of fixed capital and the rapid increase in the social productivity of labor that results from it, still tell us nothing definite about the tendencies of the development of the organic composition of capital. For if the productivity of labor grows more rapidly in the sector that produces raw materials than in the sector producing consumer goods, then circulating constant capital will become relatively cheaper than variable capital, and this will ultimately lead to a situation in which the organic composition of capital despite accelerated technological progress and despite accelerated accumulation of surplus-value in fixed capital will grow more slowly and not more rapidly than before (p. 41, translation corrected).

What, really, is Mandel saying here? “Constant capital” includes both fixed and circulating capital. The organic composition of capital, according to Marx, is “the value-composition of capital, in so far as it is determined by its technical composition and mirrors the changes in the latter.” It is clear that the cheapening of the raw materials entering into constant capital, accomplished by an increase in the productivity of labor, can alter the value relation between constant and variable capital and thereby slow down the growth of the organic composition. This, however, does not make the organic composition a “partially autonomous variable” but only means that capital can accumulate with a more advantageous organic composition. Since this is the case in general whenever capital is accumulating, Mandel in reality is saying nothing at all.
These meaningless exercises are necessary, according to Mandel, to deal adequately with the “third phase” of capitalist development, or “late capitalism.” Only study of the “independent variations of the major variables of Marx’s system” (p.42, translation corrected) will make it possible to understand the successive phases of the history of capitalism.

For Mandel “the capitalist world system is to a significant degree precisely a function of the universal validity of the law of unequal and combined development” (p.23). It is true, of course, that capitalism developed first in certain countries and that this subjected the world economy to an unequal development. The capitalist “international division of labor,” together with the concentration and centralization of capital that accompany accumulation, have divided the world into capitalistically developed and underdeveloped countries. But to say this is only to say that the “law of unequal and combined development” signifies no more than the development of capitalism.

Following a survey of the earlier development of world capital, which was consecrated to the blocking of capitalist development in the dominated countries and to the satisfaction of the profit and accumulation needs of the imperialist countries, Mandel concludes that present-day capitalism has seen “a change in the forms of juxtaposition of development and underdevelopment,” and that “new differential levels of capital accumulation, productivity and surplus extraction are emerging, which although not of the same nature, are still more pronounced than those of the ‘classic imperialist epoch’” (p.65). In late capitalism the share of the underdeveloped countries in world trade is declining, so that they are becoming poorer in comparison with the imperialist nations. As Mandel explains it, the imperialist countries depend on the raw materials of the underdeveloped countries and on the decline in their prices, which leads to a relative decline in the value of those raw materials. But since, according to Mandel, the share of the underdeveloped countries in world trade is diminishing, this must express imperialism’s decreasing dependence on the raw materials of the poor nations, which leads to the drop in their prices. Mandel is however not satisfied with this observation; he wants to bring it into connection with the workings of the law of value on the world market, particularly because Marx “did not analyze it systematically in Capital” (p.71). On the basis of the logic of Marx’s theory, as Mandel enlarges on it, “under the conditions of the capitalist relations of production, uniform prices of production (i.e., a wide-ranging equalisation of rates of profit) only emerge within national markets.. And “the law of value would only lead to uniform prices all over the world if there had been a general international equalisation of the rate of profit as a result of the complete international mobility of capital and the distribution of capital over all parts of the world ...” (p.71). Now Marx’s theoretical transformation of values into prices of production concerns not an actual market, whether national or international, but his abstract model of a closed capitalist economy. It represents his solution to the question of how the law of value operates despite the fact that goods are not exchanged in ratios determined by their values. Capitalists confront not values but cost prices, which refer to the unknown labor-time quantities contained in them. The price of production deviates from the value, since it is determined only by the paid labor, thus by the cost price, plus the socially average rate of profit. A further complication-the fact that the cost prices contain already realized profit, so that the price of production of one branch of industry enters into the cost price of another branch has the result that the determination of price by value is even more obscured. if we nevertheless want to prove that price is governed by value, this requires a
mental experiment reducing the tangle of price relations to the division of total production into value and surplus value. For the analysis of social production as a whole, the different organic compositions, rates of surplus value, and profit rates of the individual capitals and branches of industry are irrelevant. Total production has a definite magnitude that is determined by the total labor time. It has reproduced the value it has consumed and has yielded a certain quantity of surplus value. The distribution of this surplus value among the different capitals can neither enlarge nor diminish it. The level of the rate of profit depends on the ratio of the total surplus value to the total capital and thus depends on the organic composition of the total capital. This in turn is equal to the average of the various organic compositions of the different capitals. If the organic composition of a particular capital is the same as the average composition of the total capital, its profit will be equivalent to its surplus value. Where this is not the case, profit and surplus value must differ from each other. Since profit governs the movement of capital, capitalist competition effects the migration of capital from branches of industry poor in profit to those rich in profit (whence arises the tendency to the formation of an average rate of profit). This means in practice that some commodities are sold at prices over and others at prices under the value they contain. This in no way alters the determination of the value of every commodity by the labor time socially necessary for its production. But the distribution of the total value effected by the market mechanism, which produces the average profit rate, changes these labor-time values into prices of production. Without going more deeply into the complicated question of the formation of an average profit rate, it should nonetheless be said that in the real world the process depicted in Marx’s model “acts as the prevailing tendency only in a very complicated and approximate manner, as a never ascertainable average of ceaseless fluctuations.”

The deviations from value expressed in the production price cancel each other, so that for the total capital the sum of the production prices equals the total value. The intermixture of prices of production with the cost prices can also not affect this equality of the aggregates. The conceptual separation of the cost prices from the prices of production that have entered into them yields the total cost price, which can then be compared with the total profit. While this is in practice impossible, it is a theoretical possibility, just because the prices of production are constituted of two distinct elements, the cost prices plus the average rate of profit. In any case, however the total surplus value produced by the total social capital may be divided up, it can be dissociated no more from the labor-time relations of surplus-value production than from the process of production governed by labor time in general.

Capital, in Marx’s words, is in and for itself indifferent to the particular nature of every sphere of production. where it is invested, how it is invested, and to what extent it is transferred from one sphere of production to another or redistributed among the various sphere of production-all this is determined only by the greater ease or difficulty of selling the commodities manufactured.

Through these migrations the average rate of profit is formed behind the backs of the capitalists, as a function of the total production, of which they are ignorant, and of the total surplus value they have produced. Although the law of value does not operate directly on the level of individual commodities, it nevertheless continues to govern production and exchange, if in an indirect manner, through the social character of surplus-value production. Capital experiences its reality in the fall in the average rate of profit, when the social surplus value no longer meets the requirements of accumulation. It is manifested in the fall and rise in the general level of the prices of production due to the
increasing or decreasing productivity of labor. It appears, furthermore, on the terrain of the market in the superficial form of the interplay of supply and demand, and capitalist reactions to these market phenomena must, however blindly, reduce this interplay to the value relations underlying it in order to have any effect on the world of appearance. Although Marx’s model of the formation of the general rate of profit corresponds to reality, this is only because every capital must strive to increase its capital in order to maintain it; to this end it must seek to reach at least the average profit rate. The average rate of profit presupposes the existence of different rates of profit, which appear in practice as excess profits or as below-average profits. In the course of development the excess profits are lost through competition, and capitals that prove to be unprofitable disappear, only to leave the field to capitals with new differential rates of profit, which in turn succumb to the tendency to their equalization. There are also “pauses” during which the average profit rates stabilize, more or less, and appear to have definite magnitude.

The foregoing should be enough to indicate that the formation of the average rate of profit and production prices are not processes specific to the “national” or the “international” market but are features of the capitalist mode of production as such. For Mandel, however, it is a “fact that no equalization of the rates of profit occurs on the world market, where different national prices of production (average rates of profit) exist side by side and are articulated with one another by means of the world market in a particular manner...” (p. 351, translation corrected). These prices of production, uniform only within “national” markets, represent, according to Mandel, the “specific effect of the law of value on the international level,” as “it is based on nationally differentiated levels of the productivity or intensity of labor... nationally differentiated organic compositions of capital, nationally differentiated rates of surplus-value, and so on” (p. 71).

Since the capitalist market is the world market, it is incomprehensible why the formation of the average rate of profit should call a halt at national borders, with every nation forming its own average rate of profit. The fact that the national compositions of capital, their rates of exploitation, etc., are different in no way alters the fact that the surplus value of world production is div up through world market relations exactly like that of the national economy, namely by way of the competitively determined formation of prices, which are ultimately regulated by the unknown quantity of total surplus value produced. And exactly as in the national framework it is possible for a while to avoid a low or falling average rate of profit by a monopolistic withdrawal from competition, it is also possible in the international context to take steps against the determination of prices by competition by bailing out of international competition. Both cases, however, involve measures that in themselves indicate the tendency to formation of an international average rate of profit.

In his critique of the classical theory of value, Marx ask how it is possible to make profits despite the exchange of equal values. He answered this question by pointing to the double character of labor power as having at once use value and exchange value. Given this he could show that profit arises not from circulation or trade but from production on the basis of capitalist relations of production. This must hold for the world market as well. The profits won here must objectively be derived from labor-time relations. Just as in the “national” framework profit arises from surplus value, the profit of world trade can only arise from the surplus value of world production. But how is it possible, despite the lower productivity of labor in the capitalistically underdeveloped countries, to extract from them the same or a larger surplus value than is created in the capitalistically developed countries, with their higher productivity of labor?

The answer is that in this case more labor is exchanged for less, the developed country handing over a smaller value for a greater one from the underdeveloped nation.
This is Mandel’s explanation also, but he writes as though the unequal exchange operates directly on the level of labor time. In reality, of course, it can only be accomplished by the detour of the market and is thereby subordinated to international competition and the formation of an international average rate of profit. The average rate of profit, into which all profits enter, regulates the prices of production formed by competition. In this way the total surplus value is distributed without regard for particular spheres of production in the “national” framework or within the world economy, not in the proportions in which it has been produced by the individual capitals but in proportions determined by the existence and accumulation of capital as a whole. Just because the tendency to the formation of an average rate of profit operates on the world market, the unequal distribution of surplus value, or unequal exchange, arises within each national economy and on the global level.

According to Mandel the law of value is modified on the world market because of the difference in commodity values resulting from the differential productivity of labor. Countries with lower labor productivity yield other commodity values and other average rates of profit than countries with higher labor productivity and allow the latter to win surplus profits in trade with the former. This particular form of exploitation, to follow Mandel, is based on the difference in commodity values, as a result of which the product of a day’s work in a developed nation “is exchanged for the product of more than a day’s work in an underdeveloped country” (p.72). But since the productivity is different in the two countries, it is obvious that if a working day of one were exchanged against a working day of the other, the less productive country would exploit the more productive. If capital penetrates capitalistically backward countries, then products of lower labor productivity will be exchanged for products of higher labor productivity, which can only mean that more living labor must be given up in exchange for less living labor, if the exchange is to be equitable to both parties. But such an exchange does not mean that the developed country has exploited the underdeveloped one.

It means only that relative surplus value is not the same as absolute surplus value since it permits the production of a greater surplus value with less direct labor time. This higher surplus value is precipitated in the prices of production and determines the labor-time equivalents, expressed in absolute surplus value, against which they must be exchanged. But since the productivity of the developed countries is many times greater than that of the under-developed countries, the former can use the channels of trade to crush any attempt of the latter to compete against them, which can be seen in the destruction of the minor industries and artisanry existing in the underdeveloped world. Even this does not imply exploitation of the underdeveloped by the developed countries but heightened exploitation within the developed countries, whose high rates of surplus value allow their capitalists to push aside the competition of the underdeveloped countries, or prevent it from arising, and thus create additional markets for themselves.

Since the determination of value by socially necessary labor time operates on the world market, the underdeveloped countries must, when they exchange with the developed countries, give more use value for less exchange value, more products for fewer products, or more labor time for less labor time. The commodities of the countries with a lower productivity of labor contain labor time in excess of that socially necessary, but which nonetheless enters into exchange. To explain unequal commodity exchange, therefore, does not require reference to “national commodity values, average rates of profit, and prices of production,” since on the basis of the law of value no other sort of exchange can take place.

Because the backward countries possessed no industries, their exchange with each other and with the industrial nations of the West was limited from the start to foodstuffs and raw materials. The entrance of developed industry into the underdeveloped countries
excluded for the latter the development of their own industries and thus preserved their precapitalist social relations. The competition between capitalist nations is pursued by reducing production costs, so that they are all interested in cheap raw materials and foodstuffs. Although agricultural productivity in the backward countries is also lower than in the capitalist countries, the “price scissors” between finished goods and raw materials still makes it profitable for the capitalist countries to obtain a large part of the food and raw material they need from their colonies or semi-colonies. Insofar as the imported raw materials and foodstuffs lower the developed countries’ costs of production, this situation contributes to the accumulation of capital.

Since the use-value aspect of production cannot be ignored, capital will go to the backward countries for foodstuffs and raw materials even when they are more expensive than those produced in its own country. With the growth of industry agricultural production declines, and there are countries that could not exist without imports of raw materials and food. Since capitalist demand can raise the prices for these commodities, the extension of the world market appears also as a process of colonization pursued in order to subject price formation to monopolistic control. The colonizing nations seek not only to protect their own export markets from international competition, but also to accommodate the formation of the prices of colonial export goods to their own accumulation requirements. Thus they must on the one hand hinder the industrial development of the colonies and on the other seek to make the monopolistic exchange as profitable as possible by cheapening the goods produced in the colonies.

They thus interfere in the capitalist market mechanism in order to keep a portion of the total surplus value out of competition. But the surplus value extracted from the colonies enters into the profit rates of the imperialistic countries and there becomes a factor in the formation of the average rate of profit. It is only by this detour through the economic relations of the developed countries that the underdeveloped lands are drawn into the world market and thereby into capitalist competition. This is already apparent in the fact that the greater part of production in the underdeveloped countries was done outside of the capitalist system and was directly consumed. This subsistence economy had little to do with the market and money economy. But where no surplus value is produced, we cannot speak of the formation of an average rate of profit. These countries are only slowly drawn by imperialism into the machinery of the world market; but insofar as they are, they also submit to the conditions of the development of capital as a whole and to capitalist competition.

Apart from the imperialist countries’ plundering of the colonies, accomplished by simple robbery, the proceeds of which entered into capitalist accumulation, the transfer of value, bewailed by Mandel, from the colonies to the capitalist countries was of necessity very limited due to the low productivity of labor prevailing in the colonies. Capital sought to remedy this by introducing capitalistic methods of production, developing the plantation economy, introducing wage labor, and modernizing the extraction of raw materials, all of which required the export of capital to the colonies. But such enterprises remained enclaves within the colonial economy as a whole and thereby demonstrated that it was not worth capital’s while to carry out a thorough capitalization of its colonial possessions, and that investments in one’s own or other capitalist countries were more profitable. This fact also shows that the surplus value available for capitalization was insufficient to extend accumulation beyond the limits reached at any particular time.

On the other hand, “small animals also produce manure,” as the proverb says, and the lower rate of exploitation in the backward countries did not prevent capital from exploiting them too. While this reduced the limited accumulation possibilities in the dominant countries, it also made possible a slowing of the decline of the rate of profit by
raising the productivity of the world economy. Since the fall in the rate of profit is a consequence of the higher organic composition of capital, the inclusion in the world market of capitals with lower organic compositions arrests this fall. In practical terms this means that insofar as surplus value can be transferred from spheres of production with lower organic compositions to those with higher compositions, the composition of the total capital will allow for a more favorable rate of profit. Whether this better rate will be sufficient to valorize the total capital cannot be calculated but can be seen in the actual accumulation of capital. A fall in the rate of accumulation shows that the organic composition of the total capital despite the different compositions of the capitals entering into it permits only a rate of profit unfavourable to further accumulation. This situation can only be remedied, in a contradictory way, by a further rise in the organic composition of capital or, in other words, by a further rise in the productivity of labor not only in the developed but also in the underdeveloped countries, and also by the destruction of capital within the world economy as a whole, which reduces the total capital within which the given mass of surplus value is distributed. Although neither of these processes can be consciously organized, they are nonetheless carried out by means of the peaceful and military competition between individual capitals and between capitalist nations. In this sense the law of value governs the capitalist world economy, since the extension of the economy depends on what happens in the spheres of production and this, in turn, on the relation of value to surplus value and of surplus value to the total capital.

Capital thus has a direct interest in the enlargement of the total surplus value; at the same time, this need can only be satisfied through the expansion of the individual capitals. Each capital strives for the lowest cost price and the highest profit, without concern for the social consequences on the national or the international scale. That the accumulation of one capital hinders that of another, or that the expansion of one capitalist nation limits that of another, in no way alters the fact that capital, in the sense of capital as a whole, nevertheless continues to develop with an increasing productivity of labor. The expansion of capital confirms the existence of the average rate of profit through which the capitalist economy reproduces itself in conformity to its needs by means of the market mechanism; but at the same time, it increasingly destroys the necessary prerequisites of this process.

While capital was able to accelerate its accumulation somewhat by means of the surplus value extracted from the backward countries, and while this additional surplus value was made possible by the formation of prices favorable to the industrial nations, this was only at the cost of a slow destruction of this already meagre source of surplus value. To keep the source flowing it would be necessary to raise the productivity of labor in the backward countries through their industrialization, which would require a corresponding restriction of accumulation in the developed countries. But this contradicts the principle of capitalism. The falling profit rate of the countries with a higher organic composition goes hand in hand with falling profits in the countries with a lower organic composition. But what in the developed countries leads to the relative stagnation of capital, in the underdeveloped nations induces a runaway process of absolute pauperization.

Although this pauperization is a fact, this does not mean that there is a simultaneous enrichment of the capitalist nations, as Mandel wishes us to believe. Without any proof at his disposal, he maintains that “the average rate of surplus-value in the colonies often exceeds that of the metropolitan countries, especially since the production of absolute surplus-value in colonial territories can be extended beyond the limits encountered in metropolitan countries,” and since as a result of a gigantic industrial reserve army- “the value of labor-power in the colonies falls, in the long run, not only
relatively, but even absolutely” (pp. 343-44, translation corrected). Now, the value of labor power in the backward countries has for a long time been so low that a “long-run fall” is excluded, since this would lead to the extinction of the work force, and the productivity of labor is so limited that even lengthening the working day would not enlarge the absolute surplus value. The lengthening of the working day in itself yields no additional surplus value when the physical limit of exploitation has already been reached. Without a doubt great extra profits are made in the countries of the “Third World,” but they derive from the extraction of particular raw materials that enter into the production of the capitalist nations and whose value is realized in them. But to conclude from these particular sources of profit that there is a higher “average rate of surplus value in the colonies” is so obviously wrong that there is no need to deplore the absence of relevant data.

The idea that the transfer of surplus value from the underdeveloped to the capitalist countries, achieved by unequal exchange, is destined to disappear and cannot be maintained by the increase of absolute surplus value also occurs to Mandel, who perceives this as a change in the form of imperialist exploitation. This transformation has two aspects;

in the first place the share of colonial surplus profits has undergone a decline relative to the transfer of value via “unequal exchange;” in the second place, the international division of labor is slowly moving towards the exchange of light industrial goods for machines, equipment, and vehicles, in addition to the “classical” unequal exchange of foodstuffs and raw materials for industrial consumer goods (p.368).

But since the transfer of value is not tied to a particular form of material production, “but to a difference in the respective levels of capital accumulation, labor productivity, and the rate of surplus-value,” only the form of underdevelopment is changing and not its content, and “the sources of metropolitan imperialist exploitation of the semi-colonies today flow more abundantly than ever” (p.368).

This change of form means that many “Third World” countries are beginning to industrialize, to produce additional surplus value, and to have more to exchange than just foodstuffs and raw materials, if also less of the latter. Since this changes the compositions of their capitals, their condition comes somewhat closer to that of the developed countries. To the extent that this happens, however, it influences the transfer of value to the imperialist countries, since a growing part of the surplus value must be capitalized, which had not previously been the case. Through the simultaneous diminution of the production of raw materials and foodstuffs, the “unequal exchange” is reduced by way of price formation under conditions of international competition and leads the developed countries to export capital to the underdeveloped countries in order to share in their surplus value. That this directly invested surplus value is still of relatively little importance can be seen in the fact that the great mass of capital exports still goes to the capitalistically developed countries.

According to Mandel, the head start made by the imperialist nations cannot be overcome, so that despite the slow industrialization of the “Third World” countries, the difference between the rates of surplus value in the two groups remains, which makes it possible for imperialism to continue to extract surplus value, in even greater amounts, from the backward countries and to accumulate at their expense. “Only if there were a general homogenisation of capitalist production on a world scale,” he writes, “would the sources of surplus-profit dry up” (p.368). Since this “general homogenization,” the total worldwide mobility of capital and labor, is not really conceivable, Mandel comes to the conclusion that capitalism cannot eliminate its combination of development and underdevelopment, and with it the exploitation of the “Third World.” The only solution to
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this dilemma remains a social revolution that would put an end to the domination of the capitalist world market by socializing the means of production. In this way Mandel believes he has used the theory of value to explain both imperialism and the social revolutions expectable in the underdeveloped countries.

Since value relations are concealed behind price relations, unequal exchange is the normal case both nationally and internationally, but must have different effects due to the differences between the countries included in the world market. These differences with respect to commodity values and rates of surplus value lead, for Mandel, to nationally differentiated average rates of profit and prices of production, which first make unequal exchange possible. But Mandel’s abstraction from the world market lead him to no conclusion that he could not have drawn without abstracting from it. Not only is Mandel’s explanation of unequal exchange and value transfer incorrect, even if it were correct it would be superfluous. In every country the capitalists deal only with cost prices and market prices, which they experience givens. The difference between these prices is the profit. The cost price consists of what the capitalist must pay his workers plus the cost of the means of production and raw materials they use. The price of production consists of these outlays plus the profit won on the market. It is all the same to the capitalists whether they make this profit at home or on the world market. This holds both for the capitalists in the underdeveloped and for those in the developed countries. The difference between them consists in the fact that for one the cost price includes less for means of production and more in wages, while for the other these proportions are reversed. But a higher rate of profit with a lower organic composition may yield a lower mass of surplus value than the lower profit that goes with a high organic composition. The productivity of capitals of higher organic composition is greater by far than that of capitals of lower composition, so that the loss of value that results for the total capital from the relative decrease in living labor is compensated for. This is the point of accumulation and the difference between developed and underdeveloped countries. Surplus value grows with accumulation, while it stagnates without accumulation and so makes extended reproduction impossible. As a result, the difference between countries with a higher and those with a lower organic composition must, as the former accumulate, continually increase to the disadvantage of the latter so long, that is, as accumulation leads to an increase in the mass of profit more rapid than the fall in the profit rate due to the increase in the organic composition of capital.

The increasing mass of profit is embodied in products that individually contain less value and less surplus value, but the increased quantity of which compensates for this decline in individual value. The commodity produced with a higher productivity is cheaper than that requiring a great expenditure of labor. This cheapening is manifested in falling prices of production, something which at first sight appears to confirm Mandel’s conception of the different average profit rates and prices of production. This cheapening, however, extends more or less to all commodities. Since foodstuffs and raw materials are produced not only in the colonies and semicolonies but also in the developed countries, the world market price of these products is affected by the general rise in productivity. In connection with the world’s requirements for these products, their prices are determined not by national value relations but by the relationship between world supply and world demand. Thus the world market price for these products rises as soon as the demand for them rises, as for instance in a period of rapid accumulation in the capitalist countries or in the case of war. On the other hand, the world market price falls with capitalist stagnation and any reduction of production. The prices of the products of the “Third World” are formed in a context determined by the movement of the total capital on the global level.
The production prices of products of the underdeveloped countries are constituted by their cost prices and the profit determined by world market conditions. As far as their own production goes, their rates of profit result neither from the organic composition of their own capitals nor from those of the developed countries but from the supply-and-demand relations of the world market. They are thus subordinate to the movements of the total capital, which determine the formation of the average rate of profit and its magnitude. In other words, because the world market exists there can be no national average profit rates and no price relations reflecting national value relations. With respect to production in general price formation in the underdeveloped countries is from the start determined by that in the developed nations, since the absence of modern industry rules out any ability to compete. Thus they must restrict themselves to the production of raw materials and foodstuffs in order to realize their profits in the prices of production dictated by the world market.

The introduction of industry into the underdeveloped countries cannot eliminate unequal exchange so long as the productivity in these countries is lower than the world-wide average socially necessary labor time. This disadvantage is to an extent offset by the low valuation of labor power, which at the same time hinders their further development. Of course, the lack of capital can be somewhat mitigated by investments from the developed countries. However, since most of the profits on these investments flow back to the capital-exporting countries, this has only a minor influence on the accumulation process in the underdeveloped countries. Since the export of capital is determined by profitability, it goes to those industries and countries that appear to yield the greatest return, and not only from some developed countries to others of higher productivity but also from the countries with lower productivity into those with a higher one. Surplus value flows not just under pressure but also freely from the backward to the developed countries. From this, however, it cannot be concluded that the exploitation of underdeveloped countries is what keeps the imperialist nations on their feet.

The end of colonialism was brought about not only by the revolutionary nationalist movements growing out of impoverishment but also by the dwindling profitability of the colonies, which made it easier for their possessors to give them up. It was also influenced by the appearance of new imperialist powers, in the world market or outside of the monopolistically controlled world market, with their own claims on the “Third World,” either in the form of their own imperialistic conquests or in that of neo-colonialism, which understood how to combine national self-determination with economic imperialist control. This process, which has already involved two world wars and many local wars, has not yet come to an end and cannot do so, as this would presuppose the abolition of competition and thus that of the capitalist relations of production. But all these endeavors reflect the desire to break the fetters of a low productivity of labor. The greatest efforts of both the bourgeoisie and the state-capitalist authorities are dedicated to economic development, i.e., to the increase of surplus value—an effort that is not completely without success.

It is the desire for additional surplus value that leads to the attempt to hasten the palpable though slow capitalization of the backward countries, of which even Mandel is aware. And it is this same creeping capitalization that gives the revolutionary nationalist movement its incentive to achieve the same goal by political methods that transcend the limited framework of private capitalist initiative. Whether the combination of these methods will suffice to squeeze out of the workers the mass of surplus value necessary for a simultaneous expansion and geographical extension of capital cannot be theoretically determined, although it is of decisive importance for the near future. What is evident from all efforts, however, is the continuing force of the tendency, inherent in
capitalist production, of the rate of profit to fall, which leads to frantic exertions to raise the productivity of labor throughout the world.

Even Mandel realizes that the exploitation of the “Third World” cannot go on forever but must eventually come to an end. What is so remarkable about Mandel’s economic theory is precisely that it is couched in such terms that everything and nothing can be drawn from it, which makes it easy for Mandel to evade any embarrassing difficulty. Through his principled rejection of any “monocausal” explanation of capitalist development he is in a position to appropriate all existing theories and use them for his own purposes; at the same time, by means of the “mono causal” theory of value he can demonstrate their inadequacy. Hardly has he done this than he rearranges the insights won with the help of the theory of value in a series of relatively independent variables in order to dispute the “monocausal” account of the course of history by reference to one or another of the developmental tendencies that follow from the value theory. Thus he finally succeeds, in his own estimation, in showing the inadequacy of bourgeois and all Marxist theories, and so in presenting himself as the man who, because of his correct understanding of Marxism, has for the first time explained “late capitalism” on the basis of the law of value.

5

We can agree with Mandel on one thing; it is certainly true that capital exploits the world and nevertheless has no future.

However, according to Mandel, the abolition of the capitalist system cannot be deduced from the capitalist relations of production alone, for there is also the problem of the realization of surplus value to consider. In this way Mandel adheres to two distinct theories of crisis at once: the overaccumulation theory, which is based on the relations of production, and the overproduction theory, which is based on the difficulties of realizing surplus value due to an insufficient demand for consumer goods. Now, the overaccumulation theory includes the overproduction theory, since the difficulties of realization arise directly from an insufficient accumulation of capital. The realization-problem theory, in contrast, cannot include the overaccumulation approach, as it implies a barrier to the appearance of this state of affairs.

The disproportionality between production and consumption is a constant feature of the system, being no more or less than surplus-value production itself while overaccumulation, as a discrepancy between exploitation and the organic composition of capital, appears only from time to time. The rising organic composition of capital presupposes a growing disproportionality between social production and consumption, and by itself that is to say, by accumulation overcomes the realization problem. This problem only arises again with the suspension of accumulation, appearing then as insufficient demand, including the demand for consumer goods. “We mean by the concept of overaccumulation,” writes Mandel, “a situation in which a portion of the accumulated capital can only be invested at an inadequate rate of profit...” (p.109, translation corrected). Since it is not invested under these circumstances, the interruption of accumulation appears on the market as a lack of demand for producer goods and thus for consumer goods, in other words, as a crisis of overproduction. This is how it appears to Mandel, too, but he would nevertheless like to adhere “in the long-run” to the idea of overaccumulation in order to prove the necessary decline of capitalism. However, he does not want to do this in so “mechanical” a way as, for instance, Grossmann did; overaccumulation is to be shown to follow not from the assumption of a constantly rising organic composition of capital but from the continuous automatization of production and
the displacement of living labor. Against Grossmann Mandel argues that the rise in the organic composition of capital can always be counteracted by equivalent depreciation of capital. It does not occur to him that by the same logic, automatization could also be halted as soon as it affects profits. He is also not aware that he is only repeating Grossmann, although in different words. Continuous automatization is of course identical with a continuous growth of the organic composition of capital. But hardly has Mandel the “dialectician” pronounced his withering judgement on Grossmann the “mechanist” than he immediately takes it back, with the further insight that capital cannot automate for long without destroying itself.

Slippery as eels, the contradictions in Mandel’s writing cannot easily be turned against him, since he calls attention to them himself, perhaps hoping in this way to disarm all possible adversaries. Thus he readily concedes “that the difficulty of simultaneously realizing surplus-value and raising the rate of surplus-value, is anchored in the capitalist mode of production as such... (p.272). But anchors can be raised and the voyage can continue as soon as one of the variables declares its independence. On the one hand, capital accumulates, according to Mandel, at the expense of the underdeveloped countries; on the other, in the course of this process “capital itself creates an insuperable limit to its own extension” (p.85). Since meanwhile the problem of surplus profits, national and international,

    can be reduced to the question of the transfer of value or of surplus-value, there is no limit whatsoever in purely economic terms to this process of the growth of capital accumulation at the expense of other capitals, the extension of capital through the combination of accumulation and devaluation of capitals, through the dialectical unity and contradiction of competition and concentration. Limits to the process of capitalist growth are from a purely economic point of view-in this sense always merely temporary, because while they proceed out of the very conditions of a difference in the level of productivity, they can reverse these conditions (p.104, translation corrected).

In short, it is like this but also different; it depends entirely on with whomever Mandel is arguing at the moment.

It would take a new book to trace Mandel’s inanities in detail if one wanted to show that his work represents not dialectics but ordinary inconsistencies. Perceptive readers of his book Will see this for themselves. We therefore prefer to turn after a look at Mandel’s apologetic renovation of Lenin’s theory of imperialism to his analysis of “late capitalism.” But since according to Mandel the current phase of capitalism must be explained not only theoretically but also in terms of history, we must take another look at the past.

Mandel distinguishes three main phases of capitalist development. “The early capitalist era of free competition” was “characterised by a relative international immobility of capital... above all because there were not as yet any critical limits to the expansion of capital accumulation on the home market...” (pp 312-13). Then followed “the classical era of imperialism,” in which “the concentration of capital became increasingly international in character” (p.313). This was replaced by “late capitalism,” in which “the multinational company becomes the determinant organisational form of big capital” (p.316). In this we see “that contemporary forces of production are bursting through the framework of the nation state, for the minimum threshold of profitability involves output series commensurate with the markets of several countries” (p.316).

Now, it is a fact that the growth of the productive forces coincided from the start with the formation of the world market, which led to imperialism and the international concentration of capital as an expression of imperialist competition. According to Mandel, abstractly put, “in the final analysis the manifestations of imperialism are to be
explained by the lack of homogeneity of the capitalist world economy” (p.84). From this it should follow that the increasing homogenization of the world economy must weaken imperialism. But, Mandel says, this is simply not possible because “the accumulation of capital itself produces development and underdevelopment as mutually determining moments of the uneven and combined movement of capital” (p.85).

According to Hilferding and Lenin, the competition-induced concentration and centralization of capital lead to an organized capitalism tending toward a single world trust-a development that can be prevented only by a prior proletarian revolution. Mandel still accepts this theory today and concludes from it “that en route to the ‘single world trust,’ the postponement of the proletarian revolution in the imperialist metropolitan countries has rendered possible, if not actually probable, the simplification of the pattern of multiple imperialist powers into three ‘super powers’” (p.334, translation corrected). In opposition to Kautsky, the originator of this idea, Mandel sees in this development not a weakening but “an intensification in the age of late capitalism of all the contradictions inherent in imperialism” (p.334), since “the main tendency of the intensifying competitive struggle today is not for big capital to merge on a world scale but for several imperialist formations to harden in their mutual antagonism” (p.338). Thus the “determinant organizational form of big capital” in “late capitalism” is in the final analysis only a secondary tendency, which is in turn overruled by the “main tendency” But the secondary tendency, the international centralization of capital, must according to Mandel be understood as “capital’s attempt to break through the historical barriers of the nation-state, just as national (and tomorrow perhaps supra-national) economic programming represents an attempt partially to overcome the barriers of private ownership and private appropriation for the further development of the forces of production” (p.342). The true character of “late capitalism” here revealed has not been previously recognized either on the bourgeois or on the Marxist side. With respect to the latter, this lack is due to previous Marxists’ neglect of “the interlinkage between ‘organized capitalism’ and generalized commodity production” (p.523). Thus they have failed to comprehend “the famous formula applied to joint-stock companies by Marx in Capital” that describes them as representing “the abolition of the capitalist mode of production within the capitalist mode of production itself” (p.532). Since Marx wrote this more than a hundred years ago, it seems that without knowing it, we have been in the era of late capitalism for a very long time. The appearance of joint-stock companies, which even preceded capitalism, was described by Marx as “private production without the control of private property,” as capitalist production that is subjected to collective control. Far from seeing in this an “organizing” element of capitalism, Marx saw this type of capital as leading to the system’s further disorganization and collapse.

It establishes monopoly in certain spheres and thereby requires state interference. It reproduces a new financial aristocracy, a new variety of parasites in the shape of promoters, speculators, and purely nominal directors; a whole system of swindling and cheating by means of corporation promotion, stock issuance, and stock speculation.

Marx was clearly not concerned here with the question later raised by Engels, whether there was not also a positive side to the creation of joint-stock companies, since they can be seen also as a sort of “reaction of the productive forces, in their mighty growth, against their character as capital.” Marx viewed the stock companies rather as one more sign of the contradictions developing within capitalism, which engender both its rise and its decline. The material forces of production that can develop in capitalism are governed and limited by its accumulation; they cannot become independent of it and turn against their character as capital. The only force of production that can do this is the working class. It is therefore nonsense to suppose that capital is attempting to break
through the barriers of the nation-state and private property for the further development of the productive forces. On the contrary, its “internationalism” exclusively serves the national capitals and private property, with or without private control.

The world market is also a capital market, and it goes without saying that with capitalist expansion, national firms become international ones. Two world wars have in addition demonstrated that the fronts on which imperialist competition is fought out are structured not by nation-states but by supranational imperialist combines. The world economy makes every crisis a world crisis and every war a world war. Even where war remains localized as a result of the momentarily superior strength of a particular state or combination of states, it nevertheless involves the whole world economy. Supranational combinations of capitalist powers have existed for a long time on the level of power politics as well as on the economic level, and they did not wait for the advent of “late capitalism.”

The Second World War created favorable conditions not only for an accelerating accumulation but, in connection with this, for the multinational growth of large corporations. The adaptation of the market to growing production and the new capital relations made the realization of profits easier, and the whole process led to an unequally distributed but general increase in profit production. This process, which can be understood as the internationalisation of capital and of production, is, however, like every previous phase of capitalist development, limited in its evolution. It can collapse with any new world crisis or even with a decline in the rate of accumulation. Just as the world market fell apart at an earlier time as a result of sharpening competition, multinational capitalism too can come to an end in new competitive conflicts. But even at this point the increasing internationalization of capital cannot be construed as a growing susceptibility to organization but only as the present-day form of the disorganized capitalist competition that results from value and surplus-value relations. Now as before, it is the law of value that defines the possible organisational forms of capital, and therefore also the impossibility of an “organized capitalism.”

The multinational corporations have not violated the national, and therefore imperialist, character of capital. Despite all their complex interrelations, the control of these corporations lies in the hands of definite national capitals, often directly connected with the national state, and the profits they make flow back to the nations from which the corporations start out. Stateless multinational concerns, as a true internationalization of capitalist production, may be a dream of the capitalists; this dream has no chance to become reality in the context of capital accumulation. Deeply influenced by the “multinational form of big capital” and alarmed by the “apparent” formation of three big imperialist powers grappling for control of the world economy, Mandel first evokes the gruesome perspectives this opens up, only to end with the more sober statement that “the survival of the national state is inseparable from capitalist or imperialist competition ...” (p.589, translation corrected).

But the “interlinkage between ‘organized capitalism’ and generalised commodity production” is for Mandel at once an international and a national phenomenon. On the national level it takes the form of state intervention in the economic mechanism to aid capitalist accumulation. Here it is to Mandel’s advantage that he distinguishes the production of profit from its realization, since state intervention enlarges production by way of the realization of surplus value. From this it follows for Mandel that capital is attempting to break through the limits set to capitalist production by private property. This is accomplished by means of the arms industry and the war economy. However,

in the long run an arms economy is functional for the accumulation of capital only if it absorbs surplus capitals without also deflecting into the armaments industry capitals
needed for the extended reproduction of Departments I and II [of the reproduction schemas]. An arms and war economy carried beyond this point increasingly annihilates the material conditions for extended reproduction and thus in the long term hampers the accumulation of capital instead of promoting it (p.168).

In other words, armaments are good for accumulation but bad when overdone. If the rate of accumulation falls despite the arms industry, this does not contradict Mandel’s theory, for it only indicates that arms production has been pushed too far.

To demonstrate his theory Mandel offers a reproduction schema of his own, with three departments, including one for the arms industry (along with those for producer and consumer goods) whose production does not enter into the material process of reproduction but nevertheless, as a part of total production, promotes accumulation. We can easily ignore these little games, as they only say in numbers what has already been said in words. All three departments in Mandel’s schema produce commodities and therefore surplus value. Armaments are financed out of surplus value, “which serves neither for the maintenance of the capitalist class nor for that of the working class, and in which capital finds new opportunities for creating and realizing surplus-value” (p.282, translation amended).

It is necessary at this point to examine Mandel’s conception of the law of value. For him “it has the function of regulating, through the exchange of medium-term equivalent quantities of labor, the distribution of the economic resources at the disposal of society into the various spheres of production, according to the fluctuations of socially effective demand, i.e., according to the structure of consumption” (p.70). It is thus an equilibrium mechanism, which brings production and consumption into harmony. Accordingly, Mandel maintains, following Rosdolsky and citing Marx, that “the production of constant capital never occurs for its own sake but only because more of it is needed in the spheres of production whose products enter individual consumption” (p.279 n.). Since the rising organic composition of capital means that always relatively fewer workers are newly hired, social consumption cannot increase sufficiently to absorb all the commodities produced for consumption. Thus the growing organic composition of capital engenders the realization problem, although it is not easy to see how the law of value, which is supposedly adjusting production to consumption, can permit such a growth of the organic composition of capital. When the constant capital can only grow provided that it is invested in the spheres of production serving consumption, then not the valorization of capital but social consumption is governing production. Still, there is the quotation from Marx only it has been incorrectly understood.

6

To produce capital the capitalist must have commodities produced that have exchange value for him and use value for others. The use value is realized in consumption. Just as the capitalist productively consumes the use value of labor power, the resulting commodities enter in one form or another into social consumption and there disappear. What does not disappear is the part of the surplus value, or surplus product, which serves as constant capital in the expanded reproduction of the relations of exploitation.

For capital to be accumulated, use values must be produced and find a corresponding demand on the part of those whom Mandel calls the “final consumers.” It should not be concluded from this however, that the “final consumer” actually determines the movement of capital. In other words, the “final consumer” has nothing to do with the “too slowly growing sum of wages for consumer goods,” as Mandel imagines. For each
capitalist, regardless of the kind of goods he produces, the exchange value of his workers is a cost price that he attempts to keep as far as possible below its use value. But for the capitalists producing consumer goods, all workers are also consumers to whose demand they are responding. The higher the wages paid to other capitalists’ workers, and the lower those he pays his own employees, the better can his profit be realized on the market. But as this holds for every capitalist, the workers as a class receive only their exchange value, which is the equivalent of a smaller or greater quantity of commodities, while the capitalists receive the share of production, also represented in products, that corresponds to surplus value, which certainly also requires a “final consumer” but cannot find him in the working class. The realization of surplus value thus has nothing to do with working-class consumers but must be accomplished by capital itself.

If the workers produced no surplus value, there would be no capitalist economy; if the capitalists ate up the entire surplus value, we would indeed have capitalist production, but not the production of capital. The latter presupposes the accumulation of a portion of the surplus value. This portion must from the start have the form of new means of production, even if they are used in turn to produce commodities entering into consumption. Capital produces in principle neither means of production for the production of means of production nor means of production for the production of consumer goods. Both are only means to the end of transforming a given capital into a larger one. Since the production of consumer goods is tied to that of producer goods and vice versa, the demand for either depends on the general movement of capital. With accelerating accumulation the demand for means of production will increase relative to that for consumer goods, since the mass of surplus value at any given moment has a fixed magnitude. What is accumulated cannot be consumed, although accumulation, through the growth and improvement of the means of production, throws more consumer goods into circulation. The process of accumulation must therefore be at the same time a process extending the capitalist mode of production; the world market is from the start the condition of capitalist expansion. The growth of the means of production through accumulation and the higher productivity of labor leads to the production of a constantly growing mass of commodities, and the accumulation of capital proceeds via the realization of this mass of commodities.

The increase in labor productivity has in itself nothing to do with capitalism. Productivity grew in precapitalist times, although very slowly, and will also grow after the abolition of capitalism. The whole development of society is based on the increasing productivity of labor. This general process is accomplished under the capitalist relations of production in the specific form of capitalist competition. It is however not competition that engenders the development of the productive forces but the development of the productive forces that leads to capitalist competition. Once this process has begun, capitalist competition enormously stimulates the growth of the productivity of labor. Every capital, if it is to remain a capital, must increase its productivity and thus accumulate capital. This requires an increasing share of the surplus value and leaves a relatively diminishing share for capitalist consumption. Although the quantity of consumer goods to be realized increases and allows the capitalist an ever more luxurious existence, an increasing part of the surplus value, its quantity determined by the previous level of accumulation, is capitalized. More means of production and fewer articles of consumption are required. The production of commodities shifts in response to the changed demand. With respect to the realization of surplus value – and from the standpoint of the total capital the realization problem concerns only the surplus value – this is accomplished through capitalists’ consumption and the accumulation of capital.
Supply and demand adapt themselves to the accumulation needs of capital. It is of course true that in the final analysis, the increased means of production are used to produce consumer goods and that these must find a market if they are to be transformed back again into capital. But this market arises from the dynamic of capital, from its continuing and broadening accumulation in the course of which a growing quantity of surplus value is invested in means of production. Capital thus creates its own market and realizes its profit in accumulation and in growing capitalist consumption. This process is only possible because the workers are excluded from the realization process of capital. If the realization of surplus value were to hinge on its increasing consumption, this would mean a corresponding loss of profit for capital and would therefore be accompanied by a lower rate of accumulation and decreased capitalist consumption. But the value character of labor power excludes this possibility and reserves the surplus value for capital as its “final consumer.”

The idea that capital could be unable to use its surplus value and so realize it is hard to understand. Even aside from the compulsion to accumulate, the desire to accumulate is generally unlimited. No capitalist ever finds himself “too rich,” and his wealth represents capital for him. Accumulation brings him a larger mass of profit, which makes possible his continued accumulation. The use of additional labor power, his own increased consumption, and the extension of the world market make it possible for the capitalist to transform the unconsumed portion of surplus value directly into additional capital in the expectation of further expansion and irrespective of the actual market situation. Since production must precede consumption in any case, the production of means of production is not limited by the current market demand for consumer goods. So long as the rate of surplus value keeps step with accumulation or exceeds it, the accumulation of capital means no more than the extension of the capitalist mode of production itself: capital’s conquest of the world. It continuously creates new prerequisites for capitalist production, long before the old ones have completed the metamorphosis from the commodity form of capital into the capital form, so that the accumulation of capital always outstrips consumption and determines its extent.

Capital would have had a different history if its accumulation had really depended on the realization of surplus value by those whom Mandel calls the “final consumers.” In reality accumulation has always proceeded at the cost of consumption, which, while growing, lagged behind the expansion of capital. While the production of constant capital must ultimately lead to the production of consumer goods, this does not mean that it is only employed when there is a corresponding demand for consumer goods. “Since the aim of capital is not to minister to certain wants, but to produce profit, and since it accomplishes this purpose by methods which adapt the mass of production to the scale of production, not vice versa, a rift must continually ensue between the limited dimensions of production under capitalism and a production which forever tends to exceed this immanent barrier. “ Thus, according to Marx, actually too many means of labor and necessities of life are produced at times to permit of their serving as means for the exploitation of laborers at a certain rate of profit. Too many commodities are produced to permit of a realization and conversion into new capital of the value and surplus value contained in them under the conditions of distribution and consumption peculiar to capitalist production, i.e., too many to permit of the consummation of this process without constantly recurring explosions.

But these contradictions and the explosions fuelled by them are always the consequence of a successful period of accumulation during which the same contradictions have provided an impetus for accumulation. The limit of the capitalist mode of production is, according to Marx, to be seen in the fact that
the development of the productivity of labor creates in the falling rate of profit a law which at a certain point comes into antagonistic conflict with this development and must be overcome constantly through crises ...[and] that the expansion or contraction of production are determined by the appropriation of unpaid labor and the proportion of this unpaid labor to materialized labor in general, or, to speak the language of capital, by profit and the proportion of this profit to the employed capital, thus by a definite rate of profit...

Only at the point where the organic composition of capital, rising as a result of accumulation, lowers the rate of profit is this over-accumulation accompanied by the overproduction of commodities, the discrepancy between production and consumption, and the realization problem. These difficulties are always immanent in capitalist production, without thereby being an obstacle to accumulation, until the latter itself becomes an obstacle.

The cessation of accumulation indicates that it was dependent not only on the profitability of capital but also on the restriction of consumption this involves, which appears on the market as a problem of realization. This does not mean that the capitalist crisis that appears as overproduction can be overcome by an increase in consumption. The difficulties of realization of surplus value must be overcome by the continuation of the accumulation process. The solution must be found in production and not in the market. Surplus value must be increased so that the mass of profit can be adjusted to capitalist expansion despite the continuing relative decline of social consumption. The crisis of overproduction itself becomes a means to this end, on the one hand through the devaluation of capital, and on the other through the continuing concentration of capital and the alteration of the capital structure connected with it, which lead to a rise in the rate of profit.

It is therefore possible to show abstractly, without introducing the realization problem, that the limits of capitalist production are a direct consequence of value production. Even on the assumption that capital can sell all its commodities and realize their full surplus value, while the worker receives the value of his labor power, with the rising organic composition of capital profit must dry up at that point of accumulation at which the rate of exploitation of the labor force employed by capital can no longer be increased. In reality this decisive contradiction of capitalist production appears in the form of a series of contradictions flowing from it, such as the actual difficulty of realizing surplus value, the difference between production and consumption, and the various disproportionalities of the economy, which are all specific to this system and cannot be overcome within it. Thus the realization problem appears in reality not in the form in which it arises from the capitalist relations of production namely as a problem exclusively of the realization of surplus value—but as a problem of the realization of commodity values, including both value and surplus value. If a part of the surplus value cannot be realized as profit, a part of the value can also not be realized, so that the problem of realization appears as general overproduction.

If it were true that, as Mandel says, “the difficulty of realization can ultimately be resolved only by increasing the monetarily effective demand for consumer goods” (p.281), it could never be resolved, but at most hidden temporarily by an acceleration of accumulation. Mandel also knows this. This “ultimate” case cannot be realized, since “this runs counter to the whole logic of the capitalist mode of production” (p.281). But this “ultimate” case contains the key to Mandel’s theory of the realization of surplus value by the armaments industry. What cannot be accomplished by the “final consumers” appears to him to be taken care of by the arms industry.
According to Mandel, it makes no difference with respect to the creation of value whether a commodity is produced for the consumption of the workers, the capitalists, or the state. “For Marx,” Mandel explains, “it is abstract labor that creates value, i.e., labor which as a part of the total social labor capacity, produces a commodity which, irrespective of its use-value, finds its equivalent on the market because it fulfils a social need” (p.292, translation corrected). Thus the domain of value production is the same as that of commodity production, so that the rate of profit depends on the mass of surplus labor “set in motion in the production of commodities by social capital, irrespective of the sector” including, e.g., the armaments sector.”in which this occurs” (p.292).

We can ignore Mandel’s reflections on whether the arms sector, as the third department of his reproduction schema, has a higher or lower organic composition of capital and on the positive or negative influence of this on the average rate of profit. For in reality the arms industry does not represent a particular sector but exists within capitalist production in general. What is important to us are the questions of whether the armaments industry is really a case of commodity production, whether these commodities are exchanged for others, and whether their putative value enters into the total value.

Mandel answers these questions in the affirmative, but with the qualification that this holds only under certain conditions, from which it actually would follow that the arms industry is not an ordinary case of commodity trafficking at all. The qualification asserts that Mandel’s answer holds only “so long as there are unused reserves available in the economy,” and since “this is the starting point of the ‘permanent arms industry’ no particular problems are created by the specific use-value of the additional production ...” (p. 294, translation corrected). Then follows a further qualification, namely that the acceleration of capital accumulation made possible by arms production is only successful when the entire surplus capital (the unused reserves) is switched into weapons production “gradually rather than suddenly” (p.295). When this is the case, previously idle capital can be valorized by the arms industry.

The concept of “abstract labor” refers to the total social labor time, into which all particular labor times enter and in which they are dissolved. It does not refer to the distribution of value or surplus value, which depends on the concrete relations of capitalist production, determined by the use values of the commodities. Under the assumption that all labor produces value, the total labor time equals the total value, which is divided into value and surplus value. Since the value of a commodity must be realized on the market, every commodity must find a buyer, so that in constantly changing forms, labor-time quantities can exchange against labor-time quantities. The “commodities” produced in the arms industry, however, are exchanged neither against the labor-time values of the working class nor against the surplus value of the capitalists. Apart from the insignificant portion of weapons production that enters into private consumption, the state is the buyer of these commodities. Of course, the state cannot exchange its own “abstract labor” for the “abstract labor” contained in armaments because it produces nothing at all. Its income is derived from taxation of the social income yielded by the production of value and surplus value.

Even Mandel knows that state spending (including the purchase of weaponry) represents a deduction from wages and profits for which there is no value counterpart, and that it thus diminishes wages and profits and therefore cannot change the total value. But in his eyes this is true only in the case of full employment and the utilization of all productive resources. So long as some of them are idle, value and surplus value will be enlarged and accumulation encouraged by the additional production for military purposes.
The additional “commodity value” will be realized by state purchases. But then as before the state has only taxes and borrowed funds at its disposal, which gives rise to a growing national debt, which in turn can be financed and paid off only through taxes. Although production is increased by military spending the total “newly created value” must be counted as a deduction from the proceeds of capitalist commodity production as there is no market for the products of the armaments industry. In opposition to this Mandel speaks of “the growing significance of the arms traffic in world trade—a business which, incidentally, shows how nonsensical it is not to treat the production of weapons as commodity production and not to see the investments in this sector as accumulation of capital” (p.308). It escapes him that this alters nothing in the case: in international trade too it is governments who buy the weapons, paying for them out of taxes, so that here too for capital as a whole arms production is not matched by revenue created in production.

Mandel imagines that production, just because it is carried on in capitalism, must be capitalist production and the production of surplus value. It is certainly true that the armaments industry makes profits and accumulates capital and appears in no way different from other businesses. But its profits and new investments derive not from commodity circulation but from state expenditures, which are drawn from a part of the realized value and surplus value of other capitals. This is not so obvious a larger part of weapons production is financed by loans rather than directly by taxation, so that the burden on private capital is spread over a long period of time. Capital gives the government credit which can indeed enlarge production but can yield no additional surplus value since the goods of the armaments industry must be paid for out of the surplus value of the creditors, if according to Mandel the armaments industry means a deduction from wages and profits under conditions of full employment and the full utilization of productive resources, this is only to say that it produces no value and surplus value of its own and so cannot be described as commodity production. This cannot change just because a portion of capital is idle. Just as the capitalist valorization and realization problem cannot be overcome by the increase in consumption, it can also not be vanquished by means of the armaments industry, whose products, exactly as in the case of increased consumption, are not transformed into new capital but simply disappear. The armaments industry, like all other state expenditures that are not covered by the state’s own production, falls, from the social point of view, exclusively into the sphere of consumption and not into that of accumulation.

Notwithstanding the “value and surplus-value-producing” character of the armaments industry as “one of the most important levers for the solution of the problem of surplus capital,” Mandel comes most amazingly to the conclusion that “the more the development of the armaments economy threatens to reduce the gross profit of the major corporations (in other words, the higher the tax rate it determines) the stronger will be the resistance of these companies to any further extension of it” (p.303). Now it is no longer true that it is all the same from the viewpoint of value formation which kind of commodity is produced, that arms production involves “abstract labor” which creates value and accumulates capital. If it were so, then it would be all the same to capital how far the arms business developed, since this would be equivalent to the development of value production. But we can conclude discussion of this theme here, since Mandel, as is proper for a revolutionary, explains after all that the armaments industry, like capitalism in general, has objective social limits.

And since according to Mandel the long period of prosperity, for which the armaments industry is partly responsible is nearing an end, the problem can in any case be left aside.
as a matter of the past. What is important today is the crisis cycle, which must work itself out in “late capitalism,” as at any previous time. In his earlier book, *Marxist Economic Theory*, Mandel was still strongly under the influence of Keynes’s theory of capitalist economic management and under the spell of the long postwar period of prosperity.

It seemed to him then that capital had succeeded, in comparison with the past, in bridging the great contradiction between surplus capital and effective demand in such a way as to stabilize the system. In his new book this holds only for the recent past but not for its future development. But a Marxist explanation of the unexpectedly long phase of prosperity must nonetheless be furnished, and Mandel believes that he has found it in the theory of “long waves.”

As for everybody else so also for Mandel the industrial cycle represents “the successive acceleration and deceleration of accumulation” (p. 109). He asks, however, whether there is “a peculiar inner dynamic to the succession of industrial cycles over longer periods of time” (p. 110). According to Marx, Mandel explains, the “renewal of fixed capital explains not only the length of the business cycle but also the decisive moment underlying extended reproduction as a whole, the upswing and acceleration of capital accumulation” (p. 110). Now it is true that Marx attempted to bring the business cycle into connection with the turnover time of capital, which, just like the cycle, had an average span of ten years. Of course, the lifetime of capital can lengthen or shorten. However, according to Marx, what is important is not a particular number of years. This seemed evident to him;

the cycles of interconnected turnovers embracing a number of years, in which capital is held fast by its fixed constituent part, furnish a material basis for the periodic crises. During this cycle business undergoes successive periods of depression, medium activity, precipitancy, crisis. True, periods in which capital is invested differ greatly and far from coincide in time. But a crisis always forms the starting point of large new investments. Therefore, from the point of view of society as a whole, more or less, a new material basis for the next turnover cycle.

Marx never followed up this vague hypothesis, if only because the lifetimes of different capitals are different, and because they are renewed not at the same time but according to their individual starting points, while the business cycle is a matter affecting the whole society at one particular moment. Certainly crisis leads to a concentration of new investments at one time and thus to a sort of “material basis for the next turnover cycle.” And doubtless capital finds itself “under the spell of its fixed component,” since the latter, in accordance with its reproduction Time, must be renewed in order to be a basis for new investments. The shorter the turnover time, the sooner the renewals and new investments participate in the improved productivity due to the “perpetual revolutionizing of the means of production,” and the lower are the costs of the “moral depreciation” that precedes the physical end of capital. But in the final analysis all of this only means that “the crisis always forms the starting point of large new investments,” i.e., that the productivity of capital is sufficiently improved to recommence the process of accumulation.

But according to Mandel it must be explained “why at a particular point in time this additional capital is expended on a massive scale, after lying idle for a long period.” For him “the answer is obvious: only a sudden increase in the rate of profit can explain the massive investment of surplus capitals—just as a prolonged fall in the rate of profit ... can explain the idleness of the same capital over many years” (p. 114). According to Mandel the rate of profit grows as the result of a sudden fall in the average organic composition of capital; a sudden rise in the rate of surplus value; a sudden cheapening of elements of constant capital; and a sudden shortening of the turnover time of the
circulating capital (p. 115). In this way arises the possibility of achieving “not only a partial and moderate, but a massive and general revolution in production technology,” particularly “if several factors are simultaneously and cumulatively contributing to a rise in the average rate of profit” (pp. 115-16). In short, it is absolutely clear that accumulation is a consequence of the sudden rise in profitability.

These new investments revolutionizing production techniques, which are at once results and causes of the sudden rise of the rate of profit, lead to further growth of the organic composition of capital, which leads in a “second phase” of development to new valorization difficulties and new idle capital. “Only if a combination of specific conditions generates a sudden rise in the average rate of profit,” continues Mandel, “will this idle capital, which has slowly gathered over several decades, be drawn on a massive scale into the new spheres of production capable of developing the new basic technology” (p. 120). On the basis of this “development of basic production technology,” “the history of capitalism on the international plane” must be understood “not only as a succession of cyclical movements every seven or ten years, but also as a succession of long periods, of approximately fifty years.” (p.120). These “long waves,” although noted by a number of people, were most notably discussed by Kondratiev, who attempted to prove their existence statistically. They impressed Mandel’s mentor, Leon Trotsky, strongly enough for him to investigate them critically but sympathetically. The moment was particularly opportune, as the New Course announced at the Third World Congress of the Communist International was based on the hypothesis of a stabilization of the capitalist system postponing the world revolution. Trotsky’s argument was directed against so-called “economism” and against “the purely mechanical conception of capitalist breakdown,” which was attributed to those who still maintained a world-revolutionary perspective. The theory of the “long waves” was a godsend in this connection, since it could not be foreseen whether an end or a beginning of one of these waves had been reached.

According to Kondratiev and Trotsky, the economic curves have different characteristics at different times. In order for capitalist development to take place, the new prosperity released by the crisis must surpass the prosperity preceding the crisis. One can identify epochs of capitalist development that, apart from their economic curves, exhibit a general upswing tendency and other epochs that have a more static character. But these long, epochal waves of slower or more rapid accumulation should, according to Trotsky, be viewed not in the same way as the phenomena of crisis Marx brought to light, which are inherent in capitalism, but as the results of the influence of external causes on capital accumulation, such as “the capitalist conquest of other lands, the discovery of new sources of raw materials, and the accompanying superstructural phenomena, like war and revolution, which determine the character and change of rising, stagnating, or collapsing epochs of capitalist development.”

Mandel goes farther than Trotsky, who obviously has said only that capitalism exists not in a vacuum but in the real world. While Trotsky attacked any “monicausal” or “purely economic” explanation of capitalist development, Mandel’s “long waves” are again seen as “monicausal” and “purely economic” phenomena, since, although the average rate of profit “must be explained by a series of social changes” (p. 129), it is nevertheless the movement of the profit rate that determines both short and long waves. Since this whole discussion turns more or less around a pseudo problem, Mandel can also rest undisturbed by the fact that the existence of “long waves” cannot be convincingly proved by statistics; he regards “the main problem not as one of statistical verification, but of theoretical explanation, although it goes without saying that, if the theory of ‘long waves’ could not be confirmed empirically, it would be an unfounded working hypothesis and ultimately a mystification” (p.140).
Mandel nonetheless believes that his own contribution has been to explain the “long waves” in terms of “the inner logic of the process of long-term accumulation and valorization of capital” (p. 145), and thus he refers without further ceremony to the existence of the “long waves” in order to shed light upon the previous history of capitalism as well as on “late capitalism.” This is what he comes up with: Accumulation leads to the fall in the rate of profit; the profit rate can be raised in order to continue accumulation. As the world changes, this is at one time easier and at another time harder to do, not only in relation to a particular reproduction cycle but also historically. By linking theory with history we can distinguish between different but overlapping epochs of capitalist production. In an extended period of depression, in which a series of cyclical movements takes place without leading to a noticeable upswing, we are dealing with a declining long wave of capitalist production, while in an epoch of capitalist development in which shorter cyclical movements do not counteract a generally upward trend, we can speak of a long wave of prosperity. Thus for Mandel the accelerated accumulation, without serious crisis situations, characteristic of “late capitalism” is explained as a “long wave with an undertone of expansion” (p.194), made possible not only by the arms industry but also, and more importantly, by structural changes in capital and new conditions of production.

The “long wave with an undertone of expansion” that lasted from 1940 to 1965 and formed the basis for a “third technological revolution” was, however, according to Mandel, by no means “purely” the product of economic development, proof of the alleged vitality of the capitalist mode of production or a justification for its existence. All it proved was that in the imperialist countries, given existing technology and forces of production, there are no “absolutely hopeless situations” in a purely economic sense for capital, and that the long-term failure to accomplish a socialist revolution can ultimately give the capitalist mode of production a new lease on life, which the latter will then exploit in accordance with its inherent logic...(p.221).

Thus capital succeeded once more in enlarging the productive forces. But the “third technological revolution” indicates also the historical limits of capital, for “who is supposed to buy a doubled volume of durable consumer goods if, with a constant selling price, the nominal income of the population is reduced by half?” (p.205). Here we have arrived with Mandel “at the absolute inner limit of the capitalist mode of production... . It lies in the fact that the mass of surplus-value itself necessarily diminishes as a result of the elimination of living labor from the production process in the course of the final stage of mechanization-automation” (p.207).

The “absolute inner limit” of the capitalist mode of production, however, according to Mandel, confronts the fact that “there are no absolutely hopeless situations” for capital, since it depends exclusively on the proletariat whether it can muddle on further even without “a justification for its existence.” It does not exist on the basis of its own “vitality” but because of the proletariat’s readiness to give it a new “lease on life,” thus because of the vitality of the nonrevolutionary working class. If we therefore have the working class or, more precisely, its incorrect leadership to thank for the “long wave with an undertone of expansion,” the new “long wave with an undertone of stagnation”(p.459) will demonstrate “the increasing liability of the social system to explosive social crises” that compel capital to give precedence to the task of “the destruction of proletarian class consciousness particularly in its socialist form” (p. 437, German edition; compare English translation, pp. 485-86). Meanwhile, and despite the lack of vitality, it has turned out that “far from representing a ‘post-industrial society,’ late capitalism thus constitutes generalized universal industrialisation for the first time in history. Mechanization,
standardisation, overspecialization and parcelization of labor. Now penetrate into all sectors of social life” (p.387). By this its abolition is assured.

The characteristics of “late capitalism” appear for Mandel to be the shortening of the turnover time of fixed capital; the cheapening of constant capital; the increase in the rate of surplus value; capital’s entry into the circulation and service sectors; and economic programming in order “to bridge over, at least partially, the contradiction between the anarchy of capitalist production inherent in the private ownership of the means of production and the growing objective pressure to plan amortization and investments” (p. 231). All these properties, which have characterized capital from time immemorial, lead in “late capitalism” to a “permanent inflation,” which is at the service of the “long-term protection of the expanded reproduction” of capital.

The permanent inflation is in Mandel’s eyes a permanent credit inflation or the specific accommodation of the banking system and money creation to the interests of monopoly capital. Through the expansion of credit demand is increased, which leads to the employment of surplus capital in additional production. In view of the underutilization of productive forces, the inflationary creation of money and credit are able to push the development of the productive forces beyond the limits set by private property. Behind the inflation lies the “conversion of idle capital into productive capital” (p.443). Like the arms industry, credit inflation leads to an increased production of value and surplus value. It slows down the decline in sales of consumer goods. The expansion of credit can stimulate prosperity “up to the point beyond which it risks jeopardizing the share of the world market controlled by the country in question” (p.455). The “long-term diminution of the industrial reserve army, which was the corollary of the substantial growth in the accumulation of capital, enabled the working class periodically to chip away at the rate of surplus-value somewhat” (p.457). Thus according to Mandel everything indicates “a decline in the relative autonomy of the credit cycle, and hence the ability of creeping inflation to restrict the cumulative effect of crises of over-production” (p.459).

Why the extension of private credit should have inflationary consequences is hard to see in light of unused productive capacity and accumulated surplus capital; and this all the more since, according to Mandel, the increase in demand is closely connected with a corresponding production of value and surplus value. With respect to manufacturing industry, he himself says that “if substantial over-capacity already exists, even the most abundant injections of credit money... will not lead to a stimulation of private investments...” (pp.457-58). But was it not the function of credit injections to overcome overcapacity by means of increased demand? The “stimulating impact of inflationary creation of credit ceases to be effective,” according to Mandel, “when a rising debt-burden begins to restrict current purchasing power” (p. 459). But why should the debt burden rise when the process released by “credit inflation” leads to new additional value and surplus value? It makes little sense to go into Mandel’s theory of inflation seriously, since it consists of no more than the assertion, pulled out of thin air, that credit must in itself lead to permanent inflation.

Mandel comes somewhat closer to the heart of the matter as soon as he deals with the credit-supported interventions of the state into the economy. “If such state outlays,” he writes,

are wholly financed by taxation, then once again there will be no change in global demand... Only if these investments at least to some extent result in a direct nominal increase in purchasing power – i.e., bring additional means of payment into circulation will they have a stimulating effect of the economy.... But since such investments do not
increase the quantity of commodities in circulation to the same extent as they create additional means of payment, they inevitably contain an inflationary bias (p.552).

The state’s creation of credit by way of deficit financing is here a means to induce an additional production not achieved through the private credit mechanism. It becomes a necessity just because the expansion of private credit does not increase demand, and thus production, sufficiently to keep unemployment and overcapacity in socially manageable proportions.

The policy of inflation, which according to Mandel does “not increase the quantity of commodities in circulation to the same extent as it creates additional means of payment” and thereby drives up prices, expresses the simple fact that the production thereby made possible is not production of commodities in the usual sense of the term. It does not yield value and surplus value but must nevertheless yield profit for the capitals participating in this production. The quantity of commodities has not really increased along with the expansion of production, since the final products of the state-induced production do not enter the market. Production has increased, but without a corresponding increase in profit. The “profit” made in state-induced production must be taken in the form of taxes from the unenlarged mass of profit of capital as a whole. This pressure on capitalist revenue is fought by price increases, so that the costs of unprofitable production are paid by Mandel’s “final consumers.”

The demand determined by the “final consumers” which, to believe Mandel, in the final analysis determines the movement of capital and thereby denies it a secure future-continues to be reduced, relative to increasing production, in order to avoid social upheavals. With this is connected the insubstantial hope that it represents a transitory situation that will sooner or later be overcome by a general upswing of capitalist production. In accordance with this goal capital now, as before, continues down the one-way street of profit expansion. The fate of the “final consumers” appears first as the fate of the working class: increased exploitation through inflation. With the more rapid increase in commodity prices relative to wages, a profit can be made in circulation whose extraction at the point of production would lead to greater opposition. Inflation is above all a wages policy meant to secure capitalist surplus value and, when possible, to increase it; it is also a method of decreasing the expenses of the noncapitalist but also unproductive strata of society. But since steadily increasing inflation can also damage the interests of capital, it represents a policy forced on capital that it would gladly be done with but cannot do without.

Mandel’s “long wave with an undertone of expansion” differs from his “long wave with an undertone of stagnation” only in the circumstance that the instruments used by the state to combat crisis, “discovered” during the last great world crisis, are on the point of losing their effectiveness. They encounter definite limits in capitalist production that cannot be infringed without destroying the system. The long period of prosperity after the Second World War encompassed only the great capitalist powers. But despite the enormous destruction of capital, despite the further extension of the concentration of capital on an international scale, despite the “third technological revolution” and all the other structural changes in capital, even these nations remained tied to the contradictory pursuit of unprofitable production. Even the economic programming so emphasized by Mandel remains a matter of blind reactions to the still uncontrollable laws of motion of capital. The crisis, always latent, is becoming acute again, and it is no longer possible to counteract it by the state interventions used in the past. Inflation, which was supposed to combat unemployment, becomes inflation with growing unemployment; the international planning of investments becomes the ruthless competitive struggle of national capitals;
“late capitalism” shows itself to be the same capitalism that all along moved only in one direction, that of its final abolition.

**Interview with J.J. Lebel 1975**

Source: Kurasje Archive; Transcribed: by Andy Blunden, for marxists.org 2003.

**Question:** What relevance does Pannekoek’s book have in Europe today? Do you think that the analytic memory and theory of the past experience of council communism, as Pannekoek expresses them, can be “heard” and understood by workers here today?

**Answer:** A book, such as Pannekoek’s, is not in need of immediate relevance. It concerns itself with a historical period; with past occurrences as well as possible future experiences, in which the phenomenon of workers’ councils appearing and disappearing points to a trend of development in workers’ class struggle and its changing objectives. Like anything else, forms of class struggle are historical in the sense that they make their appearance long before their full realisation becomes an actual possibility. In an embryonic form, for example, trade unions arose spontaneously as instruments of working class resistance to capitalist exploitation at the very beginning of capitalism’s development, only to disappear again because of objectively determined hindrances to their further development. Yet, their temporary irrelevance did not hinder their full unfolding under changed conditions, which then determined their character, possibilities and limitations. Similarly, workers’ councils made their appearance under conditions which precluded the release of all their revolutionary potentialities. The content of the social upheavals in which the first workers’ councils arose was not adequate to their organisational form. The Russian workers’ councils of 1905 and 1917, for instance, fought for a constitutional bourgeois democracy and for trade union goals such as the eight-hour day and higher wages. The German workers’ councils of 1918 gave up their momentarily-won political power in favour of the bourgeois National Assembly and the illusory evolutionary path of German social democracy. In either case, the workers’ councils could only eliminate themselves as their organisational form contradicted their limited political and social goals. Whereas, in Russia, it was the objective unreadiness for a socialist revolution, in Germany it was the subjective unwillingness to realise socialism by revolutionary means, which accounted for the decay and, finally, the forced destruction of the council movement. Nonetheless, it had been the workers’ councils, not the traditional labour organisations, which secured the success of the revolutionary upheavals however limited they proved to be. Although the workers’ councils revealed that the proletariat is quite able to evolve revolutionary instrumentalities of its own—either in combination with the traditional labour organisations, or in opposition to them—at the time of their formation they only had very vague concepts, or none at all, of how to consolidate their power and use it in order to change society. Thus they fell back upon the political instrumentalities of the past. The question of whether or not the council idea, as elaborated by Pannekoek, could be understood and taken up by the workers today, is a rather strange one, because the council idea implies no more, but also no less, than the
self organisation of the workers wherever and whenever this becomes an inescapable necessity in the struggle for their immediate needs, or for farther-reaching goals, which can either no longer be reached by, or are in fact opposed by, traditional labour organisations such as the trade unions and political parties. In order to take place at all, a particular struggle within a factory, or an industry, and the extension of the struggle over wider areas and larger numbers, may require a system of workers’ delegates, committees of action, or workers’ councils. Such struggles may or may not find the support of the existing labour organisations. If not, they will have to be carried on independently, by the fighting workers themselves, and imply their self-organisation. Under revolutionary circumstances, this may well lead to a widespread system of workers’ councils, as the basis for a total reorganisation of the social structure. Of course, without such a revolutionary situation, expressing a social crisis condition, the working class will not concern itself with the wider implications of the council system, even though it might organise itself for particular struggles by way of councils. Pannekoek’s description of the theory and practice of workers’ councils relates thus to no more than the workers’ own experiences. But what they experience they can also comprehend and, under favourable conditions, apply in their struggle within and against the capitalist system.

Q: How do you think Pannekoek’s book came about and in what relationship to his practice (in Germany or Holland)? Do you think his book and his essay on trade unionism (in Living Marxism) apply to present-day conditions?

A: Pannekoek wrote his book on workers’ councils during the Second World War. It was a summing-up of his life’s experience of the theory and practice of the international labor movement and of the development and transformation of capitalism within various nations and as a whole. It ends with the temporary triumph of a revived, though changed, capitalism, and with the utter subjugation of working class interests to the competitive needs of rival capitalist systems preparing for new imperialistic conflicts. Unlike the ruling classes, which adapt themselves quickly to changed conditions, the working class, by still adhering to traditional ideas and activities, finds itself in a powerless and apparently hopeless situation. And as socioeconomic changes only gradually change ideas, it may still take considerable time before a new labour movement-fitted to the new conditions-will arise. Although the continued existence of capitalism, in either its private or state-capitalist forms, proved that the expectation of the growth of a new labour movement in the wake of the Second World War was premature, the continued resilience of capitalism does not remove its immanent contradictions and will therefore not release the workers from the need to put an end to it. Of course, with capitalism still in the saddle, the old labour organisations, parliamentary parties and trade unions, could also be maintained. But they are already recognised, and recognise themselves, as part and parcel of capitalism, destined to go down with the system on which their existence depends. Long before it became an obvious fact, it was clear to Pannekoek that the old labour movement was a historical product of the rising capitalism, bound to this particular stage of development, wherein the question of revolution and socialism could only be raised but not answered. At such a time, these labour organisations were destined to degenerate into tools of capitalism. Socialism depended now on the rise of a new labour movement, able to create the preconditions for proletarian self-rule. If the workers were to take over the production process and determine the distribution of their products, they needed, even prior to this revolutionary transformation, to function and to organise themselves in an entirely different manner than in the past. In both forms of organisation, the parliamentary parties and the trade unions, the workers delegate their power to special groups of leaders
and organisers, who are supposed to act on their behalf, but actually only foster their own separate interests. The workers lost control over their own organisations. But even if this had not been so, these organisations were totally unfit to serve as instruments for either the proletarian revolution or the construction of socialism. Parliamentary parties were a product of bourgeois society, an expression of the political democracy of laissez-faire capitalism and only meaningful within this context. They have no place in socialism, which is supposed to end political strife by ending special interests and social class relations. As there is no room, nor need for political parties in a socialist society, their future superfluity already explains their ineffectiveness as an instrument of revolutionary change. Trade unions, too, have no functions in socialism, which does not know of wage relations and which organises its production not with regard to specific trades and industries but in accordance with social needs. As the emancipation of the working class can only be brought about by the workers themselves, they have to organize themselves as a class, in order to take and to hold power. Regarding present conditions, however, which are not as yet of a revolutionary nature, the council form of working-class activities does not directly betray its wider-reaching revolutionary potentialities, but is a mere expression of the accomplished integration of the traditional labour organisations into the capitalist system. Parliamentary parties and trade unions lose their limited effectiveness when it is no longer possible to combine an improvement of workers’ living standards with a progressive expansion of capital. Under conditions which preclude a sufficient capitalist accumulation, that is, under conditions of economic crisis, the reformist activities of political parties and trade unions cease to be operative and these organisations abstain from their supposed functions, as they would now endanger the capitalist system itself. They will rather try to help sustain the system, up to the point of directly sabotaging the workers aspirations for better living and working conditions. They will help capitalism overcome its crisis at the expense of the workers. In such a situation, the workers, unwilling to submit to the dictates of capital, are forced to resort to activities not sanctioned by official labor organisations, to so-called wildcat strikes, factory occupations and other form of direct actions outside the control of the established labor organisations. These self-determined activities, with their temporary council structure, indicate the possibility of their radical application under arising revolutionary situations, replacing the traditional organisational forms, which have become a hindrance for both the struggle for immediate needs and for revolutionary goals.

Q: Can you give a few practical and concrete examples of how workers’ councils function (in Russia, Germany, Hungary etc.), and how they differed from traditional party or union organisations? What are the basic differences? How do party and council or union clash?

A: As every strike, demonstration, occupation or other kinds of anticapitalist activity which ignores the official labor organisations and escapes their controls, takes on the character of independent working class action, which determines its own organisation and procedures, may be regarded as a council movement; so, on a larger scale, the spontaneous organisation of revolutionary upheavals, such as occurred in Russia in 1905 and 1917, in Germany in 1918, and later – against the state-capitalist authorities, in Hungary, Czechoslovakia and Poland, avail themselves of workers’ councils as the only form of working class actions possible under conditions in which all established institutions and organisations have become defenders of the status quo. These councils arise out of necessity, but also because of the opportunity provided by the capitalist production processes, which are already the “natural” forms of working class activities
and organisation. Here the workers are “organised” as a class against the capitalist class; the place of exploitation is also the vehicle for their resistance to capitalist oppression. “Organised” by their rulers in factories, industries, armies, or in separate working-class districts, workers turned these “organisations” into their own, by utilizing them for their independent endeavours and under their own leadership. The latter was elected from their midst, and was at all times recallable. Thus the historically evolved divergence between the institutionalised labour organisations and the working class at large was done away with, and the apparent contradiction between organisation and spontaneity resolved. Until now, to be sure, workers’ councils have found their limitations in the limits of spontaneous actions under unfavourable conditions. They have been the sporadic expression of sporadic movements, as yet incapable of turning their potential for becoming the organisational structure of non-exploitative relations into reality. The basic difference between the council movement and the traditional labor organisations is, that whereas the latter lose their functions in a decaying capitalism and have nothing to contribute to the construction of socialism, the former not only become the only form of effective working-class actions regardless of the state in which capitalism finds itself, but are, at the same time, the prefiguration of the organisational structure of socialist society.

Q: Do you see any similarity (in intent, result or form) between council communism and present day workers’ struggles in the US and Europe? Do you think any recent events indicate a significant and qualitative evolution towards a different type of society? Or, do you think the recent outstanding struggles (May ‘68, Lordstown, LIP etc) are just more of the same old programmed modernisations of capitalism?

A: There is, without doubt, a connection between the recent expressions of self-determined working-class actions, such as the French movement of May 1968, the occupation of LIP, but also the rebellions of the workers in East-Germany, Poland and even Russia, and the “instinctive” as well as conscious recognition that the forms of action represented by the concept and the reality of workers’ councils is the necessary requirement of workers’ struggles under prevailing conditions. Even unofficial strikes in the USA may be regarded as a first expression of a developing class consciousness, directing itself not only against the obvious capitalist enemy but also against the capitalistically-integrated official labor movement. However, traditions are still powerful and the institutions nourished by them constitute part of capitalism’s resilience. It seems to require far more catastrophic situations than those recently experienced to release the full power of spontaneous mass actions, overrunning not just the defenders of capitalism but the system itself. In so far as recent and forthcoming workers’ struggles escaped or escape the influence and control of the capitalist authorities, which the leadership of the official labour movement also belong to, they were and will be movements that cannot be integrated into the capitalist system and therefore constitute real revolutionary movements.

Q: If new general strikes (such as May ‘68) or other mass revolutionary movements come up, do you think they can evolve towards workers councils, away from parties and unions? How? What do you think can be done to get rid of parties and unions which prohibit self-organisation and direct democracy?

A: In a general crisis of capitalism there is always the possibility that the social movements resulting from it will go beyond the obstacles placed in their way by traditional forms of economic and political activity, and proceed in accordance with new
necessities which include the need for effective forms of organisation. However, just as capitalism will not abdicate of its own accord, the existing labor organizations will try their utmost to keep control of these social movements and direct them towards goals favourable to themselves. In the “best” case—should they fail to help secure the status quo—they will direct a possible revolutionary upheaval into state-capitalist channels, in order to maintain social production relations which would not only allow for their further existence, but would also transform their organisations into instrumentalities of a modified capitalist system, and their bureaucracies into a new ruling class. In brief, if anything at all, they would attempt to turn a potential socialist revolution into a state-capitalist revolution, with results such as are represented by the so-called socialist nations. They may succeed in such endeavours, however that is the most pressing reason for both advocating and trying to set up workers’ councils in any revolutionary situation, and for attempting to concentrate in them all the power needed for working-class self-determination. Social control through workers’ councils is one future possibility among others. The probability of its realization is perhaps less than the probability of a state capitalist transformation. But as the latter is not a solution to the problem inherent in social exploitation relations, a possible state-capitalist revolution would merely postpone, but not eliminate, the need for another revolution with socialism as its goal.

Q: Do you think councils are still, today, the basic pattern for a communist society or must they be updated to fit present day conditions?

A: Communism will be a system of workers’ councils or it will not exist, The “association of free and equal producers,” which determines its own production and distribution, is thinkable only as a system of self-determination at the point of production, and the absence of any other authority than the collective will of the producers themselves. It means the end of the State, or any state-based system of exploitation. It must be a planned production, without the intervention of exchange relations and the vicissitudes of the market system. The regulation of the social character of production must discard fetishistic value and price relations, and must be carried out in terms of the economy of time, with direct labour-time as a measure of calculation, where calculation is still required. A presupposition of such a development is the absence of a central government with political power of its own. The central institutions of the council system are mere enterprises among others, without a special apparatus to assert their will outside the consent of other councils or of other enterprises. The structure of the system must be such as to combine central regulation with the self-determination of the producers. Whereas, under the conditions of under development which faced the first councils after a successful political revolution (the reference is to Russia in 1917), it was practically impossible to realize a communist society based on workers’ councils; the prevailing conditions in the developed capitalist nations allow much better for the actualisation of socialism via the council system. It is precisely the more advanced form of capitalism, with its advanced technology, high productivity, and network of communication, which offers a material base for the establishment of communism based on a system of workers’ councils. The council idea is not a thing of the past, but the most realistic proposition for the establishment of a socialist society. Nothing which has evolved during the last decades has robbed it of its feasibility; on the contrary, it has merely substantiated the non-utopian character of the workers’ councils and the probability of the emergence of a truly communist society.
The New Capitalism and the Old Class Struggle

“The proletariat is revolutionary or it is nothing.” – Karl Marx

Being a product of bourgeois society, the socialist movement is linked to the vicissitudes of capitalist development. It will assume different forms according to the changing fortunes of the capitalist system. In circumstances which are not favorable to the formation of class consciousness, it will not grow, or will practically disappear. In conditions of capitalist prosperity it tends to transform itself from a revolutionary to a reformist movement. In times of social crisis it may be totally suppressed by the ruling class. Since socialism cannot be established without a socialist movement, it follows that the destiny of the latter ultimately will determine whether socialism will ever be realized.

All labor organizations form part of the general social structure and cannot be consistently anti-capitalist, except in a purely ideological sense. To acquire social importance within the capitalist system they must be opportunistic, which means they must avail themselves of the given social processes to attain their goals, however limited the latter may be. Opportunism and ‘realism’ are apparently the same thing. The former cannot be defeated by a radical ideology which opposes the whole of the existing social relations. It does not seem possible to slowly assemble revolutionary forces into powerful organizations ready to act at favorable moments. Only those organizations that did not disturb the prevailing social relations acquired any importance. If they started out with a revolutionary ideology, their growth implied a subsequent discrepancy between their ideology and their functions. Those organizations opposed to the status quo, yet organized within it, must finally succumb to the forces of capitalism by virtue of their organizational failures.

This appears to be the dilemma of radicalism: in order to accomplish anything of social significance, actions must be organized. Effective organizations, however, tend towards capitalist channels. It seems that in order to do something now, one can only do the wrong things, and in order to avoid false steps one should undertake none at all. The radical socialists are destined to be miserable: they are conscious of their utopianism and they experience nothing but failures. In self-defense, the ineffective radical organizations will put the accent on the factor of spontaneity as the decisive element for any social transformation. As they cannot change society by means of their own forces, they place their hopes in spontaneous uprisings of the masses and in a future unfolding of these activities.

At the beginning of the century the traditional labor organizations – socialist parties and trade unions – were no longer revolutionary movements. Only a small left-wing within these organizations preoccupied itself with questions of revolutionary strategy and,
consequently, with questions of spontaneity and organization. This naturally involved the problem of revolutionary consciousness and of the relations between the revolutionary minority and the proletarian masses indoctrinated by capitalism. It was judged highly unlikely that without revolutionary consciousness the working masses would act in a revolutionary manner solely by the compulsion of circumstances. This problem acquired special importance due to the split in the Social Democratic Party and the crystallization of Lenin’s concept of the necessity of a revolutionary vanguard made up of professional revolutionaries. Aware of the factor of spontaneity, Lenin granted great importance to the special necessity of centrally organized and directed activity. The stronger spontaneous movements are, the more urgent is the necessity of controlling and directing them by means of a profoundly disciplined revolutionary party. The workers must be protected from themselves, so to speak, because their lack of theoretical understanding can very easily lead them to squander their creative powers spontaneously and to fail in their struggle.

Opposition to this point of view was maintained with great coherence by the left-wing Rosa Luxemburg. Lenin, like Rosa Luxemburg, saw the necessity of combatting the opportunist and reformist evolutionism of the established labor organizations and sought a return to revolutionary policies. But while Lenin tried to achieve this by means of the creation of a new type of revolutionary party, Rosa Luxemburg preferred an increase of the self-determination of the proletariat, generally as well as in the case of the labor organizations, by way of the elimination of bureaucratic controls, and the activization of the rank and file.

Both Lenin and Rosa Luxemburg thought that it was possible for a revolutionary minority to gain control of society. But while Lenin saw in this the possibility of the realization of socialism by means of the party, Rosa Luxemburg feared that any minority, in the position of ruling class, would rapidly begin to think and act like the bourgeoisie of old. She hoped that the spontaneous movements would restrain the influence of the organizations which were aspiring to centralize power in their hands. According to Rosa Luxemburg, the socialists should simply help to liberate the creative forces in mass actions, and to integrate their own activities into the independent class struggle of the proletariat. Her position allowed for the existence of an intelligent working class in a situation of advanced capitalism, a working class capable of discovering, by means of its own forces, ways and means of struggle in its own interests and, ultimately, in favor of socialism.

There was another way of confronting the problem of organization and spontaneity. Georges Sorel and the syndicalists were not only convinced that the proletariat could emancipate itself without the guidance of the intelligentsia, but that it had to free itself from middle class elements that usually controlled the political organizations. Syndicalism rejected parliamentarism in favor of revolutionary trade union activity. In Sorel’s view, a government of socialists would in no sense alter the social position of the workers. In order to be free, the workers would have to resort to actions and weapons exclusively their own. Capitalism, according to Sorel, had already organized the whole proletariat in its industries. All that was left to do was to suppress the state and property. To accomplish this, the proletariat was not so much in need of so-called scientific insight into necessary social trends as of a kind of intuitive conviction that revolution and socialism were the inevitable outcome of their own continuous struggles.

1 What is to be Done, 1902, and One Step Forward, Two Steps Back, 1903.
2 Organizational Questions of Russian Social Democracy.
3 Reflections on Violence, 1906.
The strike was seen as the laboratory of the workers’ revolutionary apprenticeship. The growing number of strikes, their extension and increasing duration pointed towards a possible General Strike, that is, to the impending social revolution.

Each particular strike was a facsimile in reduced scale of the General Strike, and a preparation for the final insurrection. The increasing revolutionary will would not be measured by the success or failure of political parties, but by the frequency and vehemence of the strikes. The revolution will have proceeded from action to action in a continuous mixture of spontaneous and organized aspects of the proletariat’s struggle for emancipation.

Syndicalism and such international offspring as the Guild Socialists in England and the Industrial Workers of the World in the United States were, to some extent, reactions to the increasing bureaucratization of the socialist movement and to its class-collaborationist practices. As marxism was the ideology of the dominant socialist parties, opposition to these organizations and their policies expressed itself as an opposition to marxian theory in its reformist and revisionist versions. The trade unions, too, were attacked for their centralistic structures and their emphasis upon specific trade interests at the expense of proletarian class needs. But just as the centralism of the marxist ideology did not prevent the emergence of left-wing oppositions within the socialist organizations, so the ideological decentralization of syndicalism could not restrain the emergence of centralist tendencies within the syndicalist movement. The Guild Socialists sought the conciliation of the two extreme, distancing themselves equally from the localism of French anarchosyndicalism and from the state socialist conceptions of the marxist ideology.

The organizations tended to see in their steady growth and everyday activities the most important factors of social change. In the social democratic parties it was the growing membership, the spreading party apparatus, the increasing number of votes in elections and a wider participation in existing political institutions which were thought of as growing into a socialist society. As regards the Industrial Workers of the World, on the other hand, the growth of its own organizations into One Big Union was seen, at the same time, as “forming the structure of the new society within the shell of the old.” In the first revolution of the 20th century it was the unorganized mass of workers which determined the character of the revolution and brought into being its own, new form of organization in the spontaneously arising workers and soldiers councils.

The system of the Russian Revolution of 1905 disappeared with the crushing of the revolution, only to return in greater force in the February Revolution of 1917. It was these soviets which inspired the formation similar spontaneous organizations in the German Revolution of 1918 and, to a somewhat lesser extent, the social upheavals in Italy, England, France and Hungary. With the system arose a form of organization which could lead and coordinate the self-activities of the very broad masses for either limited ends or for revolutionary goals, and which could do so independently of, in opposition to, or in collaboration with existing labor organizations. Most importantly, the rise of the council system proved that spontaneous activities need not dissipate in formless mass-exertions but could issue into organizational structures of more than temporary nature.

The Russian councils, or soviets, grew out of a series of strikes and from their needs for committees of action and representation to deal with the industries affected as

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4 For the history of the Russian Soviets, see Oskar Anweiler, The Soviet Movement in Russia, 1905-1921.
5 For the documentation of the workers councils in the German Revolution, see Peter von Oertzen, Betriebsrate in der Novemberrevolution, Dusseldorf, 1963.
well as with the legal authorities. The strikes, caused by the increasingly intolerable conditions of the working class, were spontaneous in the sense that they were not called by political organizations or trade unions, but were launched by unorganized workers who had no choice but to look upon their workplace as the springboard and center of their organizational efforts. In the Russia of that time political organizations had as yet no real influence on the mass of workers and the trade unions existed only in embryonic form. In any event, the growth of the socialist organizations and trade unions was to a great extent intensified by the spontaneous strikes and successive uprisings.

In essence, of course, the 1905 Revolution was a bourgeois revolution, supported by the liberal middle class, to break Czarist absolutism and to advance Russia via a Constituent Assembly towards the conditions that existed in the more developed capitalist nations. In so far as the striking workers thought in political terms, they largely shared the program of the liberal bourgeoisie. And so did all existing socialist organizations which accepted the necessity of a bourgeois revolution as a precondition for the formation of a strong labor movement and a future proletarian revolution under more advanced conditions. The soviets were thought of as temporary instruments in the struggle for specific goals of the working class and for a bourgeois-democratic society. It was not hoped that they would acquire a permanent character.

Beginning in 1906, organizational initiative fell into the hands of the political parties and trade unions. But the experience of 1905 was not lost. The soviets, wrote Trotsky⁶ "were the realization of an objective need for an organization which has authority without having tradition, and which can at once embrace hundreds of thousands of workers. An organization, moreover, which can unify all the revolutionary tendencies within the proletariat, which possesses both initiative and self-control, and, which is the main thing, can be called into existence within 24 hours."

The soviets attracted the most articulate and politically alert workers, and they found support in the socialist organizations and the incipient trade unions. The difference between these traditional organizations and the soviets is explained by this observation by Trotsky, according to whom

"the parties were organizations within the proletariat, while the soviets were the organizations of the proletariat."

The Revolution of 1905 invigorated the left-wing opposition in the Socialist parties of the West, but as yet more with respect to the spontaneity of its mass strikes than the organizational form these actions assumed. There were exceptions, however. Anton Pannekoek⁷, for example, thought that with the soviets

"the passive masses become active and the working class converts itself into an independent organism that achieves its unification .... At the end of this revolutionary process, the working class transforms itself into a highly organized and class-conscious entity, ready to seize control of all of society and to take into its own hands the process of production."

According it to Lenin, the soviets were

"organs of mass struggle. They originated as organs of the strike struggle. By force of circumstances they very quickly became organs of the general revolutionary struggle against the government .... It was not some theory, not appeals on the part of someone, or tactics invented by someone, not party doctrine, but the force of circumstances that turned these nonparty mass organs into revolutionary organizations."

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⁶ The Russian Revolution, 1905.
⁷ Mass Action and Revolution, 1912.
⁸ The End of the Duma and the Tasks of the Proletariat, 1906.
If, on the one hand, Lenin insisted that his party
“should not renounce the use of nonparty organizations, like the soviets,”
on the other hand he held that
” the party should conduct itself so as to strengthen its own influence over the
working class and to augment its own power.”

Lenin saw the Russian Revolution as an uninterrupted process leading from
the bourgeois revolution to the socialist revolution. He feared that the bourgeoisie would
rather accept a compromise with Czarism rather than run the risk of a thorough-going
democratic revolution. It was therefore the task of the workers and the poor peasants to
complete the bourgeois revolution and, at the same time, to exploit the internal
antagonisms among the bourgeoisie.

Lenin also viewed the immanent Russian Revolution from an international
perspective, and considered the possibility of its westward extension, which would
provide the opportunity to destroy modern Russian capitalism at its point of inception.
But whatever the outcome of the revolution, the Bolshevik Party must control it in order
to exploit it for socialist ends, or, at least, for the realization of a radical bourgeois-
democratic transformation of Czarist society.

Considering themselves the vanguard of the proletariat and the latter as the
vanguard of the “people’s revolution,” the Bolsheviks therefore recognized that to take
power, a revolutionary party was not enough; what was needed were mass organizations
like the soviets. It was in 1917 when the concept of the dictatorship of the proletariat by
means of the soviets became the official policy of the Bolshevik Party.

The February Revolution was also the result of a spontaneous protest movement
against the increasingly intolerable living conditions during a disastrous war. It began
with strikes and demonstrations on an ever-expanding scale, until they provoked a
general uprising which found support in some military units and brought down the
Czarist government. The Revolution received widespread support from the bourgeoisie,
and it was the latter group which formed the first Provisional Government. Although the
socialist parties and trade unions did not start the revolution, they played a more
important role than in 1905. As in 1905, so in 1917 the soviets did not at first intend to
replace the Provisional Government. But in the development of the revolutionary
process they occupied increasingly more important positions; there was practically a
situation of dual power between the soviets and the government. The further
radicalization of the movement amidst the deteriorating social conditions, and the
vacillating policies of the bourgeoisie and socialist parties, rapidly played into ‘ the hands
of the Bolsheviks the majority in the soviets of decisive importance and led to the
October Revolution, which put an end to the bourgeois-democratic phase of the
Revolution. In time, the regime became the dictatorship of the Bolshevik Party. The
emasculated soviets were maintained with a merely formal semblance of life, in order to
conceal the fact of the Bolshevik dictatorship. Whatever the reasons for this change –
which we will not discuss here – it was through the soviets that both the bourgeoisie and
Czarism were overthrown and a different social system was introduced. It is not
inconceivable that in different internal and international conditions the soviets would
have been able to maintain their power and prevent the appearance of the authoritarian
dictatorship.

Not only in Russia, but also in Germany, the actual content of the Revolution was
not equal to its revolutionary form. But while in Russia it was mainly the general
objective unreadiness for a socialist transformation, in Germany it was the subjective

9 Resolution of the 5th Congress of the Russian Social Democratic Labor Party.
The New Capitalism and the Old Class Struggle

unwillingness to construct socialism which caused the adoption of revolutionary methods that were to a great extent responsible for the failures of the council movement in both countries. In Germany, opposition to the war was expressed in the form of industrial strikes which, due to the patriotism of the social democrats and trade unions, had to be organized clandestinely in the workplaces and by means of committees of action which linked the different factories. In 1918 Councils of workers and soldiers arose throughout Germany and overthrew the government. The collaborationist labor organizations were obliged to recognize this movement and to enter it, if for no other reason than to blunt its revolutionary aspirations. This was easily accomplished in so far as the workers and soldiers councils were composed not only of communists, but also of socialists, trade-unionists, non-politicals, and even adherents of the bourgeois parties. The slogan, “All power to the workers councils was therefore self-defeating unless, of course, events should take such a turn as to alter the character and composition of the councils.

Nevertheless, the great mass of workers confused the political with the social revolution. The ideology and organizational strength of the Social Democracy had left its mark; the socialization of production was seen as a governmental concern and not as the task of the working class. Although rebellious, the workers were generally so in a reformist social democratic sense. “All power to the workers councils” implied the dictatorship of the proletariat, as it would leave the nonworking sectors of society without political representation. Democracy was still understood, however, as the general franchise. The mass of workers demanded both the workers councils and the National Assembly. They got both – the councils as a meaningless part of the Weimar Constitution, and with the latter the counterrevolution and, finally, the nazi dictatorship.

Consequently it is clear enough that the workers’ self-organization is not an absolute guarantee against policies and actions contrary to proletarian class interests. In which case, however, they will be superseded by traditional or new forms of control of working class behavior by the old or newly-established authorities. Unless spontaneous movements, issuing into organizational forms of proletarian selfdetermination, usurp control over society and therewith over their own lives, these movements are destined to once again disappear. For it is only through the experience of selfdetermination, in whatever form it first realizes itself, that the working class will be able to advance towards its own emancipation.

All that has been said relates to the past and seems to be without relevance to either the present or the near future. As far as the western world is concerned, not even that feeble world-revolutionary wave released by World War One and the Russian Revolution was repeated during the course of World War Two. Instead, and after some initial difficulties, the western bourgeoisie finds itself in full command over its society. It boasts of an economy of high employment, economic growth and social stability which excludes both the compulsion and the inclination for social change. Admittedly, this is an overall picture, still marred by some as-yet-unresolved problems, as evidenced by the presence of pauperized social groups in all capitalist nations. It is expected, however, that these blemishes will be eradicated in time.

This common opinion recalls the dispute between orthodox and revisionist marxists at the beginning of the century concerning the problems of capitalist development. The controversy concerned the existence or absence of objective limits to capitalist development which would assure the subjective willingness for revolutionary actions. In times of prolonged prosperity it was the revisionist point of view which was seemingly verified; in times of crisis it was the orthodox position which seemingly possessed the greater validity. Generally, those who insisted on the spontaneity factor also insisted on the temporary character of the capitalist system and on its inevitable demise, while those
who emphasized organization envisioned an evolutionary change from capitalism to a socialist society, a transformation to be realized by legislative processes and education within the existing democratic institutions.

As opposed to more static societies, capitalism constantly changes. Its productive process, being a process of capital expansion, continuously alters the system in all its aspects except one. The unchanging aspect consists of the relations of production as relations between capital and labor, which permits the production of surplus value and the accumulation of capital. It can make changes for better or worse; everything depends on the productivity of labor and on its relation to the needs of expansion of the process of accumulation. Historically, capitalism has been a system of expansion and contraction, alternating between periods of prosperity and depression, affecting the conditions of the working population in a negative or positive way. With the passage of time, according to the marxian theory, it will be increasingly difficult for capitalism to overcome its periods of crisis and the general social misery associated with them. This will create a social climate favorable to revolutionary actions.

From the beginning of the so-called Industrial Revolution up to the Second World War, the marxian prognosis could be disputed periodically. In effect, the global depression of 1929 consolidated the opinion according to which the inherent contradictions of capital production must lead to its decline and collapse. But the abstract theoretical model on which this assertion rests, although it reveals the immanent dynamic of the system, does not exclude profound modifications in its functioning, which prolong its life. The ruling classes found a way to escape the depression during the war, and maintained government interventions in the post-war economy. In economic terms this procedure is known as the Keynesian Revolution. Since the government interventions in the economy assured, during almost two decades, the growth of production and trade, the illusion was nourished that a way had been found to break capitalism’s tendency toward crisis and depression. It was thought that the fiscal and monetary devices employed were a type of “planning” which could assure full employment and social stability.

The business cycles of laissez faire capitalism have apparently been brought under control. But not completely, because unemployment persists and periods of recession punctuate here and there the general tendency of expansion. But the great depressions with unemployment on a massive scale appear to be things of the past. Although the many effects of depressions are explained in various ways, from the marxian point of view they find their principle cause in the value character of capitalist production. That is, production is not bound to human needs, but to the expansion of private capital. A given magnitude of capital must produce a greater magnitude. The periods of depression are those periods during which the yield of capital is depressed. They end with a revitalization of business when new methods and ways are discovered to increase the yield of capital. To speak, then, of the end of the capital cycle of crises would imply that capital is actually capable of assuring indefinitely its required profit. On the surface, the types of explanation offered for the crises of capitalism do not have much importance. Goods not only have to be produced, they also must be sold. The profits obtained in production must be realized in circulation. The anarchy of capitalist production explains the disproportions which impede the realization of surplus value, and leads to discrepancies between investments and productivity which obstruct the production of profits. The crisis of capitalism can be described as a crisis of overproduction or underconsumption, each of which implies difficulties in the process of the realization of profit and, therefore, difficulties in maintaining a given level of production and a “normal” rate of growth. The full-blown crisis of capitalism is the simultaneous
conduction of all these factors. Whichever aspects of the crisis are emphasized, all are centered on the fact of a reduced production due to a lack of profit.

It is obvious that no capitalist will cut back on production while the market assures him adequate profits. He will diminish production and postpone new investments when he is no longer capable of finding sufficiently large markets for his products. But the crisis of capitalism is a general phenomenon that overtakes all capitals. Any capitalist, or any company, will react to the crisis by trying to maintain, or even increase, his part of the shrinking market by means of a reduction in the costs of production sufficiently large enough to make up for a possible loss of profit. Although all capitalists try to escape from the crisis situation, not all can succeed; but those that survive this situation not only have increased their rate of profit, but also have enlarged their markets, even if only at the expense of the destroyed capitals. It is by competition for profits and for markets that capital is concentrated and centralized, for the completion of the accumulation process.

The production of capital is the accumulation of capital. Surplus value, that is, unpaid labor, is transformed into additional capital. "Measured" in relation to total capital invested, it translates a certain value into profit. This value must be enough to permit the continuation of the process of accumulation. Capital is divided into investments in means of production and investments in labor power. This is only another way to describe the reality of the increase of the productivity of labor and the increase of surplus value. But if the latter does not increase as fast as the total capital, which is not always the case, the value of the profit declines. According to Marx, this is a consequence of the application of the labor theory of value to the process of capitalist accumulation.

It is not necessary to enter into the complexities of the mechanism of capitalist crisis, because there is no bourgeois theory that does not concur with Marx’s idea that, on the one hand, all the difficulties of capitalism must in the final analysis be attributed to the absence of an increase in profit and, on the other hand, only by an increase of profit can it overcome these difficulties. The classical political economists, Smith and Ricardo, feared the fall of the rate of profit, although for different reasons than those adduced by Marx. The neoclassical theory makes unemployment a result of disproportionality which reduces the incentive to invest. Given that Keynesian theory has found almost universal acceptance, it can be said that Marx’s theory of the tendency of the rate of profit to fall, as a consequence of the accumulation of capital, has been adopted by bourgeois economy, although with a different terminology. Where Marx speaks of over-accumulation of capital relative to its increase of profit, Keynesian theory speaks of the increasing scarcity of capital and of the subsequent diminution of its marginal efficiency. Where Marx speaks of a declining rate of accumulation, Keynesian theory considers the same phenomenon as a lack of effective demand. Both cases deal with a scarcity of investments, caused by an inadequate increase of profit.

Modern economic theory suggests nothing less than the integration of the insufficient demand which creates the market with demand created by government, which assures a higher level of employment. So as not to depress further the market demand, the demand created by the government must fall outside the market system. It must not be competitive and embraces, generally, expenditures for public works, arms and other waste products. Because of the imperialist nature of competition on an international level, the greater part of government demand consists of armaments and other military expenditures. In a word, government expenditures must be increased to confront the effects of depression caused by an insufficient rate of capital expansion.

For this purpose, governments either impose taxes or borrow from private sources – the loans being, of course, merely a deferred form of taxation. This provides the government with the possibility of increasing its expenditures; which, though it
guarantees, to those who receive the government orders, the prices and profits of production, constitutes a cost borne by all of society. That part of total production which comprises, as finished products, the public expenditures, does not enter the market, since there is no private demand for public works or armaments. It is production without profits, in the sense that no part of it is accumulated in the form of means of production which promise additional profits. Instead of the accumulation of capital, there is the accumulation of the national debt.

The surplus value which belongs to capital can be entirely consumed by the capitalists or partially converted into additional capital. When it is totally consumed, a condition prevails which Marx called simple reproduction. This is possible under exceptional circumstances, but, as a permanent condition, it means the end of capital production, that is, of the expansion of capital. In so far as a capitalism without accumulation is a capitalism in crisis (because only via the expansion of capital can the market be sufficient for the realization of the profits obtained in production), simple reproduction is not capitalist production. Supposing that all the surplus value not consumed by the capitalists is spent on arms production, capital will cease to accumulate. There will be perhaps a full use of productive resources, but this would not mean you will have a system of capitalist production. It is for this reason that state-induced production, which does not generate profits, must be limited so that it does not exclude further accumulation of capital.

It is also for this reason that the increase of production determined by public intervention through taxes and deficit financing was considered an emergency device to deal with a declining rate of investment, a decline that was also considered to be temporary. Due to the persistence of insufficient demand, the emergency device was accepted as a permanent condition and was called the mixed economy, replacing the system known as laissez faire. Government interventions in the economy were considered capable not only of avoiding the trend towards economic decline, but also of assuring economic stability and even development. In spite of this, the mixed economy is conceived as an economy in which the government sector remains smaller than the private sector, concerning itself only with the deficiencies of the private system. It the public sector, which does not produce profits, expands faster than the private sector, which does produce profits, it will set in motion a tendency that will lead to the decline of the private production of commodities. The expansion of the public sector must be restrained at the point at which its further growth would transform the mixed economy into something different.

Meanwhile, the public sector is financed by taxes and the public debt. Its production, in any case, does not produce profits, and, therefore, does not pay interest. The interest on the public debt must be payed with new taxes and new loans which will reduce the profitability of private capital. To maintain the necessary profitability, prices are raised, thereby passing on the costs of the public deficit to the whole society. The growth of the public sector is, in this way, accompanied by inflation. To stop the inflation process would require restricting the public sector of the economy.

The economies of the western countries are, however, in the midst of a boom, in spite of and because of the inflation and the growth of the national debt. Private production and state institutions assure a high level of employment and economic growth, although the rate of growth varied in the different countries. Partly, the advance is explained in traditional terms. The enormous destruction of capital, in both physical and value terms, during the Second World War changed the international structure of capital so as to make possible a renewal of expansion of capitalist profits. The same causes furthered the concentration and centralization of capital, both on a national and
multinational level. The extension of the credit system, particularly by way of the financing of the public debt, served to assist the general expansion of production and the international movements of capital made possible a rapid restoration of economic activity in nations destroyed by the war. Overall, the productivity of labor rose sufficiently to allow both the accumulation of capital and the recovery, promoted by the government, of the diminished production.

Therefore, to the degree that the productivity of labor can be increased in order to secure the necessary rate of profit, it is actually the increasing public spending which is responsible for the high level of employment and relatively prosperous conditions. Even so, the process is a prolonged stop-gap measure. Although it increases the absolute number of workers, the capital accumulation process displaces labor. Less labor must produce proportionally more surplus value to allow for the increase of profits and the expansion of capital. At the same time that it increases the productivity of labor by means of technological innovations, it also diminishes the number of surplus value-producing workers. In bourgeois terminology, “the productivity of capital” replaces the productivity of labor. Profits, or surplus value, can be nothing but surplus labor. And if labor is reduced in relation to the accumulated capital, the surplus labor is reduced, and therefore the surplus value or profit.

Since the displacement of labor is a continuous process, the increase of productivity of labor reintroduces, in connection with the accumulation of capital, the crisis mechanism. A given rate of accumulation cannot be maintained due to its decreasing profitability. To maintain and expand the given level of production, in spite of shrinking profits, requires the consequent increase of public intervention. The latter, in turn, demands a further increase of the productivity of labor and, ultimately, the whole cycle is repeated. Although it is not possible to predict when, the time will come when nonprofitable production will neutralize profitable production. And this is so because the falling rate of profit is the imminent tendency of capital expansion, even with the growing independence of the non-profitable sector of the economy.

In a few words, the mere increase of production is no substitute for the increase of profits, upon which the accumulation of capital depends. The prosperity thus attained is a false prosperity which, more forcefully than any real prosperity, prepares a new crisis situation more destructive than any previous crisis. A crisis of this kind cannot be channeled and controlled forever by government interventions within the framework of the mixed economy. It will come when these interventions have reached insuperable limits which cannot be transgressed without destroying the free market capitalist system.

It can actually be asserted with certainty that the crisis of capitalist production has been continuous since the end of the last century. The greater or lesser automism of the capitalist trade cycles of the 19th century never worked. Instead, the structural changes which have allowed the system to endure have been introduced with the wars and state intervention.

Left-wing radicalism has relied on what its reformist adversaries have called “the politics of catastrophe.” The revolutionaries expected not only the deterioration of the living standards of the working population and the elimination of the middle classes by way of the concentration of capital, but also destructive economic crises which would produce social convulsions that finally lead to the socialist revolution. They could not imagine the revolution in other terms than those of objective necessity. And, in fact, all social revolutions have taken place in times of social and economic catastrophe.

It is not surprising, then, that the apparent stabilization and further expansion of western capitalism after World War Two led not only to the desertion of the working class, but also to the transformation of its ideology into the practice of the welfare state
and mixed economy. This situation is either celebrated or bewailed as the integration of labor into capital, as the birth of a new socioeconomic system, free of crisis, which combines the positive aspects of capitalism and socialism while shedding the negative features of both. This is often referred to as a postcapitalist system in which the capital-labor antagonism has lost its former relevance. There is still room for all kinds of changes within the system, but it is no longer thought to be susceptible to social revolution. History, as the history of class struggles, has seemingly come to an end.

What is surprising are the various attempts which are still being made to accommodate the idea of socialism to this new state of affairs. It is expected that socialism in the traditional concept can still be reached despite the prevalence of conditions which make its appearance superfluous. Opposition to capitalism having lost its basis in the exploitative material production relations, finds a new one in the moral and philosophical sphere concerned with the dignity of man and the character of his work. Poverty, it is said, never was and cannot be an element of revolution. And even if it were, this would no longer be true because poverty has become a marginal issue, for, by and large, capitalism is now in a position to satisfy the consumption needs of the laboring population. While it may still be necessary to fight for immediate demands, such struggles no longer radically question the entire order. In the fight for socialism more stress must be laid upon the qualitative rather than the quantitative needs of the workers: it is just the qualitative needs which capitalism cannot satisfy. What is required is the progressive conquest of power by the workers through “non-reformist reforms.”

In which case, “non-reformist reforms” is only another expression for the proletarian revolution. A struggle for a meaningful “workers control of production” is clearly equivalent to the overthrow of the capitalist system. It leaves open the problem of how to bring this about when there are no pressing needs to do so. Capitalism exists because the workers do not have the control over the means of production and if they acquire such control capitalism will cease to exist. This objective cannot be realized within the capitalist system and its persistence is a sign that the illusion still exists that capitalism actually finds itself in a state of transition to socialism – a transition that must be accelerated by proletarian actions based on this general impulse.

The problem still remains of what organizational means to use to attain this objective. The integration of existing labor organizations into the capitalist structure has been possible because capitalism was able to provide the majority of the working class with improving living conditions. Wages have risen steadily and in some cases at the same rate as the productivity of labor. The general increase of exploitation has not impeded but has allowed for a betterment of living standards, and if this trend were to continue there is no reason not to assume that the class struggle will cease being a determinant of social development. In that case – man being a product of his circumstances – the working class will not develop a revolutionary consciousness and will not be interested in risking its present relative wellbeing for the uncertainties of a proletarian revolution. It was not for nothing that the marxist theory of revolution based itself on the increasing misery of the proletariat, even though this misery was not to be measured solely by the fluctuating wage-scale of the labor market.

Although real, the high living standards of the proletariat in advanced capitalism have been quite exaggerated. However, these high standards have been sufficiently widespread to extinguish proletarian radicalism, although they are too insignificant to change the social position of the workers. Although the “value of labor power must always be less than the “value” of its product, it can mean different living conditions. It

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10 Andre Gorz, for example, says this in his *Strategies for Labor*, 1964.
can be expressed in a workday of 12 hours or of 6 hours, in better or worse housing, in various quantities of consumer goods. In any case, the wage level and its buying power determine the conditions of the working population, as well as its complaints and aspirations. These higher standards end up becoming habitual and their maintenance is necessary to maintain working class passivity. If they are allowed to deteriorate, workers opposition will arise, as occurred before when the standard of living declined, when the latter was generally much lower. The social consensus can only be maintained according to the hypothesis that the prevailing standards of living can be maintained or even increased.

The validity of this hypothesis, even if it is confirmed by recent experience, is not absolutely certain. But the simple assertion that it lacks validity on a theoretical plane is not enough to modify a social practice based on the illusion of its permanent validity. Despite the various modifications of the system, all elements grant that the capitalist crisis mechanism will continue to reassert itself. Faced with the persistence of the low rate of private capital expansion in America and the diminution of the rates of expansion in postwar Western Europe, a new disillusionment has arisen. While the left Keynesians respond to this situation in a traditional way, demanding more extensive government intervention, the mainstream Keynesians demand a "reversal" of the Keynesian policies, that is, deflationary measures and a shift of accent from the public to the private sector. These two proposals destroy the basic logic upon which they are founded. The expansion of the public sector is only possible by paying a very high price at the expense of the private sector; the subsequent increase of production will be accompanied by the depressive consequences of a yet lower rate of expansion of private capital. The restriction of the public sector can perhaps raise the profitability of capital, but does not assure a rate of accumulation that will guarantee full employment. The ensuing widespread disorder will impose a return to increased state spending.

The discussion about the best type of economic policy is habitually carried out without considering the class character of capitalism. While some conclude that a mixed economy which favors the public sector in relation to the private sector will most rapidly increase the national product, others assert the contrary. As if the functioning of the economy could be judged by the standard of production and not by that of profitability. It has even been said that a fair competition” between government production and private enterprise will reveal the superiority of the latter and thus provide evidence of the need to limit the increase of the public sector of the economy. In any case, the reality is that competition does not exist, be it fair or not, between those two sectors of the economy, because if it did it would lead inevitably to the destruction of the free enterprise economy. Actually, nationalized industries exist in all capitalist countries, and some of them really compete with private industries. But they constitute a small enough part of the productive apparatus, whose dimensions it vary from country to country and which, generally, are kept competitive” by means of some type of aid. But however large the nationalized sector becomes, it must constitute a restricted part of the economy, because otherwise the system would be forced to transform itself into a state capitalist system.

As far as the bourgeoisie is concerned, a state capitalist system would be equivalent to socialism, in that both presuppose the expropriation of private capital. The trends towards state capitalism within a mixed economy do not go in that direction. These tendencies have the goal of defending, not opposing, the private enterprise economy. Instead of the state organizing the economy according to the communal needs as perceived by the respective authorities, it is capital which controls the state and which
uses its powers to assure itself increasing profits and its own social domination. The integration of capital and the government transforms the policies of big business into national politics and impedes a change towards state capitalism. It also impedes the extension of the public sector of the economy and a transformation of its character towards a point where it ceases to serve the particular needs of monopoly capital. To solve the approaching crisis by way of further government interventions will require a social revolution. Lacking such a revolution, the only alternatives are the traditional economic crisis or the restructuring of the world capitalist economy by means of war.

Arms and other waste products are no substitute for war. They merely imply a larger “social consumption” at the expense of capital accumulation. War, however, not only destroys capital, but can open up opportunities for expansion for the victorious capitals, which can lead to a general expansion of capital. Here also the speeded-up destruction of capital lays the groundwork for a further expansion of the surviving capitals. The mass of profits falling into the hands of any one capital, momentarily more limited yet at the same time more concentrated, increases the rate of profit, also creating the possibility of a new phase of expansion. Capitalist wars are a predictable phenomenon in the framework of the competitive accumulation process at an international level, undertaken by capitalist entities organized at the national level. The national form of capitalist competition is an extension of the class relations of production within each particular nation. Nationalism in the conditions of a world market implies imperialism, with regard to the extension of the national concentration process to the international scene.

However, war can no longer be the political instrument of capital expansion. The destructive forces of modern capitalism are of such a nature that capitalist competition effected by means of war can destroy the material base of its own production system. This state of affairs finds its expression in the nuclear stalemate. Just as the depressions of the 20th century no longer guaranteed a return to prosperity and could only be overcome by world wars, war as a solution to the capitalist crisis is no longer a social possibility. In any event, the ruling powers appear to shy away from the settling of accounts by means of a nuclear war. The existence of an uninterrupted capitalist expansion appears to be equally threatened by war as by depression.

The horror of nuclear war, of course, does not rule out the possibility that, as a final resort, it will actually take place.

The “rational” pursuit of private, particular and national interests determines the irrationality of the capitalist system as a whole. It is therefore events which dominate men, and it can very well happen that the capitalist world will be destroyed sooner by its beneficiaries than by its victims. In which case, the problems addressed in this text are irrelevant, because they are founded upon the supposition that capitalism will not commit suicide.

Unable to take the risks of war, ruling class policies at both the national and international levels limit themselves to the maintenance of the status quo. Stagnation, in any case, violates the principles of capitalist production, the constant transformation of the production processes accompanied by corresponding changes in all social relations except the capital-labor relation. The stagnation is transformed into recession, which indicates that the capitalist mode of production is reaching its historical limits. With the diminishing effectiveness of government production, the need of capitalism to assure its own profit increases, no matter how much social instability may result. The Keynesian

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11 For a descriptive account of this situation as it applies to the United States, see *Who Rules America?* by G. William Domhoff, 1967.
The New Capitalism and the Old Class Struggle

The economy reveals itself capable of managing prosperity, but not of overcoming the crisis mechanism inherent to capitalism.

No social system collapses on its own. Until it is overthrown, the privileged classes will act as if it were the only social system possible and will defend it with all the means at their disposal. Although hesitant before the perspective of having to resort to total war in order to subject the world economy to the specific demands of the dominant capitalist powers, the privileged classes will try to assure and extend their rule by economic, political and military means. But if they succeed in translating the costs of these efforts into a future increase in profits, such costs will be merely a further expression of the relatively stagnant character of capital production. And, like the “social consumption” stimulated by the demand owing to public spending, this “destructive consumption” brought about by way of a situation of limited war can ultimately only exacerbate the crisis of capital production. Unless the marxian diagnosis is mistaken – concerning which there is no proof – the inherent contradictions of capital production, which explain the system’s expansions and contractions, and the ever-increasing difficulties of overcoming the latter, will render ineffective the various means employed by the bourgeoisie to stem the decline of capitalism. Even disregarding the third-world conditions existing here and there in all capitalist nations, the conditions of the underdeveloped part of the world testify to the inability of capitalism to industrialize the world economy. All that capitalism has been capable of doing is to create a world market that subjects the world’s population to the exploitation of their own ruling classes as well as those of the dominant capitalist countries. The tendencies of the concentration and centralization of capital production polarize the nations of the world between the poor and the rich, in the same way that these same tendencies polarize the population within each capitalist country between capital and labor. And in the same way that the accumulation process tends to destroy the profitability of capital in the advanced countries, so also the same process destroys, by way of increasing pauperization, the possibilities of exploiting the underdeveloped countries. At the same time the need for external sources of profits increases due to the shrinking profits in the capitalist countries, the capacity for exploitation declines in the underdeveloped countries, provoking social movements that oppose the monopolistic control of the world market. The capitalization of the underdeveloped part of the world under the auspices of private enterprise is increasingly problematic, as much for political as for economic reasons. This happens at a time when only expansion of capital into the exterior can compensate for its contraction in its interior, due to the inevitable increase of non-profitable sectors which provides a temporary respite from a state of crisis which is otherwise unavoidable.

The further capitalization of the world economy, although necessary to increase the mass of surplus value with a view towards a general development of capital production, is obstructed by the monopoly position of the existing capitals in the developed countries, which can allow an evolution of this type only by way of their own further expansion. The demands of profits and accumulation impede an independent capitalist development in the backward economies and transform the latter into so many subjects of the dominant capitalist powers. If there is a way to advance those economies, it can only be accomplished on the fringes of the progress of the capital-rich countries, and that only so far as their capitalization aids in the accumulation of capital in the dominant capitalist countries.

The pure and simple condition of poverty will necessarily oblige the underdeveloped countries to attempt to shake off foreign control of their economies and to open up the road to an independent industrial development. Due to the relations between the ruling classes of those countries and those of the imperialist countries, this
presupposes social revolutions directed simultaneously against semifudal reaction and world monopoly capital. Such revolutions cannot be fought using outmoded capitalist ideology. They are fought in the name of national independence and socialism, the latter being understood as a planned economy under the auspices of the government. The examples of the Russian and Chinese Revolutions served as inspirations for the revolutionaries in backward countries, and where they succeed, they tend to destroy the social basis of a model of development based on property relations. An independent national development is an illusion, of course, because each and every nation is more or less integrated into the international division of labor within the context of the world market.

A realignment of more or less identical social systems takes place, if for no other purpose than to overcome the precarious conditions of national isolation, and this leads to the division of the world into two distinct capitalproducing systems, in which the expansion of one means the contraction of the other.

The coexistence of the two systems nourishes the hope for their ultimate convergence in a third system containing elements of both and leading to the unification of the world economy. This view is based on a formal economic relation and does not take into account the class relations underlying the two systems. In spite of any modification that can be allowed, there will remain differences because each one of them presupposes a different set of persons with powers of decision and, therefore, decisive differences in the social relations of power. While in one of the systems, so to speak, political control is assured by economic means, in the other it is by political means. Each system has a different ruling class and economic policies, and this prevents a genuine convergence. On the contrary, the growing similarities between the two systems indicates an intensification of competition in economic, political, and military terms, which refers not only to purely “economic” questions, but also to the expansion or contraction of one or the other of the two social systems.

This type of competition, combined with the general competition of all capitals, and with the competition for influence and control over the formally independent underdeveloped countries, promises to keep the world in continuous turmoil and devours an ever increasing part of social production. Capitalist production is progressively transformed into production for destructive objectives, although it can flourish only by accumulating capital. Something that was possible under extraordinary circumstances in the past, that is, a very low rate of accumulation in wartime conditions, tends to become the rule upon which the future of capitalism depends. And it points to its certain decline as well. With this, the future of capitalism will be characterized by increasing misery for always greater masses of the population – first in the underdeveloped countries, then in the weaker capitalist countries, and finally in the dominant imperialist powers.

The prospects for capitalism are still those of which Marx gave us the general outlines. If this is so, it is sensible to suppose that when the hidden crisis becomes acute, when the false prosperity gives way to depression, the social consensus typical of recent history will give way to a resurgence of revolutionary consciousness, the more so as the increasing scale of the system’s irrationality becomes obvious even to the social strata which still benefit from its existence. Aside from the pre-revolutionary conditions prevailing in almost all underdeveloped countries, and aside from the wars, apparently limited but still taking place all over the world, a kind of general dissatisfaction lurks in the background, belying the seeming social tranquility of the western world, which occasionally emerges to the surface, as in the recent protest movement in France. When such a movement is possible in conditions of relative stability, it is surely possible in conditions of general crisis.
The integration of the traditional labor organizations into the capitalist system is an asset to the latter only so long as it is able to underwrite the promised and actual benefits of class collaboration. When these organizations are forced by circumstances to become instruments of repression, they lose the confidence of the workers and therewith their value to the bourgeoisie. Even if they are not destroyed, they may be swept aside by independent working class actions. There is not only the historical evidence that the lack of working class organizations does not prevent organized revolution, as in Russia, but also that the existence of a well entrenched reformist labor movement can be challenged by new working class organizations, as in Germany in 1918, and the Shop Steward Movement in England during and after the First World War. Even under totalitarian regimes, spontaneous movements may lead to working class actions that find expression in the formation of workers’ councils, as in Hungary in 1956.

Summing up: reformism presupposes a reformable capitalism. So long as capitalism has this character, the revolutionary nature of the working class exists only in latent form. It will even cease being conscious of its class position and identify its aspirations with those of the ruling classes. Some day, however, the continued existence of capitalism will no longer be able to rely on a it reformism in reverse; it will see itself forced to recreate exactly those conditions which lead to the development of class consciousness and the promise of a proletarian revolution. When this day arrives, the new capitalism will resemble the old, and will again find itself, in different conditions, facing the old class struggle.

Kapitalismus und Ökologie

Vom Untergang des Kapitals zum Untergang der Welt*

* In Jahrbuch Arbeiterbewegung 4, Fischer Taschenbuch, Frankfurt am Main, 1976.


Für die Menschheit beschränkt sich der zweite Hauptsatz der Thermodynamik damit auf die Begrenzung der natürlichen Bodenschätze. Je weniger von ihnen aufgebraucht wird, desto länger können die Menschen leben, je schneller sie verbraucht werden, desto eher gehen sie zugrunde. Da der Verbrauch von der Masse der Bevölkerung mitbestimmt wird, hängt der Zeitpunkt des Untergangs der Welt mit dem Bevölkerungsproblem zusammen. Um ihn hinauszuzögern, muß dem Bevölkerungszuwachs eine Grenze gesetzt werden und der Verbrauch der Bodenschätze
eingeschränkt werden. Diesem Problem, das für die kapitalistische Welt vorn ‘Club of Rome’ aufgerollt wurde, wendet sich Wolfgang Harich mit Bezug auf den Kommunismus zu, der bisher ebenfalls einem unaufhörlichen wirtschaftlichen Wachstum verpflichtet war.


Der Marxismus ist keine Naturwissenschaft, überhaupt keine Wissenschaft im bürgerlichen Sinne, sondern bedient sich wissenschaftlicher Methoden, um die Voraussetzungen und Notwendigkeiten gesellschaftlicher Veränderung im allgemeinen und der Abschaffung des Kapitalismus im besonderen aufzudecken, um also praktisch in das gesellschaftliche Geschehen eingreifen zu können. An Naturgesetzen läßt sich nichts ändern; sie müssen hingenommen werden, wiewohl wachsende Erkenntnis über sie zu einer menschlichen Produktivkraft wird, die die Möglichkeiten gesellschaftlicher Entwicklung bestimmt. Wenn die für die Menschen in Betracht kommende Natur sich auch nur in einer Richtung entwickeln kann, nämlich ihrem Ende zu, solange die Welt besteht, sind die Probleme der Menschen von dieser Welt bestimmt und müssen in ihr ausgetragen werden. Auch wenn es wahr sein sollte, daß die Thermodynamik nur eine Eigentümlichkeit des expandierenden Universums ist und in einem möglicherweise schrumpf enden Universum den gegenteiligen Prozeß durchlaufen kann, um zu einer Neubildung der Materie aus der Radiation zu führen, so hat dies doch keinerlei Bedeutung für die inzwischen verschwundene Welt und ihre Bewohner.

Produktionsverhältnisse abgeschafft werden. Von einer Krise der Ökologie konnte damals nicht die Rede sein und besonders nicht vom marxistischen Standpunkt.

Lieg*en die Dinge heute anders? Dem ‘Club of Rome’ und Harich zufolge stehen wir mitten in der ökologischen Krise, die auch den Marxismus zwingt, mehr als bisher auf die Naturbasis der Gesellschaft und auf die von Malthus aufgeworfene Bevölkerungsfrage einzugehen. Er glaubt feststellen zu können, daß sich die kommunistischen Wissenschaftler, wenn auch noch nicht in der DDR, so doch in der UdSSR "mit wachsender Einsicht auf die ökologische Krise einzustellen beginnen". Um zu wiederholen: das Problem läßt sich mit drei Worten umreißen — Umweltbelastung, Rohstoffverbrauch, Überbevölkerung. Die Lösung findet sich, nach Harich, in der Umkehrung dieser Vorgänge. Sie bedingt jedoch die Vernichtung der kapitalistischen Gesellschaft und damit revolutionäre Umwälzungen im Weltmaßstabe.


Nun mag sich dies als Utopie herausstellen, nicht nur durch die Langlebigkeit des Kapitalismus, sondern auch durch die von der Natur gesetzten und von Marx nicht berücksichtigten Grenzen wirtschaftlichen Wachstums. Die von Marx hervorgehobene relative Überbevölkerung ist, nach Harich, zur absoluten Überbevölkerung geworden, die auch nicht durch einen Wandel vom Kapitalismus zum Kommunismus behoben werden kann, sondern nur durch ihren systematischen Abbau mittels der Bevölkerungsplanung, und nicht nur für die 'dritte Welt', sondern auf globaler Grundlage. So läßt auch der Kommunismus keine weitere Entwicklung auf Basis der modernen Industrie zu, sondern erfordert eine Wirtschaftsplanung ohne Wachstum und möglicherweise die Liquidation schon vorhandener Produktionsformen.

In einer Hinsicht ist die vom ‘Club of Rome’ und anderen Leuten aufgedeckte ökologische Krise ein neuer Versuch — ähnlich den Bemühungen Malthus’ und Ricardos —, die gesellschaftlichen Schwierigkeiten auf natürliche Umstände zurückzuführen, da ihnen die Gesellschaftsform selbst als natürlich und unabänderlich erscheint. Das Neuartige ist, daß ihnen heute von „marxistischer“ Seite entweder mit reinem oder schlechtem Gewissen zugestimmt wird. Allerdings unterscheidet sich Harichs Position von der des ‘Club of Rome’, da er sich bewußt bleibt, daß auch bei voller Erkenntnis der Krisensituation die kapitalistische Welt außerstande ist, Maßnahmen zu treffen, die das menschliche Leben, wenn auch auf weit bescheidenerer Basis, für die weiterliegende Zukunft zu erhalten. Der ‘Club of Rome’, bemerkt Harich, spricht zwar von einer zu erwartenden Verarmung und Zerstörung der Welt, aber "er sagt nicht, daß die Reichen von der Bildfläche verschwinden müssen". Man ist heute zwar schon bereit, "Benzin zu
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rationieren", aber nicht bereit, "alles zu rationieren". Aber warum soll nicht alles rationiert werden, und zwar auf sozialistischer Grundlage, ruft Harich aus; "wäre das nicht bereits Kommunismus?" Wäre es nicht, "infolge der rationierten Verteilung, der Kommunismus Babeufs, zu dem die Arbeiterbewegung nun auf höherer Stufenleiter, mit einer dialektischen Spiralenbewegung — Negation der Negation — zurückkehren muß, nachdem fast 200 Jahre lang Springquellen des kapitalistischen Reichtums voll geflossen sind?"

Aber warum bei Babeuf stehen bleiben? Warum nicht zurück zur perfekten Ökologie des Paradieses vor dem Sündenfall? Das eine wie das andere ist eine Unmöglichkeit, an der schon Babeuf scheitern mußte. Die Geschichte läßt sich nicht ungeschehen machen, auch nicht durch die Negation der Negation’. Selbst eine rationierte Verteilung setzt Produktivkräfte voraus, die den Bedürfnissen von vier Milliarden Menschen gewachsen sind, und damit die fortgesetzte produktive Entfaltung, um dem Gesetz der zunehmenden Entropie entgegenzuarbeiten, d.h. um mit dem geringsten Aufwand an ‚freier’ Energie die negative Entropie der lebendigen Welt zu erhalten.


Harichs Auffassung noch keine Realität, aber seine Voraussetzungen wären durch die Existenz ‚sozialistischer Länder’ bereits gegeben. Es hängt von diesen und den Arbeiterbewegungen der kapitalistischen Länder ab, ob der Gesellschaft ihre Naturbasis erhalten bleibt. "Der Sturz der Bourgeoisie, die Errichtung der Diktatur des Proletariats und die Verwirklichung des Kommunismus sind", nach Harich, "die Voraussetzungen dafür, die Forderungen des ‚Club of Rome’ in der Gesellschaft durchzusetzen."

Abgesehen von einer Handvoll von Wissenschaftlern sind sich aber weder die Autoritäten der ‚sozialistischen Länder’ noch die Arbeiter der kapitalistischen Welt dieser hohen Aufgabe bewußt geworden. Wie F. Duve hervorhebt: "Nach wie vor findet Wirtschaftspolitik aller Staaten — ohne Ausnahme — statt, als hätte es die Studien des ‚Club of Rome’ etwa nie gegeben." Das trifft auch für die ‚sozialistischen’ Staaten zu, was Harich jedoch nicht hindert, ihnen die Möglichkeit einer schnelleren und besseren Anpassung an die ökologische Krise zuzuschreiben, da in ihnen der Zwang zur erweiterten Reproduktion nicht besteht. Wenn auch die Umweltzerstörung ein Problem der Industriegesellschaft überhaupt ist, so wäre doch die Möglichkeit, dieses Problem in den Griff zu bekommen, auf keinen Fall systemneutral. Allerdings, und leider, mache der Rohstoffreichtum der ‚sozialistischen’ Länder kommunistische Regelungen vorderhand noch unnötig. Aber letztendliches würden sie sich doch der ökologischen Krise zuwenden, da Kommunisten sich "nie und nimmer damit abfinden werden, daß die Menschheit zum Untergang verurteilt ist".


nur in einen homöostatischen Dauerzustand überführen, der, sowenig er die Dynamik des Kapitalismus oder der des Sozialismus fortzusetzen erlaubt, auch keine schrankenlose Freiheit der Individuen zulassen wird. Jeder Gedanke an ein künftiges Absterben des Staates ist daher illusorisch."

Diese 'Revision' des 'klassischen Marxismus-Leninismus' richtet sich allerdings nur gegen die Ideologie, nicht gegen die Realität der 'sozialistischen' Länder, die nie die Absicht hatten, noch haben, auf "staatliche Autorität und kodifiziertes Recht" zu verzichten, um den Kommunismus im ursprünglichen Marxsen Sinne zu verwirklichen. Aber wie der autoritäre Staat, nach Harich, notwendig war, um mit "beispielloser Härte und Brutalität" die "schwerindustrielle Basis nationaler Selbstbehauptung" zu errichten, so wäre er noch viel notwendiger, um diese Basis wieder abzubauen. Wie Stalin zum Zweck industrieller Entwicklung "das Land vergewaltigte", so muß der die "Voraussagungen der Wissenschaft mit ins Kalkül ziehende" proletarische Staat alle notwendigen Mittel anwenden, um die Menschen zu einem der Ökologie entsprechenden Leben zu zwingen. Selbst den Kommunismus Babeufs kann man den Arbeitern nicht selbst überlassen, er kann nur durch die unaufhebbare staatliche Gewalt marxistisch-leninistischer Parteien durchgesetzt werden.

An diesem Punkt wirft F. Duve ein, daß vom Standpunkt der autoritären kommunistischen Vorstellungen Harichs überhaupt nicht von Kommunismus gesprochen werden kann, da "die Verwaltung des Mangels auf jeden Fall den Verwaltern die eigentliche Macht geben wird". Die Verwahrung des Staates ist natürlich die Verwahrung der Klassengesellschaft und damit ausbeuterischer Produktionsverhältnisse, die zugleich Eigentumsverhältnisse sind. Als Staatseigentum treten die Produktionsmittel auch weiterhin als von den Arbeitern getrennte Produktionsmittel auf. Wie und was produziert wird, untersteht nicht ihrer Kontrolle, sondern der der staatlichen Institutionen, die angeblich die Interessen der Gesellschaft vertreten. Aber diese Gesellschaft bleibt geteilt in eine als durch den Staat organisierte Gruppe von Menschen, die die Produktionsmittel und damit die Verteilung beherrschen, und die Masse der Bevölkerung, die deren Anweisungen zu folgen hat. Dieser neue durch die staatliche Kontrolle der Produktionsmittel gekennzeichnete Gesellschaftstyp erscheint der Bourgeoisie als Staatssozialismus oder Sozialismus schlechthin, bleibt den Arbeitern gegenüber jedoch ein Kapitalverhältnis und findet in dem Begriff Staatskapitalismus seinen passenden Ausdruck, obwohl er ideologisch als Sozialismus aufzutreten versucht.

Ist diese Situation einmal gegeben, so vollzieht sich der gesellschaftliche Reproduktionsprozeß auch als Reproduktion der staatlichen Beherrschung und das Anwachsen des gesellschaftlichen Reichtums als Zunahme der staatlichen Macht. Abgesehen von dem internationalen Konkurrenzkampf nationalorganisierter Kapitalmassen, der durch die Unterschiedlichkeit der kapitalistischen Systeme noch verschärft wird, hat die sich innerhalb der staatskapitalistischen Verhältnisse herausbildende privilegierte Klasse schon von sich aus ein direktes Interesse an der Zunahme des ihr zur Verfügung stehenden Mehrprodukts und damit an der Entfaltung der Produktivkräfte auf staatskapitalistischer Basis. Von ihr kann keine freiwillige Unterbindung der Produktivkräfte erwartet werden, und wo sie ihr aufgezwungen werden sollte, wird sie die damit verbundenen Entbehrungen nicht auf sich selbst ausdehnen, sondern der machtlosen Masse der Bevölkerung überlassen. Das ökologische Argument böte allerdings ein gutes Alibi.

Es dient Harich schon heute zur Verteidigung der noch bestehenden Rückständigkeit der 'sozialistischen' Staaten gegenüber den kapitalistischen Industrieländern. "Das West-Ost-Gefälle des Lebensstandards", sagt er, "das bisher den Fortgang der proletarischen Revolution in den kapitalistischen Industriestaaten gehemmt
hat, müssen wir nun umkehren in ein Ost-West-Gefälle des vorbildlichen Umweltschutzes, des vernünftigen, maßvollen, haushälterischen Umgangs mit den Rohstoffen und einer damit in Einklang stehenden Qualität des sozialistischen Lebens."

Die Arbeiter des Westens müssen sich, wenn auch erst nach erfolgreicher Revolution, den niedrigeren Lebensstandard des Ostens zum Vorbild nehmen und gerade in dem Verzicht auf die wenigen Annehmlichkeiten, die ihnen der Kapitalismus gelegentlich noch bot, ihre revolutionäre Aufgabe erblicken. Was die Arbeiter der DDR anbetrifft, so sei ihnen klarzumachen, "daß die Eigenschaften der DDR, wie des sozialistischen Lagers überhaupt, in denen wir Nachtente zu sehen gewohnt waren, sich als Vorzüge erweisen, sobald wir sie an den neuen Maßstäben der ökologischen Krise messen".


Mit den Mitteln der staatlichen Gewalt läßt sich der Klassenkampf zwar nicht aufheben, aber doch für längere oder kürzere Zeitspannen einseitig führen, d. h. durch die faschistische oder demokratische Diktatur des Kapitals oder durch die 'Diktatur der Arbeiterklasse' im Sinne des 'Marxismus-Leninismus'. Wenn sich in der den kapitalistischen Produktionsverhältnissen entspringenden ökonomischen Krise die Klassengegensätze zuspitzen, so muß auch aus den Maßnahmen zur Überwindung der ökologischen Krise, die denen der ökonomischen Krise entsprechen, auf die verschärfung der Klassenkämpfe gerechnet werden. Die dauernde Bedrohung der herrschenden Klassen wird diese einerseits zwingen, mit diktatorischen Mitteln ihre Macht zu erhalten; andererseits aber werden sie auch versuchen, den Forderungen der Arbeiter soweit wie möglich entgegenzukommen. Für das Privatkapital kann es sich dabei nur um Maßnahmen handeln, die zu einer Wiederaufnahme der Kapitalakkumulation und damit der Ausdehnung der Produktion führen. Um sich selbst zu erhalten, müssen die herrschenden Klassen der 'sozialistischen' Länder die Produktivität der Arbeit und die Produktion vermehren und sich ohne Rücksicht auf ökologische Folgen dem weiteren Wachstum verpflichteten.

So stoßen die Warnungen des 'Club of Rome' überall auf taube Ohren und besonders in den 'sozialistischen' Ländern, in denen sich eine neue 'Bourgeoisie' auf
staatlicher Grundlage herausbildet. Es handelt sich hier nicht, wie Harich es sich vorzuzaubern versucht, um einen Mangel an Verständnis auf Seiten der „kommunistischen“ Autoritäten, dem durch „wissenschaftliche“ Einsicht abgeholfen werden kann, sondern um das Klassenbewußtsein einer neuen herrschenden Klasse, das dem der alten herrschenden Klasse um nichts nachsteht. Es ist die Verfälschung des Sozialismus in den Staatsozialismus, die einzige Art „Sozialismus“, die sich Harich vorzustellen vermag, welche es ihm erlaubt, seine ökologischen Hoffnungen von der staatlichen Diktatur und ihrer Verewigung abhängig zu machen.


Da es solche Bewegungen noch nicht gibt, werden wir in der ökologischen Krise verharren müssen. Die „Wissenschaft“ ist nicht verantwortlich für die praktische Anwendung oder Unterlassung der von ihr gewonnenen Erkenntnisse; diese bleiben den Regierungen und damit den herrschenden Klassen überlassen. Es ist eigenartig, daß sich Harich gegen den Wachstumsfetischismus im Namen der Wissenschaft wendet, da die letztere selbst nur ein Aspekt des Wachstumsfetischismus ist. Die Wissenschaft wird durch Menschen repräsentiert, die nicht nur Wissenschaftler, sondern auch Mitglieder der Gesellschaft sind, und es sind die spezifisch gesellschaftlichen Interessen, die den praktischen Bereich der Wissenschaft bestimmen. Die Entfaltung der kapitalistischen Produktivkräfte oder, was dasselbe ist, die Erzeugung der „ökologischen Krise“ war ein durch die Wissenschaft geförderter Prozeß, war in wachsendem Maße ein direktes Resultat der Wissenschaft und ihrer Einwirkung auf die Technik. Von dieser umweltzerstörenden Wissenschaft erwartet nun Harich die notwendigen Anleitungen zur Wiederherstellung eines ökologischen Gleichgewichts, dessen praktische Verwirklichung nicht nur dem Wachstum der Wirtschaft, sondern auch dem der Wissenschaft definitive Grenzen setzen würde. Er spricht zwar von der Wissenschaft unter der „Diktatur des Proletariats“, aber da es sich dabei nur um eine Umbenennung des — durch das Staatsseigentum — weiterbestehenden Kapital-Arbeiter-Verhältnisses handelt, bleibt auch hier die Entwicklung der Wissenschaft vom weiteren Wachsen der Produktivkräfte abhängig, womit die gesellschaftlich bestimmten Interessen der Wissenschaftler dem Gedeihen des Staatskapitalismus verhaftet bleiben.

es nur eine spontane Reaktion auf politisch-inszenierbare Verknappungen notwendiger Roh- und Brennstoffe im Rahmen des Preismechanismus? Oder handelt es sich hier um nichts mehr als eine der Wissenschaft erlaubte Narrenfreiheit, die letztendes zu nichts weiter als einer weitgehenden Projektmacherei führen kann, um den Wissenschaftlern Beschäftigung und Einkommen zu vermitteln? Obwohl das ökologische Problem tatsächlich existiert, haben die von ihm ausgehenden Forschungen doch keinerlei praktische Bedeutung. Soweit ihnen praktische Bedeutung zugesprochen werden könnte, ist diese widersprüchlich: während sie den Arbeiten in Ost und West das Grausen beizubringen vermag und sie vom Kampf um bessere Lebensbedingungen zurückhält, vergrößert sie den Mehrwert oder das Mehrprodukt bei fortschreitender ökologischer Zerstörung.


Die progressive Umweltzerstörung ist nicht so sehr das Resultat der wachsenden Produktivkräfte, vielmehr das der Entwicklung dieser Produktivkräfte unter kapitalistischen Bedingungen. Wäre kapitalistische Produktion wirklich, was von ihr behauptet wird, eine Produktion zur Befriedigung menschlicher Bedürfnisse, dann hätte die Entwicklung der Produktivkräfte einen anderen als den ihr tatsächlich gegebenen Charakter, eine andere Technologie und andere ökologische Ergebnisse. Daran ändert auch die erweiterte Reproduktion bei zunehmender Bevölkerungszahl und zunehmenden Bedürfnissen prinzipiell nichts. Aber die Entwicklung der Produktivkräfte vollzieht sich auf Basis kapitalistischer Produktionsverhältnisse und ist damit an die Produktion von Kapital gebunden; sie kann die menschlichen Bedürfnisse nur insoweit betreffen, als diese mit den Akkumulationsnotwendigkeiten des Kapitals zusammenfallen. Damit ist jeder direkte Bezug auf die wirklichen gesellschaftlichen Bedürfnisse und auf die natürlichen Schranken gesellschaftlicher Produktion ausgeschlossen. Unter den Bedingungen der Kapitalkonkurrenz, die auch durch die Monopolisierung des Kapitals nicht aufgehoben wird und der — auf internationaler Basis — auch die staatskapitalistischen Systeme unterworfen sind, vollzieht sich die Entwicklung der Produktivkräfte blindlings, und dies um so mehr, je mehr auf nationaler Ebene versucht wird, die Produktion unter bewußte zentrale Kontrolle zu bringen. Dieser Prozeß bedingt eine ungeheure Vergesellschaftung menschlicher Arbeitskräfte und natürlicher Ressourcen, die in einem anderen Gesellschaftssystem nicht (oder nicht in diesem Ausmaß) zu finden wäre.

Obwohl es nicht viel Sinn hat, könnte man berechnen, inwieweit die Expansion der kapitalistischen Produktion von den Notwendigkeiten oder den Bedürfnissen der menschlichen Existenz bestimmt ist und inwieweit sie sich auf den spezifischen Charakter der kapitalistischen Produktionsweise bezieht. Mit anderen Worten: Wie würde die Produktion aussehen, wenn alle sich aus dem Kapitalismus ergebenden produktiven und unproduktiven Aktivitäten wegfallen würden? Sicherlich würde eine solche


aufgeworfenen Probleme, da die Welt auch ohne Atomkrieg der Gefahr völliger Vernichtung ausgesetzt ist.


Aber wie steht es tatsächlich mit der ökologischen Krise? Die statistischen Ergebnisse der Computermodelle, auf die sich Harich und der 'Club of Rome' beziehen, sind nicht einwandfrei und können von verschiedenen Gesichtspunkten aus angezweifelt werden. Wie es sich nur in sehr ungenauer Weise feststellen läßt, was in den letzten 50 Jahren an Rohstoffen und Energie von den industriellen Ländern verbraucht worden ist, so läßt sich mit noch geringerer Sicherheit sagen, was noch vorhanden ist. Hier handelt es sich um eine unbekannte Größe, was schon daraus zu ersehen ist, daß diesbezügliche Schätzungen fortlaufend revidiert werden — nicht nur durch die Entdeckungen neuer Reserven, sondern auch durch die Verbesserung der Schätzungsverfahren. Um nur ein Beispiel anzuführen: Die unangetasteten Kohlevorkommen in den Vereinigten Staaten wurden 1969 auf 3.000 Milliarden Tonnen geschätzt, 1975 wurde dieser Bestand aufgrund besserer Schätzungsverfahren um 23 Prozent erhöht. Aber da auch Fehlschätzungen nach oben oder unten nichts daran ändern, daß die Roh- und Brennstoffe letztenendes verbraucht sein werden, hat es nicht viel Sinn, den pessimistischen Erwartungen optimistische entgegenzusetzen. Tatsächlich ist nämlich zu erwarten, daß für absehbare Zeit nicht ökologische Erwägungen die Wirtschaftspolitik und damit die
Politik bestimmen werden, sondern — wie bisher — die dem Kapital immanente Notwendigkeit der Profitproduktion.


Da die Bewegung der Welt vom Profit bestimmt wird, kümmern sich die Kapitalisten um das ökologische Problem nur insoweit, als es sich auf den Profit bezieht. Den Kapitalisten liegt nichts an der Zerstörung der Welt; sollte es sich herausstellen, daß auch die Erhaltung der Welt profitabel sein kann, dann wird auch der Schutz der Welt zu einem Geschäft. Und dies um so mehr, da die Umweltzerstörung selbst ein Instrument der Konkurrenz und der Aufteilung des Gesamtnutzens ist. Dieses Problem erscheint in der ökonomischen Literatur als das „externer Effekte“ oder der Unterscheidung zwischen privaten Auswirkungen und den sozialen Begleiterscheinungen der kapitalistischen Produktion. Die sozialen sind zugleich ökologische Erscheinungen, wie z. B. die Emission von Schadstoffen aller Arten, die den Naturkreislauf beeinträchtigen, bis hin zur Zerstörung der notwendigen globalen Sauerstoffbilanz. So verbindet sich mit dem Raubbau eine Umweltzerstörung, die oft für noch aktueller und gefährlicher gehalten wird als der rapide Verbrauch materieller Ressourcen. Diese allzu bekannten Vorgänge, die einerseits der Profitproduktion zuzuschreiben sind, andererseits aber auch die Profitproduktion beschneiden, betreffen die verschiedenen Kapitale unterschiedlich und bringen damit schon Bestrebungen zur Einschränkung der Zerstörung innerhalb des Kapitalismus hervor. Es hängt dann von der Masse des Mehrwerts ab, ob diesen Bestrebungen nachgekommen werden kann, d. h. von der zunehmenden Ausbeutung der Arbeiter oder von deren „bescheidener Lebenshaltung“. An diesem Punkt treffen sich die
Vorschläge Harichs mit den dem Kapital empfohlenen Maßnahmen, wie sie im ‚Club of Rome’ zum Ausdruck kommen.


Es stimmt natürlich, daß die Bevölkerungszahlen zugunsten der industriellen Expansion oder der des Kapitals.


Was also ist zu tun in dieser anscheinend hoffnungslosen Situation? Überhaupt nichts, wenn an das Problem vom Standpunkt der Ökologie herangetreten wird. Schon deshalb nicht, weil es nicht das nächstliegende ist, das die Weiterexistenz der Menschheit bedroht. Die „ökologische Krise“ ist zum großen Teil selbst ein Produkt der gesellschaftlichen Krisensituation, und die sich aus der letzteren ergebende herannahende Katastrophe geht der ökologischen Katastrophe voraus. Wie die Dinge heute liegen, macht die hohe Wahrscheinlichkeit atomaren kriegerischen Auseinandersetzungen die Beschäftigung mit der ökologischen Krise überflüssig. Alle Aufmerksamkeit muß auf die gesellschaftlichen Vorgänge gerichtet werden, um den Atomverbrennern in Ost und West zuvorzukommen. Gelingt dies den Arbeitern der Welt nicht, dann werden sie auch nicht in die Lage kommen, sich der ökologischen Bedrohung entgegenzustellen und mit der
Economics, Politics and The Age of Inflation

(1977)

Preface

Commenting on the proceedings of the 1977 convention of the American Economic Association, an editorial in The New York Times lamented the fact that “today’s economists seem mere dabblers in the sweep of intellectual history. They may be richly rewarded by business for their stabs at forecasting and their analyses of government regulation or floating exchange rates. But where are the attacks on the biggest problem of our time: achieving growth without spiralling inflation? . – Most economists were dismal scientists when they arrived. Despite the drinks and the chats, they were unchanged when they left three days later.”

The economists are in a dismal state precisely because they look upon their discipline as a science whereas it is actually no more than a sophisticated apology for the social and economic status quo. They evidently do not perceive the real nature of their profession and thus are deeply disturbed by the growing discrepancy between their theories and reality. Because the “economic weather” had favored them for such a long time, they may have really imagined that the mathematization of economics had turned their pre-occupations with price and market relations into a positive science. As Thomas Balogh remarked in a paper delivered in 1975 at University College, London, “there were as many equations as there were unknowns, and these it was claimed could capture reality and enable objective and positive advice to be given to political leaders. Inequality would be diminished and individuals protected against exceptional hardship. Economics would, moreover, produce testable theses, and enable the production of ‘policy menus,’ which would provide us with a solid basis for scientific decision-making and quantified ‘trade-offs,’ i.e., in plain English, ‘choices.’ The consumption function, the accelerator, Okun’s ‘law’ of the relation of income to employment, the Phillips curve linking wages to unemployment, linear programming, etc. now all shown up for the nonsense that they were – would at last have raised the economist to the level of physicist. How long ago this all seems now.

Economics is no longer seen as an exact science. As an “inexact” one its predictive powers are highly questionable, thus disqualifying the “stabs at forecasting” that were to justify its existence. Predictions are “probability statements” that commit the forecaster to nothing at all. His guess is as good as any other, for no one knows how the dice will fall.
Economics, Politics and The Age of Inflation

Economics is back at its starting point – submission to Adam Smith’s “invisible hand” - without the consoling illusion of its beneficiary results. However, the dilemma of economics is still not traced to the economic system itself but to the incompleteness of the science of economics, which has not as yet found ways and means to make the demonstrably unworkable economy workable.

The current, more direct concern of economics is the combination of economic stagnation with inflation, which destroyed both Keynesian theory and the neo-Keynesian synthesis that had passed as the standard theory of economics. It is to this aspect of the matter that the following collection of articles devotes itself, taking the point of view of critical political economy.

Although these articles must speak for themselves, it should be pointed out that they were written for different occasions and that they address different audiences. It was thus inevitable that they repeat some basic statements without which each item would in itself be less comprehensible. But this necessity may prove an asset rather than an annoyance, since it shows up the interconnections between the phenomenal world of capitalism and its underlying social production relations.

With the exception of one, all the articles relate to the main issues of today, namely, the role of government, or the state, in economic affairs with reference to both the so-called mixed economies and the state-capitalist systems. The exception deals with the Great Depression of 1929 and the New Deal, which initiated the era of large-scale governmental intervention in the economy of the United States.

P.M.

Chapter 1: The Crisis of The Mixed Economy

To understand the present economic situation and where it is going, one must take a look into the events of the recent past.

Developments since the end of World War II have taken place entirely within a new kind of capitalism calling itself a “mixed economy.” This implies state economic interventions that differ from the interventionist policies of the past century in extent but not so much in the means applied.

State interventions under a mixed economy find their reasons as well as their limits in the conditions of existence and accumulation of private capital. Quite apart from the instruments of power that the state uses to secure social stability on the domestic front and to support national interests in international competition, it exercised economic functions as well, e.g., as a means of obtaining revenue (customs policies and state monopolies over certain branches of industry, etc.) or of creating the general conditions of production the burden for which private capital either did not or could not assume itself (e.g., construction of roads, harbors, railroads, posts, and so on, i.e., what in the economic jargon is called infrastructure.

Thus in limited measure the state is also a producer of surplus value and is therefore able to pay for a portion of its expenditures with its own profits. To the extent that the production of state enterprises enters into general competition, it differs in no way from private production; and the state share in total surplus value depends on the mass of capital it invests and on the average rate of profit.

State monopoly over certain products and services may lead to monopolistic profits, but this is only another form of consumer taxation.

For historical and other reasons the relationship between state and private production is changeable and, moreover, varies from country to country. State enterprises...
may he turned over to private concerns, and private enterprises may be nationalized; the state may be a shareholder in private concerns or keep them alive through subsidies. The interpenetration of private and state production occurs in a variety of combinations, and the state share need not be restricted to the infrastructure. In the industrially developing countries state participation in production is often relatively extensive, as for example, in Italy, an archetypal country in this respect, where state-owned production[1] competing with private capital represents 15 percent of total production. Yet no matter how much state production may expand, it can never be more than a minor fraction of total production if it is not to call into question the very existence of a market economy. In all countries, therefore, a “mixed economy,” to the extent that it is a mixture, leaves the private enterprise nature of the economy intact.

Even an increase in state production through expansion of the infrastructure can change nothing, since this expansion takes place within the framework of capitalist accumulation, which reproduces the relationship between state and private production in consonance with accumulation needs. Expanding automobile production entails the construction of new highways, and growing air traffic requires more airports, etc., if expansion of the economy as a whole is not to lag behind the infrastructure. Though it is correct to say that state-organized creation of the general conditions of production benefits private capital, albeit quite unevenly, this does not mean that it improves the profitability of capital beyond the costs of the infrastructure. Since the costs of the infrastructure are borne by private capital, the infrastructure depends on the profitability of capital, not vice versa.

The general conditions of production demonstrate the unsocial nature of capitalist production, namely, that it is impossible for the general needs of society to be taken care of by private production. The capitalist ideal would be for every form of production, even production for the infrastructure, to be run privately. As, however, this is in practical terms impossible, capital leaves it to the state to balance private production with social production. Capital must still, however, bear the costs of this production, and it is therefore little interested in expanding the infrastructure beyond the narrow scope it finds useful. The result is that, in general, infrastructural production lags behind production for the market – a state often lamented in the economic literature as an irremediable contradiction between private wealth and public poverty.

In a crisis situation state-induced production is not primarily production for further expansion of the infrastructure in anticipation of and preparation for expected future capitalist accumulation. Its purpose is to create jobs immediately, with a view toward increasing general demand. In order not to compound further the existing problems of private production, state-induced production must concentrate on things outside of the market and on public spending, which may partly go toward expanding the general conditions of production and partly be used up in “public consumption.” This type of state-induced production must be distinguished from the state production that already exists, whether it is geared to the creation of the general conditions of production or to the general market.

Private production is not on that account driven out of business by state production; the latter is merely a policy undertaken to combat crisis. It is financed by a state budget deficit, even if in the end this only means an added tax burden apportioned to the private sector over the long term. The state must strive to expand total production beyond its own production capacities, which is why when we investigate the effect of state-induced production, normal state production may be disregarded.

The state does not have any means of production of its own to cover the additional state-induced production. Even for production of the general conditions of production, the
state must for the most part rely on the services of private enterprise, which are then paid for from taxes and state loans. To the extent that the general conditions of production are a prerequisite for capitalist production for profit, their cost is objectively a part of the costs of capitalist production. Where this is not the case, the costs of state-induced production must be subtracted from total surplus value and cannot be included in either capitalist consumption or capitalist accumulation.

Crisis brings capitalist accumulation to a halt, and at the level of the market this shows up as overproduction and unemployment. Crisis occurs because profits are not sufficient to meet the expansion needs of the existing capital structure. In this situation any further deductions from the mass of surplus value, which is already inadequate, can only worsen the predicament of capital. Any increase in demand through public works projects must therefore be financed by state loans, and the additional state-induced production shows up as a mounting public debt.

That government spending is for the most part covered by deductions from the mass of surplus value is brought to light by taxation. Capital is always demanding a reduction in its tax burden. However, it is not necessary to balance the state budget every year; debts incurred during a depression may be paid off during times of prosperity. If they are not, the interest on state loans constitutes an additional tax burden which, however, may be stabilized at a low level by expanding production. As long as social production expands faster than the state debt, the latter poses no serious problem for the economy. If the opposite is the case, the state debt becomes a burden on the economy and another obstacle to the resumption of accumulation.

State-induced production to make up for deficient demand was initially conceived as a temporary relief measure for waiting out the depression on a safer note until the next business upswing, and it was therefore used only in limited measure. If capital could not create the conditions for a new economic upswing from its own resources, expansion of the infrastructure through public works would be of little use to it. Two empty harbors are no better than one, and two highways without traffic no better than one without traffic. During the Great Depression public works reduced unemployment but did not eliminate it, and the long depression ended with World War II, not with a new economic upswing. It took the war to bring about full employment without capitalist accumulation. Capital was not only destroyed in terms of values, it was also destroyed physically. In the United States as well accumulation came to a halt when about half of production went into "public consumption," that is, wartime production. Nonetheless this arrest of accumulation and the enormous destruction of capital created the conditions for the economic boom of the postwar period.

Periodic crises have been a part of capitalism as long as it has existed, but because capital does develop, the periods of crisis differ, if not in essence, at least in outward form. The postwar boom was such a surprise because it came right on the heels of the long years of depression, which had deeply shaken confidence in the ability of capital to survive and grow. How was this boom to be explained? The Marxist theory of crisis explains it by the fact that capital was once more able to restore the vital link between profit and accumulation which had been lost. The worldwide destruction of capital values and the changes it wrought in the structure of capital, together with the expansion of surplus value made possible by technical improvements in the means of production, permitted the capital that had survived and the capital that had been newly created to achieve a rate of profit sufficient for capital to expand. Thus the new boom, like all those in the past, was seen as the outcome of the crisis situation preceding it, which in turn was seen as a disproportionality between the creation of profit and the accumulation requirements of capital.
At issue here was the contradiction, inherent in the production of surplus value, that the amount of capital invested in wages decreases relative to the amount of capital invested in means of production, so that total surplus value accordingly diminishes relative to total capital. Capital accumulation is not only a necessity born of competition, it also derives from the never ending struggle against the tendential decline in the rate of profit inherent in the capitalist mode of production, and this struggle grows more difficult as accumulation proceeds. While surplus value is, on the one hand, increased by accumulation, and on the other hand, accumulation causes the rate of profit to decline, at any particular time actual profits may fail to reach the level required for further accumulation. Since Marx describes this process in Capital, we need not repeat the description here. It will suffice to point out that prosperity and depression constitute the contradictory outward garb of the development of the social forces of production under conditions of capital production.

Bourgeois economic theory sees these events in a different light. For it price relations on the market, not production and production relations, are the essential factors to be considered.

The great crisis of 1929 forced the abandonment of the equilibrium theory of a self-regulating economy. The crisis was interpreted as based on a lack of effective demand due to a decline in consumer needs showing up as a lack of new investments and hence unemployment. But this peculiar explanation aside, bourgeois theory also agreed that production had to be stimulated if the crisis, which seemed to have set in permanently, was to be overcome. If this was not achieved of itself from profit-determined market relations, state interventions could be used to stimulate production – the full employment of the war years was a persuasive example of this. Since it seemed that capital was no longer capable of extracting itself from the crisis by means of its own resources, and since the continuation and deepening of the crisis began to undermine social stability, both bourgeois practitioners and theoreticians opted for an interventionist policy to prime the pump, as it were and eliminate unemployment.

If profitable expansion of production was not possible, expansion independent of profit was; and although this could not promote capital accumulation directly, it could perhaps get production going again. Production even without profit seemed better than standing still, especially when it was tied to the expectation that it would provide the impetus for the resumption of the accumulation process.

The multiplier effect theory was invented to substantiate this reasoning. The notion of a multiplier had appeared before, although it had not been taken as seriously or formulated as precisely as by R. F. Kahn and J. M. Keynes. Their particular formulation aside, it is obvious that any significant new investment, no matter of what kind, must increase production if it is not immediately offset by the withdrawal of other investments, and that, moreover, this added production will also generate some surplus value. If the additional surplus value is reinvested in means of production and labor power, capital accumulation also increases.

But surplus value is transformed into additional capital only when existing capital is profitable enough to justify further capitalist expansion. The crisis was a sign that capital was not profitable enough to allow for more accumulation. And since state production yields no profit, its effect on profitable production in the private sector can only very marginally increase total surplus value. Although surplus value expands in the private sector as a result of state induced production, this growth itself must be measured against the production costs of the latter to determine if it can actually influence the social surplus value positively.
To avoid misunderstandings we should point out that just as creditors of the state debt obtain their interest, so do the private enterprises engaged in state induced production receive an average, and often an above-average, profit. These interests and profits, however, are not generated via the market but through state purchases of the output the state itself set into motion, i.e., the added output, which includes surplus value, is “exchanged” for a capitalist surplus value in money form that had been created at an earlier period. The money which flows from the hands of capital to the state returns from whence it came in an amount commensurate with the volume of state-induced production. In other words, surplus value that was already part of capital is “exchanged” for state induced output.

Money becomes capital by being transformed into means of production and labor power used for the production of surplus value; this process, which constitutes capital accumulation, is reproduced continuously. In themselves money and means of production have none of the properties of capital; they first acquire such properties through the production of surplus value. Money and means of production lie idle during times of crisis because nowhere would their employment yield sufficient surplus value. But though they are not utilized, they still remain private property that the state must appropriate to begin state induced production.

The latter comes under the heading of neither private consumption nor capitalist accumulation. However, consumption also expands with production via the surplus value “realized” through state-induced production and through the wages of the workers employed in producing the increased output, as well as through the effects of state induced production on production in general. The final product, however, which ends up in public consumption, still embodies the totality of its production costs. If, for example, the American space research program costs $20 billion, this sum represents a portion of the state budget that must be raised by society as a whole.

It cannot be capitalized, whatever ultimate technical benefit may accrue to commodity-producing capital from the achievements of space research. It must also be taken into account that while in capitalist production existing capital is amortized within a certain period by the commodities it produces, and in this way survives to expand by way of the surplus value, under state-induced production, production of surplus value and amortization of capital can take place only through the state budget, i.e., via the surplus value extracted from the private sector.

However, state-induced production and private production are so complexly interwoven that no clear-cut line can be drawn between them. Enterprises operate in both sectors at the same time and make as little distinction as does economic theory between income coming from state-induced production and that accruing from production for the private sector. National income is calculated on the basis of total production, without regard for the origin or the destination of its individual components. But if the state budget grows more rapidly than total income, the gap between profitless and profitable production widens. The fact that in the capitalist countries about one third of the national income goes into the state budget and is supplemented by deficit financing shows that more and more of the total surplus value is being kept out of private capital formation.

Conversely, if national income grows more rapidly than the state budget and the state debt, it means that the proportion of state-induced production within total production is on the decrease, and that capitalist accumulation may be correspondingly enlarged. It must, however, be remembered that at issue here is a state-induced production undertaken to compensate for sagging private production, and not just the expansion of state spending in itself which may also have other reasons, e.g., the exigencies of war or imperialist policies.
The imperialist rivalries of nationally organized capital have also given birth to a state apparatus which, in close collaboration with the capital entities benefiting from state induced production, has established itself in a relatively independent position of power it secures by maintaining and expanding its control over the economy. Thus it is not always clear to what extent continuing expansion of the state budget derives from the objective need for state-induced production and to what extent it is forced on society by special interests allied to the state.

By far the greater part of state-induced production is in the war and armaments industry, i.e., production for public consumption. This production is at once a cause and the expression of the low expansion. Specifically, on the one hand it can be claimed that public consumption detracts from accumulation, yet it is also arguable that without it economic activity would be even more depressed than it actually is. Since war and armaments have so far in fact been inseparable from capital, it is impossible to ascertain to what extent curbs on state-induced production would further capital accumulation or diminish productive activity.

Though this question may resist an empirical answer, we can nonetheless explore it theoretically. Assuming that there are no objective obstacles in the way of capitalist accumulation, which could grow by the available mass of surplus value, any loss of surplus value through public consumption would mean less accumulation. In principle the less consumption there is of any kind, the more can be accumulated. This may be the case, but not necessarily so. The profit requirements of further accumulation may surpass the actual surplus value obtained at the expense of consumption because of an existing discrepancy between the existing capital structure and the given rate of exploitation, so that only a change in the structure of capital and an increase in labor productivity can expand the value of capital. Under such conditions curbs on public consumption would have no effect on accumulation capitalist crisis would then be needed to effect the social changes under which capital could continue the accumulation process.

The resurgence of economic activity following World War II was not due to state-induced production alone; a far weightier factor was the fact that despite increased public consumption, capital was once again able to emerge from the depression to begin a new era of prosperity. As already stated, the changes wrought in the international structure of capital by war and depression, rapid technological advances, and a cutback in consumption on a world scale led to a high rate of accumulation in several countries at once. The restoration of the war-devastated infrastructure and the resumption of capital reproduction, neglected during the war, together with a steady, relatively high level of public consumption necessitated by continuing imperialist power politics, produced the “economic miracles” in the reconstruction countries and saw American capital expand across the globe. But all this says no more than that the surplus value generated in production was sufficient to meet the needs of both capitalist accumulation and public spending.

But capitalism’s regaining of its own internal dynamic had to contend with the theory of a generally static capitalism, developed during the depression, according to which full employment could only be achieved through state intervention. The fact that some countries were approaching while others, for the time at least, were enjoying full employment was proof enough for the “new economics” that the state does in fact possess the power to eliminate the capitalist business cycle. By means of monetary and fiscal policies it was possible at any time, it was asserted, for the state to transform a flagging economy into its opposite and to maintain employment at any desired level. Two ways were presumably available to do this; indirect, through easing credit terms to the private sector, and direct, through public spending made possible by deficit financing. And since
the new upswing had been marred by periods of recession that were overcome by stepping up state spending, the view that a market economy could be steered by the state and that capitalist crises were things of the past set in more firmly.

If the cause of crises lies in an arrest of the accumulation process, which occurs when the portion of surplus value not earmarked for consumption is not invested in more means of production and labor power, production and employment must necessarily decrease. The repercussions on the overall workings of capital, however, go far beyond the actual cutback effected in production. The extremely intricate market relations cause the cut-backs in production to widen into a general crisis. State-induced augmentation of production and its effect on market relations can doubtless check an ensuing economic recession, provided it is a limited one easily dealt with by limited means. And indeed, the snags that have arisen periodically in the economy during the post-war period have been overcome by countervailing measures from the state. It does not follow, however, that this will continue to be the case for all time to come. It tells us only that the beginning signs of crisis have appeared in a situation in which a fall-off in private production could still be offset by compensatory expansion of public expenditures. Actually, the extremely long period of depression before World War II was followed by an extremely long period of boom whose internal fluctuations the state had been able to control in a positive fashion. These were fluctuations occurring in a general upswing and not in a general crisis resulting from overaccumulation. We have not yet had enough experience to enable us to determine whether it is within the means of the state under capitalism to cope with such a crisis, although the limits to state intervention are clearly discernible.

The surplus value from past production periods, which either remains in money form or is embodied in idle means of production because of the crisis, has lost its capital function. It can regain this function only via the production of profit. When this possibility is closed, the state is able to appropriate uninvested money and thus employ unused means of production. But this does not restore their capital function. The money and means of production thereby mobilized are transformed into products that are used up in public consumption and hence drop out of the reproduction process of total capital.

Whatever else may arise from this process, production geared to public consumption ceases being surplus-value production in the form of additional money and means of production. The surplus value of the larger capital employed is now smaller relative to the total capital. A portion of the already accumulated capital has thereby not only lost its capital function, it also ceases being unused capital. Whereas, however, the destruction of capital during a crisis alters the relationship between total profits and total capital in such a way that the reduced value of capital raises the rate of profit at the expense of the destroyed capital, in the case of state-induced production for public consumption, the profit and interest claims of the money and means of production therein employed remain unchanged – as if this kind of production was actually production for profit and as if the destruction of capital in public consumption had not occurred. Thus in the end this kind of production does not result in the improvement in the rate of profit that ensues during a crisis as a result of the destruction of capital values and the claims on the social profit attached to them; rather capital is destroyed while its profit claims, which can only be met out of the total social surplus value are maintained.

That portion of the total profits of the private sector which accrues to capital entities participating in state-induced production must be subtracted from total profits as it derives from tax revenues; this entails a decrease in the profit rate of productive, i.e., profitable, capital and hence a setback for accumulation. However, these capital entities can compensate for their diminished profits by raising prices, thereby shifting the burden of the costs of state-induced production to society.
Thus this stepped-up public spending takes on the form of price inflation resulting from the attempt to dump the costs of combating the crisis on the population at large, i.e., the working population.

The profitability of private capital is thereby maintained without assuming a further accumulation of capital. All that is accomplished by this route is that more workers are put to work at the expense of the total income of the working population. This is achieved by inflationary means rather than by the deflationary path chosen in the past, which progressively increased unemployment. But since there are definite limits to the burdens the workers can bear, and the drop in real wages due to price inflation meets with their resistance, the financing of public spending at the expense of the working class sooner or later reaches a limit it cannot exceed. From this point onward public consumption can only continue to grow at the expense of capital.

If capital accumulation is not resumed, the crisis deepens and unemployment grows. State-induced production must then expand if it is to continue in its compensatory cycle. The effect is growing pressure on the profit rate of productive capital, which makes the resumption of accumulation ever more difficult, thereby prolonging the depression. If the expansion of state-induced production does not stop, it too becomes a factor aggravating the crisis, although it had originally been intended as a means to beat it, and indeed for a time actually did function as such. But it had this effect only with regard to total material production, without enhancing capital accumulation. It did not yield enough profits to accomplish more than an increase of production through decreasing profitability of capital. As depression continues, even this ability will be lost; as state-induced production expands, private production must decrease and, as a consequence, will lose the ability to cover increased public spending.

The cyclical movement of capital has so far prevented a crisis from setting in permanently, and there is no empirical evidence that profitless production is possible only at the expense of profitable production and is therefore limited by the latter. The point to be gained here, however, is the insight that capital cannot accumulate without sufficient profit. An increase in production without a corresponding increase in profit is of no use to capital as capital, even though for political reasons it may be of use to capitalist society. Even the immediate positive effect state-induced production has on the private sector may be cancelled by the enlarged continuation of compensatory state production. If capital does not autonomously move on to resume accumulation on its own terms, the impetus given to it by state-induced production will gradually lose its driving force, until it finally becomes an obstacle to accumulation.

Production in the state sector is tied to the profits of the private sector, and its expansion is contingent on the latter’s increase. If this does not occur, the situation of the private sector can only continue to grow worse, until it makes further expansion of the state sector objectively impossible. But private capital, which still controls society even in a “mixed economy,” would stop expansion in the public sector long before it reached its objective limits. State-induced production is allowed to expand only to the extent this can be borne by capital, i.e., so long as it does not call into question the continued existence and growth of capital. It may therefore only be regarded as a temporary measure that at a specific point in capitalist decline must be stopped, thereby ceasing to be a factor working against this decline.

Actually, and apart from war production, the expansion of state-induced production has taken place not while capitalism was standing relatively still but during an upswing, which was viewed as the fruit of a mixed economy. But the reality of the situation was just the opposite. The upswing resulting from the restoration of profitability was large enough so that even though public consumption continued to grow steadily, a state of
relative prosperity, seen in capitalist terms, was achieved. Since the task of state economic policy was to expand lagging production, the economic upswing should have resulted in a contraction of state-induced production; this, however, was not the case. To be sure, relative to the overall growth in production, the expansion of the state sector proceeded at a slower pace, the practice of budgetary deficits was curtailed, and the size of these deficits was reduced; the state deficit, however, continued to rise, although more slowly than before. As far as expansion of the private sector was concerned, this situation seemed to be ideal not only from the standpoint of current economic theory but also for capital itself, as well as for those with vested interests in public spending.

But the capital growth that went on independently despite relatively high public consumption remained in large measure under the influence of state economic policy i.e., its monetary and credit, if not so much its fiscal, aspects. The whole of capitalist production had long been based on the credit mechanism. But credit not only remained dependent on the maintenance of a given level of profitability, it was also limited in its expansion by state controls over money and credit, although these limits were flexible. Through credit production can be expanded beyond the limits to which it is subject if there is no credit. Thus additional state-induced production is made possible by credit, i.e., by state debt and similarly production in the private sector can be expanded by widening the credit mechanism. Through its power to create money and extend credit, the state is able to expand or contract the basis of credit in various ways. The credit volume and interest rates can in large measure be controlled, bank lending stimulated, and production accordingly expanded by a cheap money policy, by increasing the money supply, by the discount policy of the central bank, and by the “open market policy,” as it is called.

The boom was accompanied by rapid growth in the money supply and in credit, which sewed in two respects. First, it helped to expand production, and second, it effected a reapportionment of social income in favor of capital. Every expansion of credit tends toward inflation, and a systematic, state-encouraged money and credit expansion is particularly inflationary. To top all this off there is also the inflationary influence of profitless state-induced production. But inflation, which at first only crept along as the boom proceeded apace, was accepted as the price that had to be j paid for economic growth and was thought to be manageable. In any case growth with inflation was to be preferred to a stagnant, deflationary economy; indeed, it was argued, the inflation that went along with growth was only the expression of the secret, discovered by the “new economics,” of permanent full employment and economic stability.

Actually, the increasing rate of inflation pointed to an internal weakness of the boom; namely, it allowed the state neither to cut off its expansive money and credit policy nor to cut back on public spending to any significant extent. Every contraction of credit and every reduction in the money supply, and indeed every decrease in public consumption, had an immediate negative effect on the course of the economy and were discarded in favor of a resumption of an inflationary policy. Thus the waves of prosperity that followed World War II turned out to be movements that depended to some extent on state monetary and fiscal policies, although in a few countries they had been able to raise general demand to the level of full employment.

Obviously money and credit policies can themselves change nothing with regard to profitability or insufficient profits. Profits come only from production, from the surplus value produced by workers. If the surplus value is sufficient for expanded reproduction of capital, a period of capitalist prosperity sets in. But if capitalist expansion must be primed by money and credit policies to stimulate demand, it is not long before it becomes clear that something is wrong with production for profit. The expansion of credit has always
been taken as a sign of a coming crisis, in the sense that it reflected the attempt of individual capital entities to expand despite sharpening competition, and hence to survive the crisis. Credit has always been a means of capital concentration whenever profitability falls. Although the expansion of credit has staved off crisis for a short time, it has never prevented it, since ultimately it is the real relationship between total profits and the needs of social capital to expand in value which is the decisive factor, and that cannot be altered by credit.

It is not credit but only the increase in production made possible by it that increases surplus value. It is then the rate of exploitation which determines credit expansion. To stimulate the general demand, the expansive state-imposed money and credit policies must increase profit. If profit does not increase relative to the invested capital and increased production, yet the level of production made possible by credit is to be sustained, the distribution of the social product between capital and labor must be altered to ensure the profitability of capital. If prices rise faster than wages, then could not be extracted from the workers in production is taken from them in the circulation process. This is at once the cause and the consequence of the expansion of money and credit, so that an inflationary growth in profits appears as accelerating inflation.

To the extent that an expansive monetary and credit policy served to increase profits, it furthered capital production, although it was at the same time a sign of inadequate profitability, albeit concealed, and added to the state debt a private debt that was many times greater. The steady growth of debt could be sustained only if capital accumulation could progress uninterrupted by way of credit expansion. Once accumulation stops, the expansion of production through monetary and credit policies stops as well, and their progressive effect is transformed into its opposite. But since accumulation entails a falling rate of profit, management of the economy by way of monetary and credit policies and by means of state-induced production must eventually find its end in the contradictions of the accumulation process.

Another weakness inherent in the postwar boom was the fact that it was unevenly distributed among the various capitalist countries, to say nothing of the negative effects it had on the underdeveloped nations. Although the latter consequence was favorable to growth in the capitalist countries, in that it guaranteed a cheap source of raw materials to the developed countries, it was also a sign that the boom was not strong enough to envelop the entire world economy and thereby become general. The accumulation rate was high only in the Western European countries and Japan; in the United States it remained below its historical average, while the rest of the world for the most part stagnated. But the pace of investments promoted by government policies in Western Europe and Japan did bring about an exceptional and long-lasting prosperity. The overall standard of living rose as a consequence of a rapid increase in labor productivity and the particular structure of European and Japanese capital. Although the high growth rates hit snags from time to time, setbacks were quickly overcome. In the United States, however, full employment and full utilization of production capacity were not achieved.

The creeping inflation that accompanied the economic boom also was the vehicle that carried it along but it was also a sign of an immanent contradiction insofar as continuance of the boom was contingent on an accelerating inflation rate. Inflation is an expression of inadequate profits that must be offset by price and money policies. Therefore in the developing capitalist countries, Brazil, for example, inflation is the measure chosen to bring profits into line with the pace of accumulation, i.e., to accelerate expansion at the expense of working-class consumption, to promote exports, or to do both at once. Thus under any circumstances inflation spells the need for higher profits, whether
this be the need of a particular capital entity to obtain profits or a general effort to add steam to accumulation.

Capitalist accumulation is a struggle between labor and capital, and within certain definite limits this struggle determines how much surplus value is produced. At the same time however, accumulation is capital’s competitive struggle at the national and international levels to determine how surplus value is to be apportioned. Monetary policy affects both these contests. Inflation makes labor cheaper, which improves the ability of national capital to compete, although only when the inflation rates vary from country to country, which in turn is dependent on the class struggle in the different countries and on the particular economic position of each nation within the world economy as a whole. The international struggle of competition is also waged over monetary policy. At the same time, however, the bourgeoisie is interested in easing competition, so that attempts are made continually to bring some order into monetary and credit relations through international agreements.

The capitalist economy is a world economy whose existence assumes competition. Competition drives capital concentration forward both nationally and internationally. But the progressive elimination of competition at the national level only makes all the contradictions inherent in the system more acute, since accumulation, expressed in concentration, intensifies the pressure on the profit rate and hence harshens all social conflicts; in like manner, rather than being a sign of diminishing capitalist antagonisms, the international concentration of capital merely gives these antagonisms a more overtly imperialist character, as evidenced so far by two world wars and a number of localized wars.

Like the capitalist crisis imperialist rivalry is both the cause and effect of the capitalist economy and cannot be separated from capital’s need to accumulate. Thus the postwar boom must not be seen just abstractly, as a consequence of capital’s cyclic movement, but as the result as well of changes wrought in the political forces by World War II and the effects these changes had on international competition the boom was also in large measure determined by the rivalries emerging among the victorious powers, who were faced with the task of consolidating their conquests and further extending their positions of power.

There can be no question that the relatively rapid reconstruction of the capitalist economies of Western Europe and Japan was primed initially by American aid, offered out of imperialistic considerations; not only were credits granted, but the export potential of these countries received a powerful shot in the arm from the far-ranging imperialist ambitions of the United States. The relatively low rate of accumulation in the United States and the reduced profit rate occasioned by war and armaments production forced American capital to export capital to countries where more abundant profits awaited them, which further augmented their already inflated rates of investment. But this feverish activity, together with the unabating expansion of credit in the United States, caused inflation to spread to one country after another, until it finally became a world phenomenon.

As economic growth in Japan and Western Europe proceeded, the relations of these countries with the world market, and with the United States in particular, changed. The labor productivity gap between the United States and the other capitalist countries, which depended on the volume of capital invested and on the ends to which it was put, grew narrower, and America’s dominant share in world trade shrunk correspondingly, until the United States found itself with a negative balance of trade on its hands. The balance of payments had already been negative for quite some time because of the cost of imperialist politics and the initial one-way flow of capital exports. Thus European expansion was
partly made possible by America’s negative balance of payments and attendant inflationary monetary and credit policies. American monetary policy became an instrument of imperialist expansion not only to secure U.S. spheres of influence in world power politics but also to enlarge direct investments in other countries, especially in growing Western Europe.

From the standpoint of the world economy as a whole, it makes no difference in what nation capital is accumulated, even though from a national perspective this same process will look different. As long as capital can move freely, it invests where it expects the highest profits are to be had and accordingly stimulates general economic activity in favor of the invested capital. Since all capitalist countries export and import capital, one can only say apropos of the extraordinarily large volume of American capital ex-port that the United States merely took advantage of the existing opportunity to gain a foothold in other countries, and that this opportunity emerged from the peculiarities of the postwar situation and from state monetary and credit policies. The direct foreign investments and the volume in which they occurred only accelerated the general inflation that was already under way in the United States. Nonetheless these processes, if they did not contain the secret to the boom itself, in any event were the expression of its pronounced inflationary character.

All the ups and downs of the most recent past and present on the market throughout the world economy are traceable to these processes. It is only the market, of course, to which capital can relate and to which it must react in one way or another. It is also only market processes which the state seeks to influence in whatever ways it deems beneficial or necessary.

Yet the underlying state of things in the sphere of profitable production remains closed to scrutiny and practical action, although it is the factor that determines the course of accumulation. By its nature the capitalist mode of production precludes empirical insight into the production relations of the society as a whole, and the market becomes the point of reference for all capitalist decisions, although these decisions are still subject to the influence of processes taking place in the production sphere. They still must be implemented at the level of the market, however, on the terms set by competition, so that one is left with no way of knowing whether such decisions correspond to realities in the production sphere. Whatever the circumstances, all movements of individual capital, and hence of capital as a totality, are aimed at maintaining a state of expanding profits and hence correspond to processes in the production sphere, without this guaranteeing that they will be successful. The quest for profits is not enough to ensure getting them, and only the surplus value currently being produced to meet the expansion needs of already accumulated capital can produce profits; but the magnitude of this surplus value is an unknown quantity and is only indirectly expressed in the ups and downs of the business cycle.

The business cycle in the Western countries was, it is true, marred by inflation, but it also brought about an economic growth that in the public eye meant prosperity and aroused expectations of a continued and perhaps permanent boom. The accelerating inflation rate, however, was an unmistakable sign that to maintain the level of profitability needed to continue economic growth would require increased reliance on government expansion of money and credit, and that without these government measures, growth would slacken. Thus continued economic growth depended on state money and policies, and to clear the way for them, all the encumbrances that had been placed in its way by past developments had to be removed. The first measure to this end, therefore, was the abolition of commodity money at the national level, later to be followed
internationally by the abolition of the gold convertibility of the international reserve currency.

Production continued to decline and unemployment to increase, while inflation proceeded unabated, until it finally became evident that the crisis-prone nature of capitalist accumulation could not be eliminated by state manipulations of the economy. The growing inflation rate, which was but the outward reflection of a credit expansion based partly on the anticipation of future profits, was also unable to prevent the decline in real profits. Expansive monetary and credit policies only drove prices upward without notably increasing production. With profits falling capitalists were reluctant to invest and resorted to price rises to recoup their losses. The monopolies’ power to fix prices arbitrarily facilitated this process, which was already contained in embryo in money and credit policies. The growing inflation rate threatened to develop into a gallop ultimately as pernicious to a capitalist economy as was a state of crisis made worse by deflation. Inflation can, of course, be abolished by reversing monetary and credit policies not so, however, the shortage of profits, which accelerates price inflation. Any restriction on the expansion of money and credit is reflected in a further decline in economic activity and in rising unemployment. Governments, therefore, are reluctant to effect a radical reversal in their money and credit policies. Since, however, the crisis is now a tangible reality despite the expansive money and credit policies, governments have a choice between two evils and take what appears to them the lesser of the two in the given circumstances. Brakes are applied to inflation by contracting credit and reducing the supply of money or by state price and wage regulations, although at a critical point the government will revert from deflationary measures back to an inflationary policy. Through applying alternative doses of deflation and inflation efforts are made to arrest the inflationary process and at the same time prevent rapid economic disintegration, in the hopes that sooner or later profitability will improve and the economic recession will be brought to a halt.

The level of integration reached in the world economy ensures that the manifestations of crisis and boom take on international dimensions, although they may appear in one particular country first. The positive effect of the European and Japanese upswing on American capital expansion was reflected, for example, in the spread of multinational corporations, with their higher level of profitability. But every downturn also internationalizes, irrespective of its point of origin. In all the capitalist countries (and not only in the United States), profits over the last five years have been lower than at any other time in the postwar period, with systematic price rises being the means resorted to in attempts to prop them up or boost them. Once this process has been set in motion and further supported by government money and credit policies, prices soar cumulatively upward, affecting all capital entities alike. The result is not only rising prices on finished products but also a continuing revaluation of capital, the covering of higher production costs in advance by means of capital depreciations, the application of different inflation rates in calculations to secure profits, and overpricing to reduce the increased risk to business brought about by inflation.

The cause of accelerating inflation is not a supply that lags behind demand but a shortage of profits that drives prices up quite independently of supply and demand relations. Even where demand actually is lagging, prices do not fall but on the contrary adjust to this reduced demand by rising further. The need for expanding profits is so great that the supply may be reduced by contrived means, as, for example, was recently done by the international oil industry, which was able to boost its falling profits by holding back on production. Just as each individual capital entity within a country seeks ruthlessly to maintain and to enlarge its share in the contracting sum of social surplus value by pricing measures, at the international level this process assumes an even more blatant
form, since the instruments of political power can also be used to supplement international competition. Thus among the first signs of a looming crisis is sharpened international competition, in which each country seeks with all the means at its disposal to secure or increase its share in world profits.

The cooling off of the postwar boom and the ineffectiveness, now becoming apparent, of the monetary and credit policies that had borne it along have brought about some extensive political changes within individual capitalist countries and on a world scale. The first measures taken were aimed at toning down competition by allaying imperialist antagonisms. One of the reasons for American opposition to the war in Indochina on the part of capital was undoubtedly the enormous public consumption, to which there seemed to be no limits and, moreover, no prospects of being offset by real profits in the future. To some capitalists, at least, the growing public spending appeared to hamstring economic expansion and reduce their ability to compete internationally. The end of the war required at least a short-term accord with the rival powers in Southeast Asia. The imperialist contradictions between Russia and China, which also bore on Asia, provided the chance for America to withdraw on the basis of the status quo, and the imperialist solution to Asian power politics was put off until some future time. It was hoped that the pacification of the world situation would relieve at least some of the more threatening signs of crisis by enabling economic relations to expand—a view that the former adversaries in the cold war shared, despite their other differences.

In market theory the removal of political restrictions on world trade should bring at least a partial improvement in the economic situation and moreover, avert a catastrophic crash that could easily plunge a politically explosive world into a third world war. But a crisis that has its origins in production cannot be prevented by measures confined to the level of trade and commerce. Indeed, trade itself becomes an aggravating factor in the crisis when each nation is obliged to tend to its own special interests in opposition to those of other countries. So it happens that the removal of trade restrictions of one kind is attended by the creation of restrictions of another kind, e.g., tariff policies, import prohibitions, the breaking of regional and international agreements, and a growing chaos in all economic relations. The internationalization of economics which the boom had promoted is forced to reverse its course, and once again priority is given to national interests, as the world economy sinks into further disarray.

All the signs of a deepening crisis are currently at hand, but how far they will develop cannot be foretold. They could conceivably assume the catastrophic proportions of the last great crisis; but it is more likely that the economy will go into a slow process of decline, since the state has not exhausted all its means of influencing it. If state measures are not sufficient to induce a new upswing, they are at any rate still capable of preventing a period of precipitous decline at the cost of the future of capitalism. There are limits, however, to how far this policy can go, and the scope of the crisis determines where exactly these limits lie.

Notes

1. Through the Istituto per la Riconstruzione Industrielle (IRI) the Italian government owns numerous financial and industrial enterprises, including Alfa Romeo, Alitalia, steel works, oil, telephone and telegraph, radio, television, and banks. IRI enterprises do not differ essentially from private enterprises. They partake of the general capital market. Shares can be bought and sold on the stock exchange.

2. The multiplier effect released through public works was mentioned by O. T. Mallery shortly before and after World War I. He pointed out that public works not only increase

Chapter 2: Deflationary Inflation

It is popular nowadays to distinguish between the inflation of time past and a new kind of inflation, which accordingly requires a new explanation, although in its monetary aspects inflation has the same features now as before: rising prices or the diminishing buying power of money. While its opposite, deflation, was viewed as contracted demand resulting in falling prices, inflation was explained by insufficient supply, driving prices up. Since, however, in this view it is the commodity market that determines price formation, little attention was paid to monetary policy. Money was seen merely as a veil concealing real processes, obfuscating them, but altering little in their essential nature.

This theory was also accompanied by the illusion, still lingering today, that the quantity of money in circulation in the economy has an important influence on commodity prices and that price stability depends on an equilibrium between the quantity of money and the total volume of goods. The modern advocates of the quantity theory of money also attribute deflation and inflation to a too slow or too rapid growth in the supply of money, and as a remedy to these anomalies they propose the creation of money adjusted proportionally to actual economic growth.

Thus in money theory the economic cycle is represented as an expansion and contraction of the money supply and of credit not commensurate with the real situation. But it was expected that the equilibrium mechanism of the market would ultimately steer things back to normal. The crisis of the thirties, however, which seemed to have taken hold for good, put an end once and for all to any notions of such an automatic self-establishing equilibrium. In Keynes’s view, which dominated bourgeois economic theory in the years that followed, the laws of the market were no longer capable of bringing about economic equilibrium with full employment. A developed capitalist economy, claimed Keynes, made for a decline in effective demand and with it a fall-off in investments and growing unemployment. Although this theory was designed specifically to explain economic stagnation during the period between the two world wars, it was quickly given universal status and regarded as the last word in the science of economics; to avoid the deflationary state of the depression and to restore economic equilibrium with full employment, state measures were needed to stimulate overall demand.

Central manipulation of the amount of money in circulation and of the amount of credit was not sufficient for such purposes, claimed Keynes. Instead, fiscal means, e.g., deficit financing of public spending and adjustments in the exchange rates, were needed. The inflationary monetary and fiscal policies that such measures entailed would prove to be what was needed to beat the crisis. However, an inflationary course must not lead to a demand that exceeded what the production capacity could supply. It must come to a halt when full employment was achieved in a new price equilibrium.

Every capitalist crisis, no matter what its imputed causes, manifests itself in a declining accumulation of capital. The share of social production earmarked for
expansion is considerably reduced or even fully eliminated, curtailing total social production in the process. Seen from the restricted view of the market, however, this process appears as overproduction of goods or insufficient demand. The depression that resulted was a deflationary process which affected both prices and production, but which at the same time brought about substantial changes in the economic structure and prepared the way for a new economic boom. The depression became an instrument for overcoming economic crisis, and although not deliberately encouraged, it was passively allowed to run its course.

Inflation implied the creation of money by the state, which impaired the price mechanism. This was seen as a violation of the laws of the market, caused not by factors inherent in the economic system but by an arbitrary monetary policy. Inflation was resorted to in order to finance wars beyond what was possible with tax revenue alone or in order to eliminate excess state debts and hence indebtedness in general. However, in economic crisis situations there had been a general reliance on the restorative effects of deflationary depression until the twentieth century.

As capital grew it created obstacles to its own further expansion. Its periodic crises became more and more oppressive and persisted long enough to create a real danger that the deflationary process would lead to social upheaval rather than to a new boom. To prevent this from happening, state economic interventions were in order in the great crisis that followed the 1929 crash; their theoretical justification came later. This interventionist policy sought to achieve by inflationary means what seemed no longer attainable by deflationary methods.

Following traditional theory, Keynes assumed that the interest rate was dependent on the quantity of money in circulation. An increase in the money supply would decrease the interest rate and spur new investments, which in turn would increase employment and raise prices and profits. Since the state had the power to create more money, it was a matter of government decision whether the way to economic recovery would be through lower interest rates. However, the profitability of capital had already fallen so far that even a reduction in interest rates would not be sufficient stimulus new investments. It would therefore be necessary to make up for the defective private demand by creating more public demand. However, since an increase in public spending by way of taxation would cut even more into the profits of the private sector, it would have to be financed through state deficits.

Deficit financing would increase the amount of money in circulation without necessarily leading to inflation. The technique, of course, was not to print more money, which would depreciate the currency, but merely to expand state credit which would absorb idle private capital and finance the increased public demand. This added demand would, it was expected, stimulate the economy as a whole sufficiently to bring it out of the depression and into a boom, which in turn would enlarge the state’s tax revenue to such a degree that it would be able to pay off its depression incurred debts in a new period of prosperity.

In the light of bourgeois economic theory, and especially its theory of money, it seemed quite plausible that by increasing the money supply and public demand simultaneously, an interrupted process of accumulation might be set into motion again. The co-ordinated employment of monetary and fiscal policies would not only counteract the deflationary trend of the crisis, they would in addition initiate a new period of upswing, which although containing inflationary tendencies, need not degenerate into a real inflation as long as unused money and real capital were still available. The specter of inflation would loom only if a new disproportionality arose between the means of payment and commodity production. But this was a real possibility only when full
employment was reached, and then it could be combated by state-initiated deflationary policies. In short, it was imagined that a theory and practical policy had finally been found which would place the economic cycle under conscious state control.

Bourgeois economics begins and ends with market relations, and hence it can only obliquely touch on the production processes underlying market events. These processes it sees as being determined by demand. In Keynes’s theory it is a relatively declining demand for consumer goods that brings about a decreasing demand for capital goods. Under such conditions further investments can only reduce profits, and for that reason they are not made. The way back to full employment would require, first, improving the profit rate of private capital, and second, filling a chronic lack of investments by state-induced production. In the light of the experience of the great economic crisis, the second of these measures seemed to be a precondition for the first, although it was still not clear whether state-induced demand was a temporary or permanent necessity in a modern market economy. Keynes himself thought that the future of capitalist economy depended on increasing state control.

In the bourgeois conception the economy appears as a circular process in which total income must equal total expenditures. It was therefore immaterial what specifically went into total income and total expenditures. The social distribution of income is presumed to be determined by the various contributions of the different factors of production to total production. Since, however, not all income is consumed, the cycle can only really be completed when the saved income is reinvested. The upshot is that state-induced production, regardless of what ends it may serve, is able to reduce or eliminate completely any discrepancy that may arise between total income and total expenditure. But this requires that the state be given the power to dispose of the saved capital. In its hands money capital that was not being used to expand real capital could restore equilibrium to economic cycle.

With this conception the bourgeois world deprives itself of any realistic insight into the economic process in general and into the problem of inflation in particular. Just as it does not distinguish between social production as such and specific capitalist production, so too it does not distinguish between productive and unproductive capitalist production. Any kind of production for which there is a demand on the market enjoys equal status as far as it is concerned, and any kind of demand appearing on the market finds its match in production. It does not distinguish, therefore, between demand created by capitalist production for profit and demand created by public spending. The latter, too, is a demand that private capital can meet with an adequate supply and reap the profits accruing therefrom. The growing state debt aside, the economy is revived by the increased public demand, which in turn has a positive influence on private market demand. The growing amount of money in circulation and expanding income are balanced by an undifferentiated and expanding production on the expenditure side of the ledger, which could partly or wholly eliminate unemployment.

The only vulnerable point in this description of events was the growing public debt; for this there is no equivalent in the production sphere, since the additional government demand consists of goods and services that enter public consumption and therewith impede the expansion of real capital in proportion to their magnitude. The mere expansion of production without a proportional increase in profit is equivalent to a partial destruction of capital, since some of the capital used ceases to be productive, i.e., ceases to produce additional capital.

The inability, whether conscious or unconscious, of bourgeois economic theory to understand this point forces it to entertain the ungrounded and empirically unverifiable expectation that the acceleration principle, as it is called, and the multiplier effect of new
investments can bring about the desired economic revival in which total production will
grow more rapidly relative to state-induced production, so as ultimately to bring state-
induced demand back down to its normal level. In any event, the growing public debt
entailed no risks as long as total production increased more rapidly than did the public
debt.

In contrast to the autonomous expansion of capital, however, state-induced
expansion of total production is characterised by the fact that a portion of the profits on
which it is based derives from public loans rather than from increased production.

If this kind of economic pump priming has become a necessity, it is still limited by
the limitations of state credit. As state-induced production goes into public consumption,
it cannot serve accumulation; and as the profits accruing to private capital from state
loans are not newly created but merely represent already existing money capital, only the
share of total profits obtained in the private sector is available for capital accumulation.
Not only is the profit accruing to private capital from state-induced production a part of
total production, but the share of total production that appears to generate this profit is
also lost to capitalist accumulation by being allocated to public consumption.

Thus public spending means a growing public debt, which ultimately can only be
financed and paid off by profit-creating capital. The profits of earlier production periods,
which in the sterile form of money capital have lost their function as capital, are eaten up
by state-induced production and appear to the entrepreneurs and creditors engaged in
state-induced production as profits and interest. This process is both real and illusory. It is
real for individual capitals but illusory from the standpoint of the social capital, since the
profits that fall to the individual producer do not owe their existence to production itself
but to the consumption of money capital placed at the disposal of the state. Thus in
bourgeois theory the elimination of a state budget deficit is feasible only on the
expectation of some future surplus, i.e., a prosperity that would allow the state debt to be
paid off. This would require future profits that must not only be adequate to the further
demands of accumulation but, in addition, large enough to replace the money capital used
up in public consumption. If this capital is not replaced, it would mean that some capital
had been expropriated by the state for public ends. From the standpoint of capital as a
whole, this would mean that some existing capital had been swallowed up by the crisis,
and state deficit financing would therefore have achieved the same result as capital
destruction achieved by deflationary depressions in the past.

In contrast to deflationary depression, however, this process appears outwardly as
expanding production. The more production expands, the more must the profitability of
capital be backed up by state deficits, i.e., by more loans. But since idle money capital is
a given finite magnitude, the process breaks down at the point where the state must be
refused further loans. At this point the process could be continued only through an
arbitrary proliferation of paper money, until it finally erupted into open inflation.

Deficit financing is also an inflationary process, although it can be held in check by
the limitations imposed on the state debt. It is inflationary because the social profit
corresponds to an increased production only apparently; in reality it is insufficient.
Capital that lies idle because of insufficient profitability enters capital circulation through
the monetary effects of the public debt, where it helps to expand production, but not
profits, proportionately. In relation to the total capital, of which money capital is a part,
the increased amount of money in circulation stands in contrast to a profit mass out of
proportion to it, since a portion of accrued profits derives not from production but from a
transfer of already existing capital to the profits column.

Since, however, capitalist economy is production for profit, which must be
measured in terms of total capital and must be adequate to the needs of capital
accumulation, for the individual capitals the discrepancy between expanded total production and the total profits actually produced manifests itself as a fall in the rate of profit, which, however, can be offset by commensurate price increases as long as production is expanding and competition is hence not as sharp. While neither profit nor interest accrues from state investments, as a part of total production, the individual capitals, participating in state-induced production, do yield both; this contradiction resolves itself, on the one hand, through a different redistribution of total profits among individual capitals, and on the other hand insofar as the competitive averaging of rate of profit still asserts itself through a fall in the general rate of profit, which then is offset by rising prices. The social costs of state-induced production are then distributed over the population at large in the form of price inflation.

The rise in commodity prices occurring hand in hand with expanding production is thus the capitalist response to the pressure put on the general rate of profit by state-induced demand. State intervention is, of course, itself a crisis phenomenon and would not occur were capital capable of expanding on its own. But like the crisis itself, this “crisis solution” is marked by the reduction of profits, although it manifests itself in rising, not falling, prices.

If an “excess” of capital unable to find profitable employment appears as a general shortage of money, and hence as deficient demand, then profits fall along with commodity prices. The fall in prices can be arrested and its course reversed by state interventions. In the past the approach was to reduce supply, i.e., use-values were not produced or were simply destroyed. However, since it is not supply and demand which, along with prices, determines the level of profits, these measures proved ineffective. The problem had to be tackled from the profit side.

At any price level enterprise profits represent the difference between costs and market prices. Every firm seeks to reduce costs to maintain its profits. The costs a firm can influence directly are the costs of wages: it may simply lower them, or it may try to improve the productivity of labor. The magnitude of the average rate of profit is determined by the total surplus value created by labor in relation to total capital. A crisis implies a decline in the general rate of profit, which for the time being renders the further growth of total capital inadmissible. Under such conditions every enterprise intensifies its efforts to maintain, and where possible to increase, its profits by reducing costs. This sharpens competition, which in turn further obstructs restoration of the required level of profitability and prolongs the depression and the destruction of capital. Nonetheless, even as capital as a whole is contracting, the strivings of individual capital entities bring about an expansion, if at a slower pace, of total surplus value. The larger mass of surplus value relative to the reduced value of total capital raises the rate of profit, and further accumulation becomes possible. Firms that cannot enlarge their profits stand on the brink of bankruptcy. On the other hand, surviving capital entities have a broader field over which to range. This process effectively amounts to the concentration of capital and is itself an instrument for expanding profits.

These so-called microeconomic changes have their repercussions at the macroeconomic level, and through the instrumentality of crisis they restore the profit rates needed for further capital accumulation. If this were not so, the crisis cycle would be incomprehensible. State interventions into the economy, on the other hand, are applied directly to the macroeconomic level, to find a shortcut to the slow-paced regulatory results of the micro-economic process. Their aim, too, is to increase profits, but they hope to achieve this through the circulation process. Keynes himself saw that to reduce wages by inflationary means was not only easier, it could also be accomplished more generally than if one had to rely on the independent action of numberless individual firms.
A general price rise, along with a slower rise in wages, must increase profits so long as at the same time the general demand is also increased through deficit financing of public spending. Without this last measure, designed to blunt the edge of competition, the wage reductions might readily prove to be unsatisfactory and the economic pinch grow worse.

Otherwise commodities (including labor power) would only be tagged with higher prices without the profitability of capital having been changed in the least. Since, however, not all commodity prices rise at a uniform rate, and moreover, it is extremely difficult if not impossible for the price of labor power to keep pace with the general price rises, price inflation ultimately results in an improvement in capitalist profitability.

Thus by means of an inflationary money and pricing policy, both production and income distribution are modified, because the ratio of wages to profits shifts in favor of the latter. This is controlled inflation when the determination and limitation of the amount of money in circulation is left to the discretion of the state. Controlled inflation, originally conceived as a means to get through a crisis, soon became, at least for economists, a precondition for economic growth as such. Even if a steady state of full employment were achieved, demand could be further expanded, they said, by a “dampened inflation,” with the effect that debts would suffer a steady devaluation, thereby spurring investment.

The English economist Phillips undertook some statistical investigations in an attempt to demonstrate that a close empirical correlation existed between the employment level and inflation; the result of his efforts subsequently became one of the bulwarks of bourgeois economic theory under the name of the Phillips curve.[1] This curve shows that a rising level of employment was always accompanied by a rise in prices, while growing unemployment was accompanied by a price decline. Thus it seemed that full employment went hand in hand with inflation. Since the employment level depended on demand, it would follow that inflation was a consequence of rising demand, which drives prices, along with wages, upward. Demand-induced or wage inflation would rule out full employment with price stability, although it should allow the option between combating inflation by means of unemployment or combating unemployment by means of inflation.

Although the significance of these questionable statistical findings, for which no theory was ever offered in explanation, was disputed, they did, however, offer a demonstration, if a somewhat troubled one, of the efficacy of state economic controls. The goal was no longer economic equilibrium with price stability but the restoration of an “inflationary equilibrium” in which inflation rode the back of full employment.

Still economists considered the social costs thereby incurred to be a small price to pay for a growing, full-employment economy, especially if inflation could be kept within socially optimum bounds by skillful manipulation of the labor market. It could not, however, be determined whether the wage increases that were so evident a part of prosperity were matched by price rises. But no statistical demonstration is needed to show that wages improve as the demand for labor increases. Wage increases, however, are kept within limits by the industrial reserve army, which never completely disappears, and by the need for adequate profitability – an indispensable condition for accumulation and hence for a rising demand for labor. The simple fact that capital accumulation will take place during a period of prosperity is proof in itself that capital has maintained its profitability despite rising wages.

An economic boom not only drives prices up, it also improves the productivity of labor, which actually should lower prices. According to bourgeois theory, under conditions of general competition, if production costs are reduced, prices, including the price of labor, should fall as well, without real wages necessarily being diminished in like measure. More consumer goods should mean lower prices, so that, although money
wages should decline, buying power would remain intact. If wages did not decline, or if they declined more slowly than the general price level, this would be at the expense of other factors of production. But then economic equilibrium, supposedly sustained by the price mechanism, would be upset, and either wages would have to be forced downward or the prices of goods raised to restore it. In this view, therefore, price inflation is ultimately the result of a faulty wage policy.

But the illusion of a pricing mechanism kept in equilibrium by general competition was soon discarded, to be replaced in the bourgeois camp by theories of monopoly price fixing and state intervention. Yet monopolies themselves were held only partly to blame for monopolistic price formation, namely, where price fixing exceeded the average level of profit. But because monopolies were able to reap excess profits through price fixing, they could also afford to accept monopolistically fixed wages, which increased costs. In this way monopoly capital and monopolized labor worked together to drive prices up. Once this demand, wage, or cost-induced inflation had taken root, it would accelerate steadily unless it was arrested by state intervention. The answer to inflation was thus a price and wage policy that would restore stability.

State control of prices and wages could, at least in theory, curb inflation without thereby relieving the conditions that had led to inflation. For if capital is to have a free hand to expand itself, it must have sufficient profits. in a monopoly-dominated capitalist economy, capital accumulation must take place through the monopolies. Monopoly profits reflect the need for profits higher than those obtained under conditions of competition. Monopolies are the outgrowth of progressive concentration and centralization of capital through competition, but neither they nor competition can alter the given mass of profit. Neither form of competition, monopoly or pure, does more than distribute total social profit. A price and wage policy that made monopolistic profit impossible would also undermine capital accumulation.

Monopoly profits come from circulation, not from production. Of course, capitalist excess profits come from processes in production sphere as well, when there is an above-average rise in labor productivity; the reduced costs then enable firms to earn higher than average profits on their products. But this form of excess profits is only temporary and disappears again when the improved production methods become more general. Monopoly profit differs from this form of continually vanishing and reappearing excess profit in that under monopoly, competition has been largely abolished. A monopoly profit rate is achieved through control of prices. in order, however, for profits to multiply of themselves, the production relations between values and surplus value must shift in favor of the latter. Profits must be produced, and it is only those profits actual produced that determine capital accumulation and accordingly the state of the economy in general.

If the progressive monopolization of capital is a reflection of and response to the increasing profit difficulties of accumulation, it is clear that the partial elimination of competition can hardly be expected to increase social profit. Monopoly profits are created at the expense of individual capitals still caught up in competition, which forces them also to raise prices to avoid losses. Thus all prices become in a sense more or less monopoly prices, although the degree to which this is so will vary widely, which indeed provides the whole process with some “sense”; namely, the reapportionment that it effects in social production in favor of capital expansion. Nor is any of this contradicted by the observation, often heard, that monopolies impede rather than promote capital accumulation, as supposedly evidenced by all the idle production capacity. But this argument says no more than that during periods of economic stagnation, monopolies strive to keep themselves alive at the expense of weaker capital entities and at the expense of the population at large. To reproduce itself as capital, monopoly capital must also
accumulate; and it therefore endeavors, through a monopolistic price policy, to effect a further division of profit and wages in circulation to add to the primary separation between wages and profit in the production process.

Although monopoly price formation must, like capital accumulation, arrive at a dead end, it has at first some positive effects. Like the spurious profits generated by production induced by public spending, monopolies stimulate the economy precisely because they are obtained by the roundabout way of price inflation. Thus, on the one hand, we have state-induced production, and on the other, the need to promote capital accumulation by way of further monopolization: in either case the result is inflation.

After World War II bourgeois economics deluded itself that it not only had discovered the secret of crisis, but also that it possessed the means to nip any further crisis in the bud; the expansion of capital, therefore, which was taking place largely on its own momentum, certainly was not designed to undermine the conviction that any economic recession could be countermanded with the proven anti-cyclical measures. This conviction persisted until the advent of deflationary inflation, where growing & unemployment was accompanied by an accelerating rate of inflation.

The first response to this situation was almost automatic: the Keynesian tactic of a wage freeze. Together with high interest rates, this freeze artificially maintained prices, reduced the profitability of capital, and hindered its expansion. The frozen wages of depression stood in contrast to the rising wages of the “full-employment” period, which were blamed for the “wage-price spiral.” It had, indeed, been acknowledged for some time that full employment could have inflationary effects, but they were, it was argued, the signs of prosperity and should be seen in a positive light. That things had actually developed differently was due not to the system itself but to factors stemming from outside it, namely, the irrational mania of the workers to get more out of the system than was in it.

This understandable and widespread nonsense, which of course from the viewpoint of capital makes quite good sense, would not even be worthy of special comment were it not often encountered in supposedly “leftist” explanations of the crisis. Under conditions of full employment, whether brought about by the autonomous movement of capital or by state-induced production, or both simultaneously, it is obviously more difficult to cut back wages or prevent their rise. It is also clear that the organized workers are able to improve their wages through economic struggles. Finally, it is evident that under such conditions capitalists seek in some cases to avoid conflicts by granting pay raises, which they can then recoup by raising prices correspondingly. Nor is there need to dispute that the successes of organized labor in this domain also often enable unorganized workers to improve their situation as well: in a period of boom wages are generally able to follow prices upward.

But in a period of recession profits decline. If wages do not fall in pace with profits, the depression deepens. To get out of depression it is not enough to bring the fall in wages in line with the fall in profits; profits must be augmented at the expense of wages. In the past in crisis situations, the heightened competition among workers for jobs led to a reduction in wages. The institutionalization and monopolization of economic labor organizations, it is claimed, has now made this impossible. For the bourgeoisie, even the defense of existing wage levels is sufficient to explain both crisis and inflation.

It is quite possible and indeed undoubtedly also often the case, that a wage policy favorable to capital cannot be put through. In any event, bourgeois statisticians have no difficulty proving that both money wages and real wages increased and often exceeded the increase in productivity. But other statistics exist as well showing that what workers gain in wages is taken from them again later in the circulation process.
such statistics may mean, they are no acceptable empirical demonstration that inflation is due to wages, or that the opposite is the case. First, price relations tell us nothing about the value and surplus value relations underlying them; yet in the end they determine the state of the economy. Second, profits may actually be higher when wages are also up than when they are low if the share of surplus value in the total value of production is sufficiently large. Indeed, this surplus value rests not only on the extremely limited statistically discernible increase in labor productivity, it also depends on the total surplus value produced on a world scale in proportion to world capital as total capital and for this there are no statistics available even apart from these considerations, however, the very existence of an economic boom demonstrates that however wages go profits increase more rapidly than he share of labor in the social product. True, the postwar boom was accompanied by creeping, though uneven, inflation \[5\] from the very outset But the reason for this lay not with rising wages which went beyond the increase in labor productivity, but with the fact that the boom and its continued existence were possible only because of inflationary price policies, which, moreover, had over a relatively long period of time been used liberally and effectively to maintain the wage profit relation necessary for economic expansion. But why has this accumulation period, in contrast to earlier booms, been so consistently inflationary? In the economic cycles of the past century, every crisis was preceded by the inflationary phenomena of a heated up economy. Wages, prices, and interest rates rose. A wide expansion of credit concealed a decline in profitability that had already begun, thereby delaying the end of the boom.

In other words, capital now “accumulates,” though profits are inadequate, without this at first being evident owing to the mechanism of the state debt. There is no direct pressure to reduce wages, since the profitability of capital can remain at a steady level even as wages rise as long as as demand is sufficiently inflated by state-induced production.

If capital were unable to increase its profitability on its own, the state-induced upswing would soon have to come to an end. An autonomous expansion of profit, however, is possible only by way ‘of an increase in labor productivity, i.e., a higher rate of exploitation of labor, which relatively depreciates labor’s value. As this is difficult to achieve under full-employment conditions, capital attempts to obtain the profits it requires for accumulation by way of price formation. The result is the same: a growing share of total production falls to capital, while proportionately less goes to the work force.

Not only does the relationship between wages and profits change, the distribution of the social product generally shifts in favor of capital accumulation. The social layers with fixed incomes, which find it difficult, if not impossible, to adjust to the inflationary trend, must give up more of their income to capital. The savings of the “little man” are eaten up progressively as the value of productive capital rises in pace with inflation. It was this process of creeping inflation which contained the secret of prosperity. The disadvantages of inflation seemed for the time being to be offset by the advantages of economic boom.

Although the dependence of capitalist prosperity on capital accumulation is immanent to the system, it is not recognized by bourgeois economic theory. For bourgeois economists inflation is caused by a demand in excess of production, or even by the immoderate claims of the workers, although the very universality of inflation is a patent contradiction of this view; indeed, inflation plagues even countries with extremely low wages, where there is no monopoly of labor and where demand lags far behind supply. Inflation occurs in depressions, where one would expect deflation. The international character of inflation is proof enough that inflation involves more than merely the erratic consequences of high wages in a few countries.
Now, however, ‘when inflation and crisis exist side by side in the leading capitalist countries, the contention that inflation is a consequence of full employment and demand outstripping supply is no longer tenable. The only thing left to blame, therefore, is high wages. And despite all the monopolization of labor, or perhaps even because of it, the bourgeoisie still finds rising unemployment a good taskmaster. Wage contracts, often long term, have with a few unimportant exceptions made it impossible to counteract the burden of steeply rising prices or to make up for past omissions through wildcat strikes; all the more reason, therefore, to take advantage of the all-pervasive depression to reap inflationary profits. One must, so one hears in quite a number of trade unions, face the facts: inflation eats away at any wage rise, making continued demands meaningless. What is now necessary to get out of the depression is a responsible wage policy, i.e., capital must be given the chance to regain its lost profitability.[6]

It is of course clear that if wages are down, prices can be reduced; but although possible, this need not become a reality. Prices depend on other things besides “market relations” and “factor costs,” e.g., indirect taxes, subsidies, stabilization programs, and monopolistic manipulations. Even where production is steadily declining, where there is mass unemployment, and where wages are at starvation levels, prices can still continue to climb into the blue beyond; and indeed in the past they have done so, with the ultimate result that inflation degenerates into hyperinflation. Even before inflation gets out of control, depression, which drives wage costs down, is not sufficient to put an end to rising prices. In any event the most recent anti-inflationary policies have had very disappointing results, which moreover are all the more questionable in that they have led to situations compelling a recourse to inflation to keep the social fabric intact.

State deflationary or inflationary policies are not measures to control the economy so much as reactions to processes that are already beyond control. The real development of capital is determined by the law of value, i.e., capital profitability and capital accumulation. State interventions are aimed merely at superficial market phenomena whose root causes are to be found in the production sphere, that is, in production relations. State reactions are therefore just as blind as these processes themselves; if they coincide at all with the events underlying developments on the market, it is by pure chance.

State interventions may fail to measure up to expectations, or they may lead even to adverse results. Whatever the case, the theories associated with them are discredited and therefore lose their ideological function. With no explanation for the present inflation forthcoming, the only thing left in store is a regression to an earlier standpoint, already abandoned once: namely, the empty hope that the equilibrium mechanisms of the market will turn out after all to have some clout left in them. Specifically, it is now asserted by some that all state intervention into the economy should be rejected, with perhaps the exception of “correct” monetary policy, such as advocated by Milton Friedman, and to opt, once again, for a cure “by way of depression in order to reach a new boom. It is said the idea that the prevailing inflation finds no explanation in economic theory is pare nihilism. Likewise, the idea that it cannot be ended. All that is here required is a consistent monetary and fiscal policy, which curtails for a considerable length of time economic activity. Here of course lies the difficulty, namely, the necessary political determination. The responsible authorities have to make up their minds as to whether or not the majority of the population is ready to make the required sacrifices.[7]

Thus all the old disproven and discredited theories are revived to explain inflation and are expected to provide the key to its solution. The facts of the present inflation must be completely overlooked in the process, however; this inflation, like each of its predecessors, is no accident but the result of a quite definite economic policy.
must be created, even if under the pressure of economic and political processes that originate not in conscious acts but from a compulsive need to accumulate capital.

World War I destroyed the customary world market relations as well as the relations among the national currencies, which were based on the gold standard. Under the gold standard fluctuations in the value of each individual currency were held within very narrow limits. If a nation elected to adopt inflationary means to combat an economic downturn, it had to free itself from these restrictions. Once the gold standard was abandoned, a monetary policy relatively independent of the world market could be adopted. But inflation remained withal a national affair that could be dealt with or not by individual governments as they saw fit. The different nations have thus tried to solve their profit problems in different ways, and inflation acquired a distinctly international character only after World War II.

World War II put a temporary end to capital accumulation. Half of international production was production for public consumption, which devoured both men and materials. Profits were written as state debts. To avoid an inflationary surge, rationing and forced saving were the policies adopted, although the rigor with which such measures were applied varied from one belligerent country to another. At war’s end the world was not only a different place, it was totally impoverished. Only the United States, which was the least touched by the ravages of war and which even before the war had already assumed the number one position among the world’s capitalist powers, was able to resume the accumulation process on the basis of an essentially unchanged capital structure. The other industrial countries had to resume again from a much lower level and had to go through a long period of accelerated accumulation before they once again regained their ability to compete. The restoration of the world market and of currency convertibility forced a series of currency reforms, often quite radical, and the Bretton Woods agreements, concluded while the war was still in progress, introduced a modified gold standard.

The postwar period witnessed a growing internationalization of capitalist production, which picked up steam rapidly and stimulated world trade. The autarchic tendencies of the pre-war period, when each country endeavored to find a way out of its own problems at the expense of others, even to the point of imperialist wars of conquest, came to a temporary end in post-war events when the United States assumed hegemony over the world market. The “free world market” was reborn out of the expanding American economy, helped along by the Marshall Plan and the export of private capital. Capital that could not be invested with adequate profitability in the United States itself found better conditions for value expansion in the nations engaged in reconstruction.

Until August 15, 1971, the international monetary system was based on the dollar, which was itself linked to a fixed price for gold, and the parities of other currencies were based on it. With other currencies tied firmly to the dollar and the dollar a reserve currency, the United States could settle its international payments obligations by expanding the dollar reserves of other countries. As long as the dollar’s gold backing was felt to be secure, the export of dollars stimulated the world economy. Although the Americans acquired whole industries and national concerns developed into multinationals, these corporations were not only tolerated, they were even coveted as a means to get the European economy moving again. Between 1950 and 1970 direct U.S. investments increased tenfold, and in value terms the output of the multinational corporations exceeded total American exports by more than three times. This was part of the process that, together with the high accumulation rates attained in Europe, produced the long period of Western prosperity.
Since U.S. production made up approximately half of the total production of the capitalist world, changes taking place in its domestic economy were bound to make themselves felt throughout the rest of the world. To attain profit rates adequate to the needs of further accumulation, the share of American capital in total world production and in world trade had to be enlarged. This, of course, was true of all capitalist countries. At issue was how the surplus value produced worldwide was to be divided up. The postwar situation offered American capital a special opportunity to increase its share in world profits and at the same time put the devastated world economy back on its feet.

The war had also created new state capitalist countries that were very difficult to bring into the “free market economy” and in any case were anything but conducive to the expansion of private capital; hand in hand with the restoration of Western capital, therefore, went the attempt to contain the expansion of state-capitalist countries. The postwar period evolved in the atmosphere of the cold war, inaugurated by the first test of power, the Korean War, whose outcome remained indecisive.

The cold war laid claim to a large portion of public consumption. State debt, which had already grown to extreme proportions, grew further, if now more slowly and within narrower limits, and placed the profitability of capital under pressure. Originating in the United States, inflation pursued its onward course, until it finally embraced the entire world. It is impossible to say whether the postwar boom was responsible for the full, or near-full, employment achieved in the different countries, or to what extent this had continued to be dependent on state-induced production. In the United States, in any event, production capacity was never fully utilized at any time throughout this entire period, and unemployment stabilized at around 4 percent of wage earners. World-wide, however, private capital expanded rapidly thanks to the rapid increase in labor productivity, an accelerating capital concentration worldwide, and an inflationary price policy.

However, one element contributing to the economic boom, the accompanying inflation, also revealed an inner weakness behind the outward prosperity, a weakness, moreover, that also emerged in the fact that this prosperity did not take hold in equal measure in all countries. It is of no importance, if it can be ascertained at all, whether it was the extremely high costs of imperialist policy which put the accumulation rate in the United States behind that in the other expanding countries, or whether this would have occurred in any event. However it may be, it is useless even to pose such a question, since imperialism cannot be separated from nationally organized capital. Since, however, public consumption always detracts from accumulation, the continuation of vast public spending necessitated by imperialist policy only made inflation worse.

How true this is becomes evident when we note how the average rate of inflation has accelerated since 1965. Because the American economy was already relatively stagnant, the only means of financing the costly war in Indochina and the ever growing demands of an imperialist world policy was more deficits and hence more inflation. As long as exchange rates were fixed, the growing inflation rate had to extend itself to other countries. The American balance-of-payments deficit continued to grow, enlarging the dollar reserves of other countries, and with it came more inflation.

Since a U.S. deficit meant a surplus for other countries, they initially felt no pressing concern to counter the accompanying inflationary tendencies, although American deficits in large measure meant a reduction in American, and hence in world profits. The growing dollar reserves of European countries helped to finance the American deficit, which meant an internationally accelerating inflation rate, but also a steady depreciation of monetary reserves. Under these conditions international competition, which also is fought out by way of monetary policies, could affect the diverse inflation rates, but not inflation itself.
For a capitalist economy the ideal state would be simultaneous domestic and external equilibrium, with stable prices and an even balance of payments. Keynes’s theory essentially retained this ideal picture, except that it proposed to achieve this equilibrium through state interventions. While, however, domestic equilibrium is dependent on national monetary and fiscal policies, the external equilibrium of all countries would depend on the national monetary and fiscal policies of the U.S., as long as the world monetary system was based on the dollar with fixed currency exchange rates. Of course, this meant that the economic independence of every other country was largely undermined. Attempts to check inflation domestically would be at the price of impairing a nation’s capacity to compete at the international level and hence could not be very extensively undertaken. Thus economic control at the national level was greatly impaired by the capitalist integration on the international scale.

As a worldwide phenomenon inflation was evidently a product of the accumulation difficulties due to the peculiarities of capitalist postwar expansion. The inflationary course concealed these difficulties, but it did not eliminate them; and although it was largely caused by the specific situation in the United States and was further tied in with the dollar’s status as an international reserve currency, the breakdown of the Bretton Woods system and the return to free or floating exchange rates has demonstrated that there was more to inflation than the disintegrating effect of an international monetary system made obsolete by the growth of the world economy. Indeed, the system of flexible exchange rates has had no effect at all on the inflationary course.

The worldwide economic integration of national economies, and particularly of their capital markets, internationalized capital movements and price relations. World trade and the creation of international capitalist corporations made inflation a worldwide phenomenon. The increase in surplus value by way of inflation is facilitated by state monetary policy without being directly determined by it. No simple and obvious relationship exists between a country’s monetary policy and that policy’s economic repercussions, which may be modified extensively by relatively independent, autonomously unfolding economic processes. Once inflation gets started, however, it continues its course in relative independence of anything governments may consider doing, not only by way of price rises, which accelerate it further, but also by means of the greater involvement of international capital markets, the creation of additional sources of money and credit – such as the Euro dollar market – or even by the simple expansion of commercial credits. In this way inflation disguises itself as a shortage of investment capital, an insufficient liquidity, which seemingly cannot be satiated despite the inflationary increase in the money supply.

The large capital concerns still try to increase their share in total world profits by acquiring direct control of major shares of world production in addition to the profits they secure for themselves by the inflationary route. Such procedures are no more than capital concentration by way of international competition. In the process, however, capital markets are also internationalized, which means that they are no longer under any government’s control.

For instance, government restrictions on the export of capital to firm up the American payments balance were largely ignored because capital could be gained in the Euro-money and Eurocredit markets.

The Eurodollar market arose initially from the activities of U.S. banks outside of the United States. Over the last ten years their deposits abroad have grown from $10 to $185 billion. Other currencies were also traded, but the dollar predominated, representing 70 percent of total deposits. Apart from private credit transactions, the central banks of a
number of countries also invest excess or unwanted reserves in the Eurodollar market or borrow from it to bridge over payments difficulties. The Eurodollar is preferred because it is under no government controls and operates with no reserve regulations, and hence can offer better terms to both borrower and lender.

Although significantly smaller than the American capital market, the Eurodollar market is still larger than the capital markets of other countries and is therefore able to avoid or find ways around government monetary and credit policies. Since it consists mainly of dollar deposits, there is of course a close correlation between the creation of money in the United States and the expansion of Eurodollars. While in the national banking systems the extent of the multiplier effect of any additional supply of money is twofold or threefold at most because of reserve regulations, the Eurodollar is under no such restrictions. The multiplier effect of the Eurodollar thus permits a much broader expansion of credit and contributes further to the purely speculative character of capital movements, as well as to the inflationary trend.

With inflation the price of money also rises. Since interest rates, however, are dependent on the rate of profit, they are able to contribute to inflation only slightly. Higher interest rates are not a sign that money has become dearer; rather they indicate that money has depreciated in value. The real interest rates usually remain unchanged, augmented only by the existing and expected inflation rates due to general price rises. Nonetheless even relatively stable interest rates are a burden for capital when profits are declining. Committed capital, which does not have the power to set prices monopolistically, can also find a steady interest rate intolerable. Thus under both inflationary and deflationary depression, bankruptcies multiply.

The cost of credit, whether high or low, should not be ascribed too much significance. Interest rates, which are included in capital production costs, constitute only a small percentage of total costs. In addition firms have long financed their own capital formation from their own proceeds. This presumably cuts into dividends, but it only means that a larger share of the accrued profits is used for accumulation purposes while a correspondingly smaller share goes to capitalist consumption. This tells us nothing about the absolute size of either of these shares, which, if profits are sufficient, may both increase together. If profits are inadequate, both can also be amassed by means of increased prices, whereby “internal financing” becomes a form of accumulation by means of inflation.

But it is not genuine accumulation. As this type of “self-financing” expands, the ability of other capitals to accumulate is correspondingly impaired. The total mass of profit available to the world economy remains where it is Capital self financing like capital monopolization, implies then no more than a redistribution of total profits by way of price manipulations. Although high rates of profit may be achieved by means of arbitrary pricing policies, they imply an increasing rate of inflation, which sooner or later will also affect the privileged capital unfavorably. This does not mean that inflation stops, but only that henceforth it will not be a direct aid in expanding the privileged capitals. It will, at best, serve the maintenance of their profits under conditions of stagnation and decline.

Competition destroys capital, but it also improves the profitability of the capital that comes out on top in the struggle. Yet this does not mean that total social profits have grown in any significant measure – that is only possible through an increase in surplus value. Surplus value, however, can grow in only two ways:

through an increase in the rate of exploitation, and by increasing the number of workers. But these two ways proceed along parallel courses only under certain conditions; their inherent tendency is to develop in opposing directions. Greater
exploitation means that more products are produced with less expenditure of labor, i.e., there is an increase in the productivity of labor achieved through improved means of production and better methods of capitalist accumulation. Under these conditions the absolute number of workers may increase as well, but their number relative to accumulating capital decreases. Since surplus value is really only surplus labor, surplus value also decreases relative to the increase in capital and leads to a tendential decline in the rate of profit and the reduction of the pace of capital accumulation.

Under capitalism nothing in this situation can be changed, no matter how many other modifications are made elsewhere in the system. Like any previous boom, the most recent one also contained the seeds of its own decline. But whereas previously the decline was due mainly to a decrease in the mass of surplus value relative to the accumulated total capital, in the present period labor productivity in the industrial countries has increased to such an extent as to increase the costs of circulation disproportionately to production, and thus to accelerate the reduction of the rate of profit. Since production cannot be separated from distribution, only the total reproduction process of capital can tell us anything about its actual profitability. But in the past the proportion of workers engaged in production relative to those employed in circulation was more favorable to profit than it is today. As productivity in the production sphere has increased vastly, the number of workers employed in production has declined, while the number of those employed in distribution has risen disproportionately. But because so far it has not been possible to increase labor productivity in circulation to the same extent as in production, the tendential decline in the profit rate accompanying capital expansion has accelerated. The shift from capitalist productive labor to capitalist unproductive labor has been an important factor in the inflationary process.

With the steadily growing pressure on the profit rate, due to a variety of causes, the postwar expansion had to come to a halt despite all its inflationary props. The high profits that had been amassed down to the very last have turned out to be largely phantom profits deriving more from inflation than from production. Over the last two years, or instance, the high profits of many American firms have consisted of “inventory profits,” i.e., profits stemming from the difference arising between the previous lower costs of the materials used in production and the current price of the finished product, which effects the present price of the materials used. According to U.S. Department of Commerce statistics, these “inventory profits” reached more than $37 billion in 1974, or 60 percent of the total profit increment.[8] But this process is non-repeating unless the rate of inflation increases steadily, and even then it is so only for goods that require quite long production times. But whatever the case, the rate of accumulation is the indicator of profitability, and in its terms even the high profits turn out to be inadequate.

Inflation has no future; during an economic upswing it can add fuel to the process, but it must be kept within certain limits if the profits it makes possible are not to vanish again into thin air. If an accelerating inflation rate gets out of control, its “positive” effect turns into its opposite. The chaos so characteristic of capitalism then becomes even more chaotic; internationally this shows up as recurrent monetary crises, with a resulting disintegration of world trade. Although the average annual world inflation rate was recently estimated at 12 percent, it affects each country quite differently depending on its competitive position on the world market. Persistent fluctuations in national currencies, said to make the squaring of international payments balances easier, miscarry, not only on the world market but also with regard to the continuing erosion of the national economies. The allegedly anti-inflationary Special Drawing Rights (SDR) of the International Monetary Fund, were designed to remedy a purported lack of liquidity; they were a system for squaring payments balances by means of uncovered mutual
obligations; but it also proved to be merely one more inflationary measure, just like the
dollar after its gold convertibility was abolished. As international economic relations
become more and more difficult to see through and defy attempts to calculate business
activity, capital is flowing across borders on a colossal scale in an attempt to glean profits
from the monetary chaos and the particular difficulties of each country, insofar as they are
not attainable by any other means.

Even under the best conditions, a steadily rising inflation rate leads eventually to
economic stagnation. Inflation must then be halted at the point where it begins to have a
negative effect on the economy. Just as governments add steam to inflation by their
monetary and fiscal policies, contrary measures can slow its course. However, it is not
within the power of governments to bring inflation totally to heel, since price inflation
will continue despite deflationary government measures. This being the case, depression
is aggravated in two directions: on the one hand, because of a stepped up general
economic decline, and on the other, because of the multiplying social conflicts generated
by the inflationary distribution of income.

Depression, like an upswing, sets limits to inflation. But any limit can be
overstepped if one is willing to accept or is unable to avoid the attendant social risks; the
hyper-inflations of the past are ample testimony to this. But the risk is far greater when
inflation is worldwide than when it is isolated within individual countries, as has been the
case in the past. The bourgeoisie therefore tries to check it, but it can only do so by
accepting lower profits, reducing public spending, and allowing depression to deepen. In
1974, for instance, total U.S. production fell by 10.4 percent, utilization of production
capacity fell to 68 percent, and the official unemployment rate was 8.7 percent.

The economic situation of the last five years, which has been less serious, still
required a 50 percent increase in public spending and budgetary deficits in excess of $100
billion. Without this public spending the economic decline would probably have been
more considerable. As the depression spreads, the only way remaining to counteract its
political consequences will be new state loans, which are even now beginning to
dominate the capital market. Deficits of $125 billion for 1975 and 1976 are being
considered, which will inevitably expand the money supply further. As the hopes that the
depression will have a deflationary effect fade, they are replaced by prospects of a new
boom contrived by inflationary means. Where all this will lead cannot be forecast with
certainty, but at least one thing is sure: the present crisis, with its peculiar deflationary
inflation, will keep the world in a perpetual state of unrest that could easily lead to
catastrophe.

Notes

1. A. N. Phillips, “The Relation between Unemployment and the Rate of Change of
Money Wages in the United Kingdom, 1862-1957,” in Economica, vol.25, no.100,
December 1958, pp.283-99

2. From the extensive literature on this topic, see John Hicks, The Crisis in Keynesian
Economics, Oxford, 1974, especially the chapter “Wages and Inflation”; also, Aubrey

3. Z. B. A. Glyn and B. Sutcliffe, British Capitalism, Workers and the Profit Squeeze,

4. According to B. Jackson, H. A. Turner, and F. Wilkinson (see Do Trade Unions Cause
Inflation?, Cambridge University Press, 1972), the total income of American workers in
money wages rose by 4.7 percent annually between 1966 and 1970. The increase reduced to 0.8 percent in real income terms, and after tax deductions there turned out to be an annual decrease of 0.3 percent. in August 1974 A. F. Burns, Director of the U.S. Federal Reserve Board, observed that “over the last year the real income of workers in the United States fell by 5 percent” (The New York Times, August 16, 1974).

5. "From 1950 to 1960 the annual depreciation of money was 2.1 percent in the United States, 3.9 percent in England, 2.1 percent in Germany, 5.4 percent in France, 10.8 percent in Israel, 17.6 percent in Brazil, 36.6 percent in Bolivia, etc. There was no county whose money did not depreciate, although the rate of inflation varied widely from country to country" (First National City Bank, Monthly Economic Letter, New York, July 1974).

6. In this capital once again finds grounds for a cautious optimism, e.g., in the view of Ernst Wolf Mommsen, chairman of the board of F. Krupp GmbH, who states, “since I now all those concerned, in particular the trade unions and corporations, have learned the lesson of the past two or three years, it would be wrong to keep putting through new nominal raises in prices and wages and to act as if alongside these nominal rises real rises are still possible in previous measures. The new wage statistics in the Federal Republic are a responsible step in the direction of keeping the nation’s economy healthy and sound. The readiness of the trade unions to act, and finally after three years of stagnation to re-stimulate the investment capacity of German industry, must be evaluated positively. This has strengthened the willingness of German industry to invest and improve again our job security” (Frankfurter Allgemeine Zeitung, April 14, 1975).


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Chapter 3: The Destruction of Money

Money as a means of exchange and as a hoard of wealth appears in many forms; as such it is as old as commerce itself and is encountered in the most diverse kinds of societies. Under capitalism, in addition to these general functions, it also exercises the specific function of embodying the social relations of production. In capitalist commodity production the commodity of labor power is exchanged for money. The purchaser of this special commodity uses it to enlarge his capital, measured in money terms. The primary aim of production is, accordingly, not the creation of goods for use; rather, it is only a means, albeit an indispensable one, for transforming a given quantity of capital into a larger quantity. Production of this sort is possible because labor power, as a commodity, has the ability to produce more than capitalists must pay for it; the basis of production, then, is the social relation between wage labor and capital.

In the circulation process capital alternately assumes commodity form and money form as it accumulates. Commodities and means of production may be transformed into money and vice versa, so that possession of capital is expressed as possession of money. Therefore money must itself be a commodity and be comparable in value with other commodities. In commodity exchange based on capitalist property relations, the division
of social production into paid and unpaid labor assumes the character of value relations expressed in money terms. Although profit derives from unpaid labor time expended in production, to the capitalist it appears as a gain won in the market; indeed, the profit acquired from production must pass through the market in order to be realized. A commodity must first be transformed into money in order to enter into production or consumption as an item of use. It is money that gives production based on private property whatever social character it has.

Since capital expansion determines the course of social production, if the latter is to proceed smoothly it must be profitable enough to permit accumulation. If the rate of profit is insufficient, the accumulation rate falls; on the market the effect of this is a deficient effective demand and shortage of money. Although these phenomena are but symptomatic of difficulties in actual production, they are real enough at the market level, and every economic crisis will appear as a market and a money problem at the same time.

Since the relations of production admit of no alteration, bourgeois economics cannot think beyond pure market and money relations. Bourgeois monetary theory, however, has undergone some changes in the course of capitalist development. In classical political economy and in Marx’s theory of value and surplus value, the value of money, like that of any other commodity, was determined by the average amount of labor time socially necessary to produce it. The value of money, in the form of gold or silver, was determined by the cost of producing it, and money itself served as the equivalent for all other commodities. Although through market competition commodity values take on the form of production prices, i.e., capitalist cost prices plus the average social profit, a commodity’s value in terms of the labor time required to produce it still remains, since the average rate of profit is determined by the size of surplus value in relation to the total value of all commodities produced. Thus price does not abolish the value nature of commodities or the equivalent form of money.

With the emergence of the subjective theory of value, which ultimately ended in a hypostatization of prices, the bourgeois theory of value cut itself loose from all its former ties with classical monetary theory. Clearly the theory of marginal utility is inapplicable to the exchange value of money, since it cannot be determined by the subjective needs of consumers, as can the exchange value of other commodities, but is in fact juxtaposed to these needs as an already given objective value. There have been attempts, most notably by Ludwig von Mises,[1] to give the objective exchange value of money a subjective foundation by assuming that whatever the objective exchange value of money at the given moment, it always rested on prior subjective evaluations, which may be verified by tracing the development of money historically back to moneyless barter. But the derivation of money from a moneyless economy convinced few, and the attempt to define the value of money subjectively was given up.

It was not long until the entire theory of marginal utility was abandoned, since it obviously rested on circular reasoning. Although it tried to explain prices, prices were necessary to explain marginal utility. It was then decided that economic analysis did not need a special theory of value after all and could restrict itself wholly to the empirical magnitudes of money and prices. It would suffice, so it was claimed, to transform “marginal utility,” with its psychological underpinnings, into a logic of choices or marginal analysis to reduce all market relations to an all-embracing common denominator. Just as every individual presumably ordered his income and expenditures rationally by means of marginal calculations so as to achieve the greatest measure of satisfaction of his needs, so the universal application of this “economic principle” would not only ensure the greatest returns from the least investment, it would also lead to a general economic equilibrium in which social demand matched overall supply. If one
abstracts from all other social relations and views human beings solely as buyers and sellers, one may in fact construct a price system in which an equilibrium between supply and demand is achieved by virtue of the relations existing among prices. However, that is all one would have – a construct having nothing to do with reality, and no more than a rehashing, by the device of marginal analysis, of Say’s discredited postulate that every supply produces its own demand. Say’s theory referred to a barter economy and not to a capitalist money economy; following suit, pure price theory also relegated money to a subordinate and incidental role, since, as merely the expression of price relations, it was already taken into account in the analysis of equilibrium.

There were other money and credit theories that existed more or less on their own account, dominated by the quantity theory of money, with its assumption that price levels were dependent on the quantity of money in circulation and its velocity, that is, that they derived from the application of supply-and-demand relations to money itself. But as capital developed, its monetary system underwent corresponding developments and transformations. In the mercantile period preceding laissez-faire capitalism, both personal wealth and the wealth of nations were measured in money, and money in turn was represented by the precious metals. Although the concept of capital presumes money, it embraces all commodities just as well, with any commodity having the capacity to take the place of money. This being so, the quest for riches became contingent on the possession of capital rather than of gold or silver.

For money to function as capital, it must have ceased to be money, i.e., it must be invested in means of production and labor power from which profits in turn accrue to whomever controls production. Accumulating capital represents money values in the form of more means of production and additional labor power. Over the long run the instruments of production transfer their own value to the commodities manufactured. Of course, the mass of commodities placed on the market must be converted into money; but since they embody only a portion of existing capital, only a portion of the capital acquires money form.

In general the total sum of money needed is determined by the prices of the commodities in circulation and by the velocity of money. Of course, in order to circulate, commodities do not themselves require money but human activity and means of transportation. It is not commodities but the property claims attached to them that cause money to circulate. Any number of different forms of money may exercise this function. Commodity money, i.e., gold and silver, seems to be an expensive and unnecessary expenditure as a medium of circulation. It subserves neither production nor consumption but represents the costs of the circulation process. To produce gold and silver requires labor and capital that if put to use elsewhere would bring in profits. Of course, for the producers of gold and silver their production is as profitable as any other; but from the standpoint of society as a whole, as a means of circulation commodity money is unproductive. For this reason capital has always striven to replace commodity money with symbolic money.

Two different sorts of money came to be distinguished: commodity money and symbolic money. But historically the various money surrogates, such as bank notes and credit money, did no more than money and hence remained tied to its value. Once gold-backed currencies and the international gold standard became universal, various means of payment came into use. The gold backing of paper currency was supposed to restrict its issue and hence prevent its depreciation. The gold standard also set limits on the proliferation of a nation’s currency in that a country stood to lose its gold reserves if it printed too much money. In the reserve system the money in circulation was a multiple of the amount that actually had gold backing, so that at any given time only a fraction of it
could be converted into gold. But as long as the confidence prevailed that the conversion was guaranteed, payment in fiat money was as effective as gold itself.

Gold is not just commodity money; because it has industrial and other uses, it is also a commodity in the simple sense of the term. Its value (and hence its price) depends on the productivity of gold production and also on the supply and demand relationships of gold. For gold and the currencies based on it to remain stable, it was necessary to control the price of gold. Originally the money value of gold and its value as a commodity were the same, but at times the commodity value exceeded the money value, and money gold was converted back into commodity gold. To keep the price of gold at a given level, that price had to be stable not only in money terms but also on the gold market. This meant that wherever the supply of gold exceeded its market demand, the excess had to be bought up by monetary authorities, whether they had need for it or not. In this way the commodity value of gold was determined by its money value.

However, the fact that the commodity value and money value of gold could be made to coincide only through state interventions or on the basis of international agreements, and further, the fact that gold as commodity money was being used less and less as a medium of circulation, gave rise to the belief that capitalists could engage in their business activities just as well without commodity money. This view had already been anticipated in Georg Friedrich Knapp’s state theory of money,[2] the burden of which was that money did not need to have a value of its own, and that whatever power it had derived from the value placed on it by state fiat. However, gold-backed currency and the gold standard were maintained not merely out of tradition but because commodity money was held to be more stable. Thus commodity money circulated because it had value, and paper money had value because it circulated.

The notion of an automatic self-regulating market mechanism which at that time prevailed needed a self-regulating monetary system to go with it, and the gold standard seemed to fill the bill. The values of the various national currencies were pegged to units of account representing a specified gold content. All currencies were tied together by their gold contents, for since the price of gold was expressed per unit weight, the same quantities of gold could always be exchanged for one another. If international foreign exchange transactions did not balance out a nation’s debits and credits, the outstanding payments balances between countries were cleared by gold shipments. It was presumed, or rather hoped, that these gold shipments would affect prices in the various countries in such a way that international trade relations would tend toward an equilibrium to the general benefit of all.

Under the gold standard gold flowed from countries with a negative balance of payments to countries with a positive balance. It was assumed that a gold drain from one country would lead to deflation and lower prices there, while the resultant inflation in countries acquiring gold would cause prices to rise. Sooner or later, therefore, the balance of trade of countries with low prices would improve, and that of countries with high prices would become worse, until an equilibrium in the payments balance would once again be restored. This is not the way things worked out, however. Whether the gold standard was maintained or not, capital accumulation depended on capital profitability, not on money and credit. Where expansion of money and credit boosts accumulation as a result of inflowing gold, and hence raises labor productivity, prices do not rise compared with those in countries losing gold and experiencing accumulation problems, with a consequent decline in labor productivity. The gold standard was no more an instrument of equilibrium and stability than the market mechanism, nor was it any more able to check the concentration and centralization of capital than was the domestic price system of any country.
The gold standard (like money) was not a physically necessary medium for international commodity circulation, but rather it expressed the property claims attached to commodities and capital. It seemed especially important for purposes of capital export (for loans and investments) to protect the interest and profits flowing back into a country from depreciation and losses. The capital market was concentrated in Western Europe, mainly England, and accordingly these countries were capital-exporting countries which saw to it that the gold standard retained general acceptance. It gave the different exchange rates a measure of stability and controlled national monetary and credit policies. International rivalry thus extended over money as well.

World War I spelled the end of the gold standard. Later attempts to restore it failed owing to new economic crises. With the gold standard abolished, the creation of money became the affair of each particular country. Those countries emerging defeated from the war availed themselves of inflation to cancel state debts, to divert a greater sum of surplus value into the hands of capital, to step up exploitation of the workers, and to give the capitalist economy a new boost. However, the difficulties that arose in the process eluded control, and inflation led to a total depreciation of money, sounding the imminent demise of the capitalist system. It was necessary to restore the buying power of money through the issuance of new money with no backing. The German Rentenmark, for example, had no other backing than the optimistic faith of the population in government promises to keep it stable. This was taken as patent proof that the buying power of money could be maintained even without reserves by government decree alone.

In Russia the Bolsheviks at first welcomed the inflation brought on by the war and accelerated by the revolution. For them it betokened the decay of the capitalist system. Although the issuance of paper money while the exchange rate was declining amounted to a kind of perpetual taxation, this necessity was transformed into the virtue of a monetary system that purportedly contained the seeds of its own abolition. Money, wrote Bukharin, “represents the material social weft, the fabric that holds together the whole developed commodity system of production. It is obvious that in a transitional period, as the commodity system itself is decaying, money too should lead a contradictory existence, in that, first, it undergoes depreciation, and second, the distribution of notes becomes dissociated from and independent of the distribution of products, and vice versa. Money ceases to be a universal equivalent and becomes a conventional and highly imperfect symbol of product circulation.”[3]

Given the visions of a moneyless socialist economy current among the Bolsheviks at this time, the depreciation of money seemed to neatly fit their plans for reconstruction on the basis of a natural economy. But neither inflation nor barter proved to be viable solutions to the growing economic difficulties, and they were soon discarded to make way for a new monetary system. A series of currency reforms and the first steps toward a planned economy restored monetary stability, although not the relative independence money had enjoyed formerly. As a unit of payments money was transformed into an instrument of accounting and control in an economy keyed to use values and material balances. As a measure of value and a means of payment, it served the purposes of circulation only insofar as it steered commodity flows into channels specified by the plan. Its function as a medium of circulation was in general restricted to consumer income and outlays; the financial aspects of economic relations among enterprises were dealt with via the accounting procedures of the state bank.

The social regulation of production and distribution was no longer an unconscious process effected through market relationships or concretely through the circulation of money; production and distribution were henceforth controlled consciously through the medium of money, just as wage labor was used to maintain centralized control over the
economy. Through the control of prices and wages, money too is controlled, inasmuch as money only expresses in figures what has already been stipulated in material terms. Money was henceforth denuded of its veil; no longer the abstract reified form of social relations, it had become a means for social control in the interests of the new modified form of capital production relations.

However, this new function of money was restricted to the domestic economy. Internationally gold continued to be required to square payments balances. According to Lenin the use of gold as building material for public conveniences was possible and appropriate only after a world socialist revolution. Until such time as that came about, it was necessary “to howl along with the wolves” and continue to produce and accumulate gold. But money gained a dual function in capitalist countries as well: an international and a domestic function; gold is considered necessary only as a universal means of payment to square outstanding payments balances.

The view has long been current that a gold-backed currency was not necessary for a nation’s domestic economy. But because of traditional thinking, and out of fear of currency depreciation, commodity money was still retained. Because the gold standard set prior limits to the creation of money, these limits could just as well be defined by monetary policy. In any event commodity money lost its former importance with the development of banks and the credit system, until in the end it came to be regarded merely as an accounting unit for balancing out debits and credits. Every purchase and sale, it was now argued, created a debt that could just as well be paid through the banks without the intervention of money. Thus cashless payment transactions came increasingly to be used instead of the state-issued currency, without, however, replacing the latter entirely.

The concept of money is entailed in that of a commodity; hence gold currency was a historical although not necessary phenomenon of commodity circulation. Since all commodities are potential money and money can command any commodity, any payment medium can serve as a medium of exchange in a nation’s domestic economy. For the mass of working people, money is purely a medium of exchange enabling them to exchange the commodity labor power for the commodities their wages enable them to afford. For capital, on the other hand, money is a medium of exchange as well as a medium of accumulation. A given quantity of money must be enlarged for commodity exchange to become capitalist commodity exchange. Business is not transacted to square debits and credits but to obtain profits.

The modern credit system was an instrument of rapid capital development, and capital accumulation in turn served as a powerful stimulus to the expansion of the credit system. The monetary system grew more and more complicated, although the social relations on which it was based retained their unvarnished exploitative character of capital versus labor. Today it is the banking system which is charged with implementing government money policy. Bank lending depends on the state’s creation of money, which the state does by printing notes and issuing treasury bonds; it is also dependent on government-regulated reserve regulations for deposits, which, however, may vary. Though credit may be only partially covered by bank reserves, it is in general secured by the capital assets of the borrowed If there is no capital equivalent, there is also no credit. Thus it is the capital at hand, not money, which is the relevant factor.

The aim of capital accumulation is to transform a given mass of value into a larger one; accordingly, given a constant velocity, the money supply, in all its various forms, also increases. So long as capital accumulation encounters no obstacles, accumulation of value and accumulation of money take place side by side with no notable friction. But there is always a danger of a monetary crisis unfolding, since the social character of
production has only one vehicle of expression, and that is the money relations of commodity production, which originate in but exist and function independently of commodity production. But aside from this ever-present possibility of a monetary crisis, a general crisis occurs only if the accumulation process is stopped or slowed; but then the crisis is always also a money crisis.

Even into the twentieth century bourgeois economics has never been able to explain crises; according to it the market mechanism should be sufficient in itself to allay any disturbances of equilibrium. But the duration and scope of the crisis between the two world wars dispelled this illusion and necessitated far-reaching economic interventions by the state. The means used were monetary and fiscal; and although they did influence the market, they did not call its existence in question. In the eyes of bourgeois businessmen and economists, the crisis was a reflection of insufficient demand, and they chose their means to combat it accordingly. Insufficient private demand had to be supplemented by public expenditures to alleviate unemployment and activate idle plant. At the same time, the profitability of private capital had to be improved so that the existing crisis and the state interventions it necessitated did not become perpetual.

Since the crisis was seen as a momentary disturbance, the measures taken to combat it were seen as something temporary as well, imposed by force of circumstances. Deficient demand caused by a reduction in new capital investments results in a lower buying power among the population or a shortage of money in general. The latter problem can be answered by inflationary means, which, however, cannot alter the accumulation difficulties that lay at the roots of the crisis. For capital inflation has a rationale only insofar as it contributes to expansion of profits on both domestic and foreign markets; it loses this rationale as the rate of inflation increases. Inflation must therefore be controlled, and this is done most effectively by deficit financing through state loans.

However, since it appeared that a growing state debt brought about by deficit financing was just as capable of expanding production as was capitalist accumulation, the notion of functional financing arose, the gist of which is that an economy with full employment could be regulated by state measures. This idea, which originated with John Maynard Keynes,[4] became in various versions a universal axiom. Through a combination of fiscal and monetary measures, governments, it was claimed, should be able not only to ensure full employment but also to prevent inflation and deflation. Domestically the growth of the state debt had no significance, since its assumption and payment amounted only to income transfers that would not detract from total social consumption.

This was but a variation in the altered function of money such as we see in a planned economy. Money was henceforth to function as an instrument of state economic policy within the market system. Only when the market failed in its function as an equilibrium mechanism should a nation’s production be stimulated or cut back by injection or withdrawal of state-raised funds. The automatic price system would continue to be determined by consumer activity, but it would include in addition state-regulated and expanded public consumption. Since, however, increasing public consumption cuts into the amount of surplus value available for conversion into capital, a readiness to adopt this kind of economic policy required both the will and ability to disregard the accumulation needs of private capital as, however, this would in the course of time call the capitalist system itself into question, such an economic policy can only be a temporary one, applied out of necessity and sparingly.

But a state monetary policy aimed at influencing the economy signifies at least a partial elimination of commodity and money fetishism, and in this sense it reflects the
general process of decline of a market economy. It indicates an acceptance in a sense of Knapp’s state theory of money and its adaptation to the mixed economic system of present vintage. But as long as the state-controlled profitless sector of the economy grows more rapidly than the private sector, the accumulation rate of the latter must fall, and such a policy of conscious, purposeful intervention into automatic market processes will not bring order into the system; its occurrence is rather a sign of decay regardless of any temporary economic relief it may bring. Ultimately any state monetary policy meets its limits in the contradictions at work in the sphere of private production.

If it was possible to bring a nation’s domestic economy out of depression by inflationary means, it was a reasonable expectation that if such means were used simultaneously in all countries no longer bound to the gold standard, the world economy as a whole would be given a boost. National monetary policies applied independently would in the process expand world trade by expanding domestic production, and international commerce could, at least in principle, be regulated just as well through international agreements without the intermediacy of gold. This idea was based on the belief, still unshaken, that under full employment the equilibrium tendencies of the market would again begin to operate at both national and international levels.

Before this could happen, however, a bitter, no-holds-barred international competition began in which every country pursued its own advantage at the expense of every other, and which finally led to World War II. The international monetary system, which had already begun disintegrating in the preceding crisis, had by this time totally collapsed and at war’s end had to be rebuilt from scratch. While the war was still in progress, the victor nations met in Bretton Woods to work out the monetary foundations for the reconstruction of world trade. The Central World Bank and the International Monetary Fund were created in the light of the lessons learned from the previous monetary crises, with the aim of providing credits to prevent balance-of-payments difficulties from jeopardizing world trade.

Implicit in these measures was the old hope that the inequalities in international economic relations would in the end balance themselves out on their own, even though that might take some time. Capitalist accumulation, however, both national and international, is at the same time a process of concentration and centralization. Internationally the effects show up in the uneven development of individual capitalist countries and in shifts in their relative positions of power within the world economy. This uneven development is further accentuated by imperialist rivalry, giving one nation, or even one continent, the advantage of power over another. Under such circumstances one country grows rich while another grows poor, and trade relations become an instrument of international capital concentration.

The two world wars broke the hegemonic position of European capital in favor of American capital. Creditor nations became debtor nations, and vice versa. Gold shifted en masse to America, and trade relations were resumed only on the basis of long-term credits. The postwar chaos of exchange rates was replaced by a system of fixed exchange rates in parity with the gold-backed dollar, and the dollar was appointed to the status of an international money and a reserve currency. Because the dollar could be exchanged for a gold equivalent, its function as a reserve currency gave it the same status as gold. There was, however, always the danger that the price of gold would rise, which would cause all currencies to depreciate. But as long as the postwar boom continued, the likelihood of this was negligible, and the new monetary system seemed to meet the needs of the world economy as well.

Appearances were deceptive. While the vast capital destruction that had taken place in Europe and Asia made reconstruction a necessity, with a long period of economic
boom ensuing, capitalist accumulation in America continued to drag its feet; anything even approximating full employment could be achieved only on the condition of government-induced supplementary production in to form of military expenditures. The result was a creeping inflation accelerated by imperialist interventions in all parts of the world. The modest accumulation rate of American capital was a sign that the rate of profit was low; this, however, was compensated for by the exportation of capital to countries where profitability was higher. American capital export, pre-eminently to Western European countries, added more steam to the economic up swing already in progress and hence for some time encountered no opposition.

The monetary policies of American governments favored the export of capital and at the same time furnished the financial means for imperialist power politics. While American capitalists bought up or established whole industries in the European countries, paper dollars were being accumulated in these countries as reserves. The result was a steady flow of gold back to Europe, which meant practically that the dollar lost some of its gold guarantee. As other countries became more competitive, the U.S. positive balance of trade, which had persisted for a long time, vanished, and the negative balance that ensued could be remedied neither by trade, the return flow back into the country of profits on exported capital, nor by the export of European capital to the United States. Ultimately, if the U.S. payments deficit persisted, a breakdown of capital trade relations was inevitable.

Monetary crisis again became the catchword, and the need for a new monetary system was voiced. But these proposals were only reactions to the existing difficulties, not their solution. When the economy had failed under the gold standard, its abolition was sure, it was then said, to bring about an improvement. When floating exchange rates only deepened the chaos in world trade, fixed exchange rates were adopted again. Whereas once there was no question but that the world currency be tied to gold, now this need was disputed and free exchange rates were considered the correct policy. Monetary policy has thus invariably been but a reflex reaction to economic developments that had gone out of control. It was conscious steering of economic policy by monetary means only in the imagination of monetary theorists. If at the national level capitalist control over the economy proved to be an illusion, it turned out to be even less possible to bring international commerce under control by means of monetary arrangements. Just as state-induced full employment only conceals, but does not relieve, the crisis undermining the system, so as the capitalist system decays, it drags the monetary system along with it. And if full employment can only be achieved through inflation when accumulation is inadequate, so inflation leads through the general interdependence of the world economy to its disintegration by forcing each individual nation to try to unload its problems onto others.

Bourgeois theory tries to explain inflation with the wayward assumption that demand exceeds supply. But the number of unemployed continues to rise, more and more plant is shut down, and still inflation goes on; its cause, therefore, cannot lie simply in excessive buying power. The cause lies elsewhere: in the drive, namely, to secure capital’s continued profitability despite growing public spending and the decline of instruments. The quest for more profits is also a factor determining capital exports, which are subsidized by an inflationary monetary policy. Capital must expand, and this means also geographically, with national rivalries and imperialist competition the result. Power politics is backed up by inflationary monetary policies, which are perhaps the best way to justify growing public expenditures, since they contain the promise of potential future profits. Once an inflationary course has been set and it is claimed to be the key to a
specious social stability, it becomes increasingly difficult to abandon this course and return to traditional crisis mechanisms.

All warnings to the contrary, inflationary monetary policies were adopted not out of conviction but in deference to necessity. Started in the United States, they became a general phenomenon. Since a negative balance of payments in one country means a positive balance in another, the money reserves of the latter increase, and the money supply and credits expand along with them. Had the export of capital to the United States or U.S. export of its products increased commensurately, payments balances overall could have been squared. But total American spending consistently exceeded American revenue from international economic trade. One way to meet this problem might have been to cut back on American capital exports, reduce the costs of imperialist politics, and improve competitiveness on the commodity markets at the cost of the working population; but these measures would have further undermined the already unstable American economy, which was even then dependent on inflation.

These discrepancies in capitalist economic relations are telling signs that profitability of capital is not sufficient to enable all world capitalist countries to achieve at the same time an accumulation rate permitting full employment.

Each country’s share in total accumulation is not constant and will fluctuate over time. Capital flows into countries with the highest profit and interest rates. Since it is the profit motive that regulates economic development, there is no way to change this process; with regard to the economic contradictions it creates, all that is left is the hope that the trend will sooner or later shift course.

If this hope is deceived, attempts are initiated to use political means to break the persistent one-sidedness of economic development; but if accumulation is insufficient, the only way this can be done is to use political force to effect a redistribution of world profit. No nation can afford in the long run to remain indifferent to the payments deficit of the world’s greatest capitalist power, the ultimate consequence of which would be the collapse of world trade. All countries are as committed, if not more so, as the United States to the expansion of world trade and are therefore prepared to put aside all their reservations and make concessions that will help rescue the United States from its payments deficit. This readiness is what enabled the United States to cashier the Bretton Woods monetary system and abolish dollar convertibility.

So what had long been a national reality was now achieved on the international level as well; commodity money ceased to exist. Reserve currencies had been only partially convertible by the procedure of gold exchange based on the gold standard; but to the extent they were convertible (and that extent, moreover, was continuously diminishing), it was sufficient to prevent a general flight from currencies into gold, despite an accelerating inflation. The illusion of convertibility was sedulously maintained, e.g., through support of the official gold price (now by selling rather than buying gold), by the creation of other supposedly gold-guaranteed credits, i.e., the special drawing rights of the International Monetary Fund, and by holding the money price of gold separate from its price as a commodity. Even after dollar convertibility was abolished, the state of affairs that then arose was considered a temporary one, until such time as a new currency system could be devised in which gold would continue to play some role, if only a limited one.

The abolition of dollar convertibility and the ensuing need for a new monetary system seemed to substantiate a tendency toward a capitalist re-organization of the world economy, although with the wrong means of monetary policies, designed to bring market conditions in conformity with the needs of a more regulated world economy. In both socialist and bourgeois literature, the internationalization of capital concentration had
always been linked with the abolition of money in its capitalist form. For instance, according to Hilferding, “under finance capital, capital loses its special capital character,” since the ultimate outcome would be the creation of an international “general cartel.” Capitalist production will then be regulated by a central plan which determines the whole of production in all its particular spheres.

Price determination will then be purely nominal, implying the distribution of the social product between the cartel-magnates on the one hand, and between the working population on the other hand. Price is then no longer a result of material relations between men, but a mere accounting devise for the distribution of goods by persons to persons. Money no longer plays a role. It can now disappear completely, for the distribution concerns itself with products and not with values. With the disappearance of the anarchic character of social production disappears the value character of commodities and therewith also money. Ludwig von Mises was less captivated by, yet still was apprehensive about this development, for he too believed that a world cartel was a possibility, with the destruction of money as its consequence, since “a single world currency bank or the world cartel would be able to expand currency circulation without limit.” He saw here problems which “perhaps point beyond the individualistic organization of production and distribution to new forms of collective organization of the economy of the society as a whole.”

At the national level it has become apparent that the market cannot be stabilized through the indirect means of monetary and fiscal policy, and that only direct measures of administrative price and income regulations could put an end to inflation. There exists then a tendency to adopt the concept of money like the one that prevails in the planned economies for the market economies as well. Although actually incompatible with the latter, since an effective price and income policy presupposes centralized control of all production and distribution, still this way of thinking indicates the undesired transformation of capitalism from an individualistic into a collective system such as temporarily existed at times of war under the name of “war socialism.”

As capitalism is disintegrating from within, so too money is becoming otiose, although the system continues to be based on it. According to Marx the accumulation and concentration of capital, and its transformation from private into share-capital would lead to a progressive socialization of capital.

This is the abolition of the capitalist mode of production within capitalist production itself, a self-destructive contradiction, which represents on its face a mere phase of transition to a new form of production. It manifests its contradictory nature by its effects. It establishes a monopoly in certain spheres and thereby challenges the interference of the state. It reproduces a new aristocracy of finance a new sort of parasite in the shape of promoters, speculators, and merely nominal directors: a whole system of swindling and cheating by means of corporation juggling, stock jobbing, and stock speculation. It is private production without the control of private property.

In such a situation capitalist society has only its own demise ahead of it. The state is forced to intervene in the market mechanism in ways that can only paralyze it; in a word, it is constrained to apply political measures divorcing the relations of production from its market relations in order to maintain at least the former. On the other hand, as the market mechanism disintegrates, it requires on its own account government interventions to prolong its own existence, i.e., individual capital entities and corporations need the authority of the state to ensure their profitability. Economic and political measures therefore coincide; capital becomes the government, and the government spells capital. State authority, which had always been dependent on and at the service of capital, is now
fully identified with capital, and its first function is to maintain the exploitative relations that market relations can no longer guarantee.

Under the hegemony of monopoly capital, the average rate of profit, which is mediated by competition, is no longer able to regulate the market mechanism. Pricing, which is done in a relatively arbitrary fashion, results in the transfer of profits from competing enterprises to the monopolies. Although this promotes capital concentration and centralization, by itself it effects no change in the total mass of profits, unless in the process the productivity of labor also increases commensurately with the needs of accumulation. If this does not occur, monopolization hinders the emergence of market relations advantageous to a progressive accumulation and gives rise to deepening contradictions on the money and commodity markets. Growing monopolization is the expression of both the rise of capital and its fall, just as accumulation heralds its beginning and its end.

Since monopolization is a product of competition, it cannot be arrested. Monopolistic pricing distributes social profits in accordance with the claims of monopolies. Thus monopolistic pricing is already the pacesetter of government distribution policy, and it is only a question of which is more appropriate: whether the state will choose the indirect way of monetary policy or the direct way of price and wage policy. However, centralized control over the entire economy, such as exists in the planned economies, cannot be achieved without the total abolition of private capital property relations. But that means a social revolution that would sweep away state monopoly capitalism. Hilferding’s “general cartel” is therefore an illusion on both the national and international scale. State-capitalism destroys the economic basis for class rule for both competitive and monopoly capital, but it gives rise to a new class that rules by political means alone to assume the required control over production and distribution. Present monetary policy reflects the double-faced nature of the mixed economy, its progressive nationalization of production within existing property relations, and the resulting sharpening conflict between the real needs of society and the accumulation needs of capital. On the one hand, money is supposed to function as an instrument of deliberate and conscious economic management, but on the other it must perforce reflect existing relations of production and the resultant distribution of the social product. It is expected to serve two masters, so to speak, and in doing so serves both inadequately, as is plain from the increasingly unproductive use of labor and capital and the resultant destruction of money as the incarnation of capital production as value relations.

Domestically a nation’s money is valued in terms of its buying power; it makes no difference if it is commodity money or symbolic money. Nowadays symbolic money is even coming to be regarded as superfluous, and a future is envisaged with electronic bank transactions effecting cashless and checkless payments.[8] Internationally, however, the situation is different. At least some symbolic money must be convertible into commodity money to cover the balance of payments deficits that arise in international trade. The dollar was formerly used as a reserve currency because of its convertibility into gold. But when convertibility was abolished, with it went the fixed reference point to which all currencies had been pegged; henceforth the value of these currencies depended on the shifting supply and demand situation on the market.

If the world were a single nation, the national monetary system could become an international monetary system. Commodity money and gold reserves would then be superfluous, and the money market could be controlled by government regulations. In the real world of competitive capitalist nations, however, this is not possible, and any monetary policy based on international agreements has its limits in time. Thus the fixed exchange rates of the Bretton Woods system had a stabilizing effect as long as the real
instability of the world economy as a whole made every nation a debtor to the United States. But the United States was unable to maintain its position of absolute hegemony by further rapid capitalist accumulation. The reaction against the developing crisis led to a dollar inflation, with the international monetary crisis as its product.

Capitalism has been plagued by economic crises, with their accompanying monetary repercussions, throughout its history. But still the illusion persists, stronger even than before, that the conflicting interests the crisis has brought to the surface can be managed through negotiations. In the many international conferences that have been called to discuss the world monetary system, the world seems to be viewed as if it were already one nation, and words about the need for international cooperation flow on endlessly as competition grows sharper, drawing monetary policy along with it. True, the international economy has for quite a while now exhibited a degree of integration and mutual dependence such that every rising trend is felt, if to an uneven degree, throughout the world, and every serious crisis becomes a crisis worldwide as well. There is a need, therefore, for co-operation; but the way capitalism is currently organized, i.e., predominantly on a national basis, precludes hammering out any common interests that go beyond the trivial.

Thus the world monetary crisis precipitated by the abolition of dollar convertibility showed that not only generally but in monetary policy as well, national needs take precedence over international ones. The United States was neither willing nor able to abandon its inflationary course and sought to resolve its balance of payments difficulties at the expense of other nations. To a point this was quite possible, since sometimes nations are willing to endure disadvantages to avoid even greater losses. The declining competitiveness of American capital contributed to the U.S. balance of payments deficit, but this could be alleviated to some degree by the up-valuation of other currencies. Under the Bretton Woods agreements, all currencies were at parity with the dollar inflation, manifested as a balance of payments deficit, reduced the dollar’s exchange rate against other currencies. To maintain the parity of their own currencies, the central banks of other nations were obliged to buy up surplus dollars, thereby adding fuel to inflation on their own territory. To keep inflation within bounds they had to up-value their own currencies with respect to the dollar, although this made their own exports less competitive with American export products. They had to choose, therefore, between two evils: inflation, or a decline in exports. In some respects the decision was theirs, but in others it was imposed on them.

The United States was able to force the revaluation of other currencies and to make arrangements that would allow exchange rates to fluctuate over a wider range. However, the net effect of all this was only a reapportionment of world trade, with one nation’s gain being another nation’s loss. The volume of the world economy and profitability remained as they were. The general view now is that the present monetary crisis will be with us for some time, with temporary measures applied here and there until a new world monetary system can be fashioned that will better meet the needs of the capitalist world economy than did the former one.

It is of course an illusion to assume that a monetary system can be found that will subordiate the interests of all countries to those of the United States. The acceptance of American monetary and trade policies, whether voluntary or not, has been contingent on the relative prosperity of Japan and the Western European countries compared with the United States, and it can only be continued as long as this prosperity lasts. But signs are multiplying that a decline is already beginning that will mean these countries will no longer be either willing or able to make concessions. As long as the United States stands firm on its position that autonomous national economic policy, with its objective of more
or less full employment, cannot be sacrificed to the interests and ends of a balance of payments equilibrium, other nations will be forced to maintain social stability by means of inflation and deficit financing, while at the international level resuming their competitive battle of all against all.

Of course, how this new monetary system is going to be created without squaring payments balances remains a riddle, unless the countries with positive balances are willing to toss them down the drain by writing off the deficits of other countries. In a certain sense this was in fact what already had been happening when the American deficit was translated into the monetary reserves of other countries. And although surplus dollars, in contrast to gold, flowed back onto American money markets when other nations purchased interest-bearing government bonds, that interest is not an adequate compensation for the permanent danger of further depreciations of the dollar. With no gold backing the dollar represents a claim on the United States that must diminish in value as inflation continues, whereas gold retains its value, determined as it is by production costs. Although it has been assumed that the abolition of the gold reserves would reduce the price of gold on the gold market, which has only a limited demand, it has occurred to no one to try this experiment seriously. The United States was also not willing to stand firm on dollar convertibility down to the last gold bar, but instead abolished convertibility to save what gold remained.

Even with the dollar no longer convertible, gold retains its function as commodity money. Other commodities could also perform the same function, however, more and more, suggestions are being heard that dollar surpluses should be exchanged for shares in American companies, and the Japanese central bank is considering using its surplus dollars as loans to Japanese businessmen to invest in the United States. The American deficit would thus become an instrument of capital export for other countries, as it had been in the past for America, and a balance of payments equilibrium would be effected through the proliferation of multinational concerns. If, however, nothing is changed in the existing trade relations, more deficits would bring about a further drain on American capital and make its situation, already precarious, much more so, since the profits of the multinationals would flow back into the countries of their owners. Not much is to be expected, therefore, from measures in this direction. It is more likely that attempts will be made to find compromise solutions through the International Monetary Fund, which will maintain the convertibility of the dollar into other currencies even without gold backing. The hope is still sustained that the problem will solve itself given enough time. The mechanism of artificial reserves and special drawing rights helps by gaining time; the latter was devised to utilize existing gold and currency reserves to give deficit countries a chance to square their balance of payments under long-term conditions.

But any international agreements to this end assume that current economic difficulties will not degenerate into a new world crisis. If they do, any world monetary system devised will come tumbling down, as happened in the last great crisis. World money has already gone the way of commodity money, even though the dollar must perforce continue to perform he function of a world currency without in fact being so any longer. This demise of money in its traditional form is the inevitable consequence of the dissolution of the national and international autonomy of the market and the attendant progressive decay of the capitalist economic system. These are the woes and travails of the bourgeoisie, however, although they are borne on the backs of the workers. Capital can live neither with money nor without it, and its day, like that of money itself is long overdue. The final abolition of money will be a task for socialism to resolve.

Notes
1. Theorie des Geldes und der Umlaufsmittel, 1912.


5. Das Finanzkapital, 1910, pp 321


8. D. W. Richardson, Electric Money. Evolution of an Electronic Ponds-Transfer System, 1970. “There is no question,” writes J. Flint in *The New York Times* of May 31, 1977, “that a revolution or at least an evolution is under way. The goal is to win by electronics the $1,000 billion that consumers keep in banks, savings and loan associations and credit unions, and to hold down always growing costs by eliminating paper processing. But arguments rage over the success or failure of electronic funds transfer systems – or F. F. T. as the process is known in bankers’ jargon – the directions taken and the benefits or dangers for consumers, ‘We have passed the point of no return,’ said J. J. Poppen, a vice president of Booz, Mien & Hamilton, management consultants. ‘We are reaching for the forms of full implementation, like it or not.’ But he sees a final F. F. T. victory as much as a quarter century away.”

1976

**Chapter 4: On the Concept of State-Monopoly Capitalism**

In the first instance the term monopoly capitalism is no more than a correct description of existing society. Capitalism is pleaded by monopolies and in large part determined by them. The state, whose function is to protect the social structure, is thus the state of monopoly capital. This is by no means a new phenomenon in capitalist society: it has always been a feature of capitalism, if not as pronounced in the past. According to Marx, who has given us the best analysis of capitalism, capitalist competition presumes monopoly, i.e., capitalist monopoly over the forces of production. The antagonistic class relations that result from this require control of the state, which at the same time represents the national interests of capital at the level of international competition.

A capitalism of pure competition exists only in the imagination and in the models of bourgeois economics. But even bourgeois economists speak of natural monopolies and monopolistic prices. Although, granted, monopolies are not subject to the laws of the market, they are still held to be unable to shake these laws to any notable extent. Only in recent times, with whole branches of industry monopolized, has bourgeois economics been forced to deal with imperfect or monopolistic competition in its theories and to go into the changes monopoly has wrought in the market. What for bourgeois economics marked a theoretical turn had in Marx’s analysis of capital always been seen as an inherent tendency in capitalist accumulation. Capitalist competition leads to capital
concentration and centralization. Monopoly was born of competition, and out of it grew monopolistic competition. Marxist theory has also always ascribed a more important role to the state than the bourgeois world was willing to acknowledge, not only as an instrument of repression but also as the organized powered mainstay of capitalist expansion.

Thus there can be nothing objectionable in the use of the term state-monopoly capitalism, although it implies no more than the simple term capitalism. Various stages can be distinguished in the process of monopolization and state economic intervention, however. Thus the development of capitalism can be represented as its progressive evolution into monopoly capitalism, and we may accordingly ask what this means in present times, and further, what it implies for the future. It is in this context then, that emphasizing the special state-monopoly character of present-day atavism becomes meaningful.

Capitalist accumulation tends not only toward a progressively deeper class division between labor and capital but also toward increasing concentration and centralization of the power to dispose over capital as it expands. 'One capital kills many others’, and what concentration is unable to achieve through competition, deliberate centralization can do through the formation of trusts, cartels, and monopolies. Capitalism thus tends itself in a state of constant change, although the underlying exploitative relations remain unaltered.

For Marx the decline of capitalism was already contained in its rise. The same social relations that allowed it to expand would also bring about its fall. Capital accumulation was a process ridden by crises; under the conditions of advanced capitalists in which the working class is the pre-eminent class, every major crisis contained the possibility of social revolution. However, if we put aside revolution as a potential solution to capitalist contradictions, the trend of capitalism, despite all the setbacks during crisis periods, is toward increasing monopolization of the national economy and sharpening international monopolistic competition.

This trend is often seen as objectively preparing the way for socialism. With the transition from competition to monopoly and to the large capital units created by accumulation, concentration, and centralization, individualistic capitalist private ownership of the means of production has been transformed into the collective ownership of corporations and large concerns, in which management and ownership no longer reside in the same persons. For Marx:

"capital is here directly endowed with the form of social capital (a capital of directly associated individuals), as distinguished from private capital, and its enterprises assume the form of social enterprises as distinguished from individual enterprises. It is the abolition of capital as private property within the boundaries of capitalist production itself.”

Whereas for Marx this situation was a sign of capitalistic decay, Friedrich Engels detected in it also a positive element, namely, a kind of capitulation of capitalistic anarchy to the planned production of the socialist future. In his view, we witness here “the reaction of the mighty, growing, productive forces against their character as capital, the increasing compulsion to recognize their social nature, which more and more forces the capitalist class itself, insofar as this is at all possible within the relations of capital, to treat them as social forces of production.” Engels saw, of course, that ‘neither the transformation into joint-stock companies (or trusts), nor that into state-property, eliminates the capitalistic character of the productive forces. In the case of joint-stock companies (and trusts), this is obvious. And the modern state, again, is only the organization whirls bourgeois society provides for itself in order to support the general external conditions of the capitalist method of production against encroachments as well
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of the workers as of individual capitalists. The modern state, regardless of its form, is essentially a capitalistic machine, the ideal collective capitalist. The more productive forces it takes over into its possession, so much the more does it become the actual collective capitalist, and so many more citizens does it exploit. The workers remain wage-workers, proletarians. The capitalist relation is not eliminated. It is rather brought to a head. But, brought to a head it topples over. State ownership of the productive forces is not the solution of the conflict, but it conceals within it the formal means for the solution of the problem. While for Engels state property and monopolization do not eliminate capitalism’s susceptibility to crises and depressions, for Hilferding, on the other hand, their progressive development indicates the possibility of ending the capitalist crises and reducing socialism to a mere political problem. Although the pressures on all noncapitalist classes increase with increasing monopolization, nonetheless, it will finally lead to a consciously regulated social reduction, leaving the remaining social antagonisms to the sphere of distribution. What remained to be done would be; ‘the planned regulation of the economy, not by the magnates of capital and in their specific interest, but with regard to the needs of the whole society and through society. The socialized functions of financial capital – the combination of industrial and banking capital makes the overthrow of capital so much easier. As soon as financial capital is in control of the most important branches of production, it suffices that society, by means of the proletarian state, appropriates financial capital and thereby gains control over the dominant branches of production.

For Hilferding finance capital had already completed the necessary expropriation of private capital, and nationalization would merely put the finishes touches on the socialization of productive forces initiated by capital itself. Later this idea was taken up by Lenin. In his writings on imperialism he described state capitalism at the turn of the century as ‘parasitic, stagnating, and dying’ and marked by the ‘substitution of capitalist monopolies for capitalist free competition’. But monopoly is the transition from capitalism to a more highly developed order. Without going into Lenin’s theory of imperialism, we may say that for him imperialism coincided with finance capital, and the latter was organizationally the precursor of socialism. The centralized administrative control over social capital exercised by monopoly finance had only to be taken over by the proletarian state and put to the service of society at large.

Thus we see that this concept – which goes back to Engels and was shared in common by Hilferding and Lenin despite their other differences – that monopoly capitalism paved the way for socialist society, is rooted in the false assumption that the forms of social organization accompanying capital concentration were identical with the socialization of production. Because the individual enterprise was presumed to be organized rationally and according to plan, as opposed to the irrational, unplanned functioning of the economy as a whole, Lenin imagined accordingly a socialist economy as one huge factory steered by the state. In actuality the individual firm is just as irrational as the economy as a whole, unless of course one regards the capitalist profit motive as an economically rational principle of production. Individual firms are just as dependent on the law of capital expansion as is the society as a whole and must function within the framework of general or monopolistic competition, which determines the form of their organization.

In their pursuit of profit monopolies organize themselves and no more. If they were all brought under the central control of the state, the state could do no more than reproduce this new capital relation between itself and the producers, unless of course the produced abolish the state. There is hardly any need to belabor the point further: the long existence of the “socialist states” is practical proof enough that the term socialism is no more than a cover for today’s state capitalism. Complete monopoly over the means of
production does not do away with the capital-labor relations; it merely frees capital from market competition without abolishing competition itself. Quite apart from the fact that competition continues to exist at the international level, even within state capitalism it merely changes its outward appearance by moving from the economic sphere into politics.

Yet so far state capitalism has been the preserve of capitalist underdeveloped countries or has been imposed imperialistically on developed countries, as in Eastern Europe; and the countries that fit Lenin’s description of monopoly capitalism have remained at this stage, although the role of the state in them has grown. The conditions of a monopolistically controlled world market precluded any possibility of capitalist development by way of competition for the underdeveloped countries. In a situation more or less similar to the pro-revolutionary status in Russia, that is, with a weak bourgeoisie, a proletarian minority, and a predominantly agrarian population, these nations could only counter the head start of the monopolistic nations by establishing even more rigid monopolistic control over economic life. Monopoly capitalism evokes state capitalism not within monopolistic economies but in the struggle against them.

Indeed, Russia’s example has shown that a state-controlled economy is able to speed up industrialization, at least in large nations, even if only at the expense of the working population and to the benefit of state capitalsms newly spawned ruling class.

Prompted by the major role played by the state in the war economies of World War I, Lenin was led to regard monopoly capitalism with its imperialist imperative, as state monopoly capitalism in which the state serves the monopolies. The next step in the erection of socialism in capitalist countries would then accordingly be to sever the state’s ties to monopoly interests and reorganize it to serve the interests of the population as a whole.

First, however, it was necessary to smash the state of the monopolists to make way for a new state, which could then get down seriously to the task of abolishing capitalist exploitation. State-monopoly capitalism was to give way to the socialist state, without losing thereby its centralized administrative control over the economy at large. Leninists still adhere to this program, although it amounts to nothing more than the attempt to drive out the devil with Beelzebub.

With state capitalism identified with socialism, regarded as a transition to a stateless communism set sometime in the far-distant future, the struggle for socialism becomes a struggle against present-day state-monopoly capitalism. This struggle can only be a revolutionary struggle, since state-monopoly capitalism will hardly hand in its resignation voluntarily. Although state capitalism still continues worker exploitation, it nevertheless does destroy the class domination of the bourgeoisie. But the communist parties in the Western nations, which now appear to have taken up the banner against state-monopoly capitalism, had ceased as long ago as 1920 to be a revolutionary movement. They are no longer prepared to put through their own program by revolutionary means, and they are waging a mock battle against state-monopoly capitalism in order to gain for themselves places of influence within the existing systems.

This is not to say that the Western communist parties have abandoned their own goals. Whenever and wherever the opportunity presents itself, one can be sure they will attempt to divert every successful anticapitalist movement in the direction of state capitalism. Since such movements are not yet on the agenda, these parties pour all their efforts into a struggle for positions of power within the existing society, and their ‘struggle’ against state-monopoly capitalism becomes an empty propagandistic slogan to mobilize the masses behind them, masses as yet turned only against the ‘bad sides of capitalism,’ not against capitalism itself. Indeed, the communist parties are neither against
capitalism nor against the state; they are only against a state that is wholly in the services of the monopolies and for a state and a capitalism that serve the common interest.

But a common interest can only exist under classless socialism. Under capitalism there exist only irreconcilable class interests. Therefore capitalistically inclined social strata that are the victims of monopolization cannot be won over to socialism because their special social positions would be destroyed even more rapidly and thoroughly under it than under monopoly capitalism. At most they can be won over to a capitalist program that caters to their special interests, in a word, an antisocialist policy. Thus behind the slogan of a struggle against state-monopoly capitalism lurks the proclamation of a counterrevolutionary policy directed against socialism.

It is, however, quite conceivable that as monopolistic pressure intensifies, driving segments of the petit bourgeoisie into the proletariat, some of these petit bourgeois layers will be persuaded that their last chance lies with state capitalism, which they hope will throw open the gates to the career monopoly capitalism had barred to them one glimpse into the “socialist countries” is sufficient to confirm their optimistic expectations. However, for the workers the same glimpse gives a somewhat different picture. They have no burning desire for this kind of socialism. Therefore for them communist policy, in countries where it carries some weight, e.g., in France or Italy, does not represent the embodiment of the desire for the revolutionary transformation of state-monopoly capitalism into state capitalism, but their only immediate interests within the existing social system. The functions of the communist parties are recordist, not revolutionary, and ultimately, therefore, they were to sustain the continued existence of state-monopoly capitalism.

In the light of this situation, the sham struggle against state-monopoly capitalism is only a slogan of embarrassment. The communist parties have for a long time now been unwilling to mount an offensive against capitalism itself on either a national or an international scale – ‘peaceful competition’ and the business ties between the different social systems are proof enough of this. At the national level they take pains to assure that they are against only the self-seeking uncurbed power of the monopolies, not against the state or capitalism itself, and that state involvement is required to bring the monopolies under state control. At the international level the alleged struggle against state-monopoly capitalism serves the ends of an opportunistic imperialist policy. They are not against imperialism as such, only against the imperialist policies of other nations, which serve the interests of their national monopolies to the disadvantage of their own country’s imperialist or national interests. The distinction between capitalism and state-monopoly capitalism can be used to justify either alliances or elasticities between the ‘socialist’ and the capitalist countries, as well as differences among the ‘socialist’ countries themselves. In other words, the communist parties utilize the slogan of struggling against state-monopoly capitalism only to conceal their own capitalist, hence imperialist, policy and to win the support of the workers.

The ‘theory’ of state-monopoly capitalism solves, then, on the one hand, as an apology for the totally recordist activity of the communist parties in the capitalist countries and, on the other hand, the changing demands of imperialist power politics, it gives notice, therefore, that despite all their points of difference, both capitalist and ‘socialist’ countries have taken upon themselves the joint task of defending capitalist production relations against any socialist transformation. This is nowhere more obvious than in the current convergence theory, ostensibly rooted in industrialization, which seeks to obliterate the differences between these two different social systems. Since the industrialization process is the same under both state capitalism and monopoly capitalism, the social formations, according to this theory, differ only in the degree of centralization
of administrative control over social production and distribution. But since under state-monopoly capitalism this administrative control has already brought about a separation between ownership and management, only a small step remains to complete the transformation of private capitalism to state capitalism, one that can be accomplished politically. With this step achieved, socialism will have been born out of capitalism, marking the end of social class struggles.

Furthermore, since nothing else need be changed in the existing system of production aside from abolishing the monopolies, there is nothing in the system that should not be adequate to the needs of socialism as well. This explains the relative indifference shown today toward the recurrent crises of present-day capitalism. The blame for the difficulties and injustices with which it continues to be beset is laid on the state, which has assumed the interests of the monopolies as its own interests. Therefore merely another state or another government, not a different economic system, is what is required. Present-day capitalism and state capitalism experience a meeting of the minds on this point as well. State-monopoly capitalism also imagines that it, too, has put an end to crises through state interventionist policies. As this illusion steadily loses credibility in the face of the hard facts, opposition to state-monopoly capitalism adopts the goal of a broader, and in the end a total, state control of the economy to avoid further convulsions.

As among the bourgeoisie itself, a capitalist solution is sought to capitalist contradictions. The “left” is prepared to sacrifice monopolies to save capitalism. The bourgeoisie as long ago given up belief in automatic regulation of the economy through the market. As competition peter out, prices and profits are no longer determined by the market but set at will by the monopolies. Since, however, nothing can be changed in the monopolistic structure of the economy, the state must intervene not only to ensure full employment through money and fiscal policies, but also to regulate wages and prices in the interests of economic stability. It is the task of the state to achieve by political means what the capitalist market is unable any longer to achieve by itself. Indeed, state intervention has grown steadily, and state economic policies were given credit for periods of economic prosperity, prompting the notion that capitalism actually was susceptible to rational control.

Socialist theories had anticipated this view. Hilferding wrote, for instance:

“The monopolistic elimination of competition also eliminates the objectively given price relations. Prices cease being objective magnitudes and become a mere instrument of account for those who consciously determine what the prices should be. The realization of the Marxian doctrine of capital concentration in monopoly capitalism eliminates also the Marxian labor theory of value.”

What Hilferding did not see was that in Marx’s theory of value, the law of value determined only the general price level and its fluctuations, not prices themselves. Competition tends toward an average rate of profit, which is the resultant of deviations between price and value. Surplus profits or monopoly prices have been a constant feature throughout all of capitalist development and one of the reasons for accelerated accumulation. As monopolization progresses, monopoly prices reduce the average rate of profit of competing capitals. Profits here are transferred from the sphere of competition to the sphere of monopolies. As competition declines, the possibility of transferring profits from the competitive sector to the monopoly sector of the economy also diminishes; through the law of value the monopolistic rate of profit tends to become the average rate of profit.

A monopolistic economy does not abolish the law of value; on the contrary, it reaffirms it, since the rate of profit and hence the rate of accumulation continue to fall under monopoly capital as well, necessitating state intervention in the economy. But such
interventions are limited by capitalist production relations themselves and can only be seen as short-term measures. Once their possibilities are exhausted, the capitalist crisis cycle resumes, and once again the revolutionary transformation of the capitalist system becomes a real possibility, under state-monopoly capitalism, as under capitalism in any other form, the task of the proletariat remains one and the same, namely, the abolition of capitalist relations through the elimination of wage labor in a classless society.

Chapter 5: State Capitalism & the Mixed Economy

Marx’s Capital bears the subtitle Critique of Political Economy to show that it was intended as a critique of capitalist society and of the economic theories arising out of it. The critique is made from the standpoint of the working class, that is, from its place in the production process, on which the capitalist mode of production and its laws of movement rest. When workers won the ten-hour day, Marx hailed this as a victory of the ‘political economy of the workers,’ implying that the opposition between capital and labor determined not only the real economic processes but political economy as well. As long as the class struggle is fought on the terrain of political economy, it remains within the capitalist relations production. To be done with these relations, the capital-labor relation, and hence political economy, must be abolished.

Up to now the class struggle has been fought on the terms of political economy. To pass beyond this limitation requires a revolutionary transformation and a classless society. As long as this limitation exists, a practical critique of political economy can be but partly successful, since the reproduction of capital involves the reproduction of the class and production relations inherent in it. For its continued existence capital presupposes accumulation, which the class struggle may influence but cannot abolish, non-accumulating capital signals a state of crisis, which will either lead to a revolutionary situation or set the stage for a new phase of accumulation by altering the capital-labor relation, i.e., the relationship between value and surplus value. The drive to accumulate does not preclude periods of stagnation; these must be overcome, however, if capital is not to suffer its demise in social struggles. Until that happens the class struggle of political economy is not only the terrain on which one class gains victory over or meets defeat at the hands of the other, it is also a driving force of capitalist development. The reduction of labor time also implied the transition from absolute to relative surplus value production. The related increase in labor productivity increased surplus value despite reduced labor time, with the result that the proletariat was gradually able to improve its living standards as capitalism continued to accumulate. Since, however, there are also limits to the production of relative surplus value, accumulation remains subject to the capitalist crisis cycle.

In periods of rapid capital expansion, the social contest is restricted to the struggle for higher wages better working conditions, and a social policy agreeable to the workers. In a bourgeois democracy the economic struggle also assumes political garb to oblige the state to comply with the limited interests of the workers. The work of trade unions in the economic sphere is complemented in the political sphere by the activity of political labor organizations that seek to influence the state. Although the reproduction of capitalist production relations may preclude any fundamental change in society, the state nonetheless still has the means, or so it seems, to intervene in economic matters. The conquest of state power, therefore, commended itself as an appropriate means for transforming society.
For Marx the state was an instrument of class rule, which included state functions that, although they did not directly pertain to securing the existing social structure, were nonetheless dictated by the asocial character of capitalist production. It was part of the functions and tasks of the state to maintain the general conditions of production, which do not necessarily ensue from the competition among private capital entities, and to safeguard the interests of national capital in international competition. The diversity of state functions gives the appearance that the condition of the state is one of relative independence from capital. Individual capital entities are still subject to the jurisdiction of the state, whose task as an instrument of capital in general is to secure the accumulation conditions of nationally organized capital entities and hence to maintain the exploitative relationship between capital and labor. Since, however, there is no such thing as capital ‘in general’ – it being no more than the totality of individual capitals – capitalist society needs the state to protect the interests of the ruling class.

The relationship between state and capital is based on capitalist relations of production, i.e., exploitation. The state survives on surplus value, whether directly or indirectly appropriated. The interests of the state, even in its condition of relative independence, are identical with the interests of capital. The state assumes exploitation and hence class relations: In the Marxian sense, therefore, socialism implies not a socialist state but in fact the abolition of the state as a social institution.

Since the state has a share in the total social surplus value, surplus value is distributed not only by way of capitalist competition but also by political means. Placing checks on state appropriation of surplus value has always been one of the aims of bourgeois politics. Cheap governments mean better chances for accumulation. Still, as capital accumulated the state’s share in social surplus value also increased: the means of control over the potential domestic enemy had to be expanded, while imperialist competition absorbed ever growing amounts of surplus value. But since capital accumulation also means concentration and centralization, and competitive capitalism is thereby transformed into monopoly capitalism, as a result, it becomes more and more difficult to establish all average rate of profit and hence to effect the allocation of output by means of the market alone, although it is this market allocation that serves as the lifeline ensuring the harmony of individual capital entities with total capital. More and more the task of allocating surplus value became the object of state interventions in the economy.

It was this situation which at the turn of the century produced a veritable epidemic of notions about a state-monopoly economy for which boundless possibilities were proclaimed or which, on the other hand, was declared to contain the seeds of its own destruction. For Rudolf Hilferding, for instance, the capitalist concentration process was tending ultimately toward a ‘general cartel’ in which industrial capital and bank capital would be fused, laying the necessary foundations for central economic planning. The abolition of competition by finance capital would bring about permanent economic equilibrium, and capitalist crises would be no more. State control, i.e., the shouldering of the economy by the state, would then complete the transformation of capitalism into socialism. Since, however, the bourgeois state is the instrument of capital and abolition of competition at the national level is accompanied by stepped-up competition internationally, from Hilferding’s theory, which was otherwise generally accepted, Lenin drew different conclusions. For him modern capitalism represented the marriage of the state with finance capital, and that was the situation which had to be overcome in order to accelerate the advent of the social revolution fermenting in the process of disintegration imperialism had engendered a new state, its roots planted firmly in the dictatorship of the proletariat, would then proceed to make a socialist economy a reality.
Although their points of emphasis differed, for Lenin as for Hilferding, the state was the vehicle whereby the transition from capitalism to socialism would be effected. The terms ‘state capitalism’ or ‘state socialism’ each referred to a situation existing within capitalist society and preceding a socialist revolution. Elements of state capitalism, so went the argument, evolved in contradiction with bourgeois society, and were hence to be viewed as symptoms of disintegration. They signalled the abolition of private capital within a private capitalist economy and reflected both the dynamic movement of the productive forces relative to static property relations and the growing need for deliberate, conscious socialization of production. But to achieve this to transform capitalism shot through with state-capitalist elements into socialist society – private ownership of the means of production, and hence wage labor, would have to be abolished.

One must keep in mind the original distinction between state capitalism and socialism, that is, between the tendency, unfolding within capitalist society, toward an increasing state production of surplus value and state interventions in the market, on the one hand, and on the other, socialist revolution, which would abolish the capital-labor relationship and effect the transition from a market economy to an economy based on social needs. Even in the evolutionary conception of reforming, state capitalism was supposed to transform itself by means of its own quantitative expansion into the qualitatively new state of socialism. For revolutionary socialism state capitalism was only a modification of capitalist production relations that altered nothing in its antisocialist character; capital had to be abolished in all its forms.

Initially these were only speculations about the future, since neither state capitalism, as a dominant form of society, nor socialism existed. They gained a measure of timeliness first with the Russian Revolution, which found itself confronted with the problem of building socialism. Lenin observed rightly enough that the socialist movement had not dealt seriously with the question of the actual building of socialism, nor indeed could it have done so, since it was impossible to foresee under what specific conditions the social revolution would be achieved. One had, therefore, to start out from the situation as it was given, which in the case of Russia, of course, meant a situation of underdeveloped capitalism. Consequently there could be no thought initially of socialization of the means of production or of the conditions of production, in any event not for the peasantry, who were crucial to the revolution; for the time being one could only make use of state power to accelerate the pace of industrialization, as it alone was the means by which the material conditions for socialism would be created. However, Lenin did not view the Russian Revolution as an isolated phenomenon, for him it was but one aspect of a world-wide revolutionary process. Uneven development among nations was a feature of capitalism, which, of course, detracted in no way from capital’s world domination. Likewise, the uneven development of socialist countries would not, according to Lenin, impede the establishment of socialism on an international scale; in fact, it should even help matters, since the great mass of the world’s population could secure their own interests only by struggling against imperialistic capitalism. International solidarity was the key to overcoming the backwardness of the underdeveloped countries in order then to proceed to the constricting of a worldwide socialist economy.

Expectations of world revolution aside, the conditions in Russia, inauspicious as they were, remained the Bolsheviks’ point of departure in their formulation of economic policy. With the exception of nationalizing the banks and foreign trade, the Bolsheviks initially did not intend to expropriate capital; they wanted to place it under state control. Lenin’s model was centralised control over production & distribution, as exemplified by the German war economy during World War 1.
But neither capitalists nor workers were pleased with this strategy of reconstructing a state-steered economy. The period of ‘workers’ control’ and capitalist sabotage met an early end and forced the state to expropriate the factories.

We need not go here into all the zigs and zags of Bolshevik economic policy, they are sufficiently well known. We should be clear, however, that this policy was imposed on the Bolsheviks by force of circumstances, and it was only afterward that a theoretical apology was produced for it. ‘Heroic war communism’ as long as it lasted, was thus proclaimed the true way to communism; but it was then downgraded to the status of a temporary expediency after it collapsed. The next stage, the New Economic Policy, which partially restored the market, was regarded, at least by Lenin, as a step backward from a consistent policy of socialization, although at the same time it was considered an unavoidable transitional phase from capitalism to communism. Soon, however, it appeared to be obstructing this transition and even to be calling into question Bolshevik state power as a necessary prerequisite for it. The solution to the problem lay, it was hoped, in the sacking of the New Economic Policy and the forced collectivization of agriculture, which was then to be placed under state control. Only then did it become unmistakably clear where the theory and practice of Bolshevism could lead.

The consolidation of the new social economic relations, which have taken their place in history under the name of Stalinism, was regarded as a stage along the way from capitalism to communism and was called socialism. Socialism was a transitional society, it was argued, and as such would still be plagued by many of the features of capitalism; however, it anticipated many of the characteristics of communism as well. In the list of capitalist features that had not yet been overcome were the existence of the state, the social division of labor, and unequal distribution, justified on the basis of the nonequivalents of work performed. What distinguished socialism from capitalism was, first, the abolition of private ownership of the means of production and, second, economic planning. Full communism presupposed world revolution, but a real possibility existed for the building of socialism, at least in each country. Not to be identified with either capitalism or communism, socialism was a new social order that could lead to communism, since socialization of the means of production and conscious control of production and distribution made a revision to private capitalism impossible. While in Marxist theory it was the producers themselves who controlled the means of production in order to put them to use socially, in Bolshevik theory it was the state, as guardian of the interests of the producers which held the reins of power over the means of production and thus over production and distribution. The theory of the political party as representative of workers’ interests in the social revolution was now being applied to socialism. The means of production kept the attributes of property but had now become state property, and presumably later would become social property. The step from private property to state property was supposed to represent the transition from capitalism to socialism.

A new type of society had undoubtedly come into being. Although not communist according to traditional socialist conceptions, it was also not capitalist in the traditional sense. Socialism had always implied the end of private capital, and state control over the means of production laid the groundwork for that. Production relations are social relations, and in the historically unfolding relationship between capital and labor, it had been workers against capitalists. Accordingly the abolition of this relationship looked like the end of capitalist relations of production as well, from the standpoint of the capitalists who had been expropriated by the state, there was no doubt, at any rate, that the new social order was identical with the end of capitalism, whatever name, socialism or communism, might be given to it.
From the workers’ standpoint, however, essentially nothing had changed. The means of production, now state property, still elude their grasp. The producers are still wage laborers and still have no influence over production and distribution. The how and what of production are still decisions beyond their control, to be made by state institutions, the self-proclaimed caretakers of the interests of society. But society remains divided into a group of persons organized under the state who control the conditions of production and the mass of the population, which must follow their directives. Thus the relations of production remain class relations, in which those holding privileged positions by virtue of their control over the state have assumed the functions of the expropriated bourgeoisie.

For the expropriated bourgeoisie this new type of society, characterized by state control over the means of production, is state socialism or socialism pure and simple; for the workers, however, the capital relationship still persists and is fittingly described by the term ‘state capitalism’, although ideologically it tries to pass itself off as socialism. The expropriation of private capital distinguishes state capitalism from the state-capitalist features already discernible within capitalism. State capitalism, disguised as socialism, presupposes a revolutionary transformation from private capitalism. The state-capitalist tendencies that begin to emerge within traditional capitalism do not evolve gradually into state capitalism; a revolutionary abolition of private capital is required.

The de facto abolition of private capital gives rise to the erroneous assumption that socialization and state appropriation of the means of production are one and the same thing. But according to socialist theory, the state is an instrument of class rule, and therefore in a classless socialist society it should become superfluous. Those central authorities still necessary would perform only technical and organizational, not state, functions and would remain dependent on the decisions of the producers. This conception does not fit the state-capitalist system. Under ‘socialism’ it is the state alone which makes political and economic decisions to fend off the internal and external perils yet remaining along the path toward communism. The state in the traditional sense would disappear only in the far distant future, after the world revolution had been accomplished and a communist economy established throughout the world.

In ‘socialist’ practice it is the state and the state institutions created by and subordinate to it which control production and distribution. The state is shaped by the political party in possession of state power, that is, by a privileged stratum of society that believes itself capable of representing the interests of society as a whole and able to do what is needed to realize those interests. Its existence and its power of decision over society and its development presuppose control over how total output will be allocated among the producers, state institutions, and the requirements of expansion, i.e., the needs of social reproduction. The wage system, taxation, and the administrative manipulation of prices place a surplus product in the hands of the state; or in other terms, the producers are deprived of control over their surplus labor, which the state appropriates. Surplus labor, which under capitalism appears as surplus value, is thus appropriated directly, not by the exchange of goods, although the wage nature of labor sustains the illusion that exchange relations still exist. Since, however, the ‘political economy of the workers’ is abrogated under “authoritarian socialism,” it is the state that continues to determine surplus labor.

Marx himself pointed out that surplus labor is unavoidable, since the needs of society extend beyond the needs of the direct producers. It is not the existence of a surplus product, therefore, which distinguishes capitalism from socialism but how that product is appropriated socially, and that is a question decided by control over production. Under capitalism surplus labor appears as surplus value; its distribution is
regulated by competition and modified by monopolization. Since capitalist production is controlled by accumulation, and the latter must take place under competitive conditions, capital is unable to exercise control over surplus value. Accumulation does not depend on capitalists but on the mass of surplus value, which to them is an unknown quantity, in relation to social capital. The rate of profit determines the possibility or impossibility of capitalist accumulation. It is therefore not only exploitation or the production of surplus value which weighs on the workers but also capital’s inherent need to expand; however, from time to time this need cannot be met, and the very existence of the worked, the producers of surplus value, is placed in jeopardy. The crisis nature of capitalist production is patent proof that capitalism cannot even satisfy its own ‘social’ needs, to say nothing of genuine human needs.

State-capitalist systems have, at least in theory, the means to regulate consciously what share of social production must go to the workers and the amount of surplus labor to be placed at the disposal of the state. As in capitalist society, the size of the surplus labor depends on the share of total output passed on to the producers. In contrast to capitalism, however, the use of surplus labor is no longer determined by competition and the need to accumulate but becomes the conscious decision of the state. Reproduction can therefore take place independently of capital’s inherent need to expand, it no longer depends on a specific mass of surplus value or a specific rate of profit but may be accomplished with any given amount of surplus product; or, if the surplus product is not sufficient, reproduction may be maintained at a steady level without that necessarily causing a crisis.

On this feasible conjecture rests the belief that a socialist state, which represents the general interests, can shape production and reproduction in such a way that surplus labor becomes a part of necessary labor and is no longer the product of exploitation. The state does only what the producers themselves would do if they acted on their own. They too would have to create the institutions and facilities proffered them by the state; it follows ‘logically,’ therefore, that the interests of the state coincide with the interests of the producers.

In a ‘state-capitalist model,’ moreover, in which the state is the sole executive organ for society’s needs, its functions would no longer be state functions; the system would then cease being state capitalist. In the present state-capitalist countries, the state, however, determines social relations; it sets itself apart from society in order to impose its will on it. It is obvious that the will of the state should be identified with the needs of society, if only because the state is dependent on it. This dependence forces it to act as a state in the traditional manner, i.e., to employ coercive means to maintain and secure its own material conditions of existence.

The state consists of persons who hold the reins of power, and hence control production and distribution. Once this situation exists, social reproduction means reproduction of state power as well; and the growth of social wealth means, of course, the expansion of the power of the state. As time goes on it becomes inconceivable that reproduction could take place other than in the existing social relations, for this would require a fundamental reorganization of the society. The division of society into a minority that determines everything and a majority with no influence signifies a class relation which the privileged strata defend just as obdurately as they have done in other class societies.

This situation has nothing to do with an immutable human ‘nature’ which may permit one elite to take the place of another but would never allow the abolition of class relations; the plain fact is that even in the purportedly ‘socialist’ revolutions of the past, the task of reorganizing society was left to the state, the party, and hence an elite. The rebelling population acquired their political experience within organizational forms that
had been shaped by the class nature and political economy of capitalist society and hence could not measure up to the requirements of a classless society. Revolutionary means were used to reformist ends, namely, remain in the hands of the producers; the establishment of a new state with an autonomous power position must be prevented. The experiments of the council communists showed, if only in vague form, the direction the proletariat’s struggle for emancipation must take, although they still lacked the concrete basis on which to bring this about. But whatever the difficulties facing socialism the existing state-capitalist systems have proven that their way, any event, is not the way to socialism.

But is state capitalism a necessary stage of development after capitalism – can it not be avoided? State capitalism did, after all arise in underdeveloped capitalist countries – apart from those countries which fell under the Russians’ sphere of influence as the spoils of war and were trimmed and tailored to conform to the Russian model of state capitalism, with varying degrees of success. All the same, notwithstanding the fact that state capitalism was imposed on these countries from without, they do demonstrate that state-capitalist production relations can be implanted in developed and underdeveloped countries alike. Also, the growing trend toward state intervention in the capitalist countries seems to be pointing the way toward a transition to state capitalism, if not by way of revolution then at least through a perceptible convergence of the two systems.

The uneven development among nations, stressed by Lenin, within the imperialist-dominated world economy has created links between the anti-imperialist national revolutionary movements and the anticapitalist movements in imperialist countries. It has also served to underscore the difficulties, if not the impossibility, of independent capitalist development in the colonies and in other underdeveloped countries. The industrial nations’ head start in accumulation and their monopolistic positions within the world economy seem to preclude capitalist development by the competitive route in the backward and suppressed countries. Subordinated to the profit claims of the major capitalist powers, the way toward independent industrialization and capital accumulation was essentially barred to them. Capitalist development, and its handmaiden industrialization, could be achieved only via the political route of nationalist revolutions; that is, not through the bleak and arduous process of formation of capitalist private property, but as the outcome of the confrontation between monopoly capital and capitalist monopoly.

The Russian Revolution took place in a backward capitalist country with a weak bourgeoisie; indeed, Lenin regarded this as the reason why it was relatively easy to achieve. Being directed against capitalist imperialism, national revolutionary movements were committed to an anticapitalist ideology and, under the influence of Russian Bolshevism, equated their state-capitalist aspirations with ‘Marxist socialism’. Russian Bolshevism was the product of the European labor movement and as such saw itself as a world, not a national, revolutionary movement.

But the revolution remained within national confines and, cramped as it was, became the model other national revolutionary movements followed. The important point here is that this emulation of the Russian experience has been the identifying characteristic of all viable national revolutionary movements since. State control over national production and distribution, the idea the Bolsheviks took from the capitalist war economy, has in any event been the programmatic goal of state-capitalist-oriented countries.

State intervention, a policy forced on capitalism by the war, was used by the Bolsheviks to build up their own economic system, but its subsequent fate has had political and economic repercussions on the further course of capitalist development. The
totalitarian state that flowed from the dictatorship of the party became the prototype of the fascist and national socialist movements that put in their appearance in the aftermath of World War I. A totalitarian state may just as well defend an economic system based on private enterprise. Fascism and National Socialism adapted Bolshevik methods and the Bolshevik party-state to defend their own interests as well as those of private capitalist society. In the defeated and economically weaker countries, it looked as if the post-war crisis had called into question the very existence of capital.

Since, however, the Russian Revolution did not spread across Europe, the crisis situation required national solutions within the framework of the capitalist world economy. The national solution, like the war economy before it, could not be left to the automatic workings of the market but required major interventions in the economy, which of course meant expanding and strengthening the powers of the state.

When the postwar crisis developed into a general crisis of capitalism rather than into a new worldwide boom, the bourgeois liberal or ‘democratic’ countries were themselves forced to employ extreme state measures to cope with the social hazards created by the crisis. The fascist countries pursued the path of Bolshevism, and the ‘democratic’ nations followed suit to help embattled capitalist production relations through the crisis. However, in the democratic states there was no need to put an end to the ‘political economy of the workers’ inasmuch as they were able to employ other means to put through the economic policies they thought necessary. The fascist tendencies in these countries were thus undercut and could not exploit the crisis for their own ends. State interventionism thus ranged over a wide field: from the direct takeover of the means of production by the Bolsheviks, to fascist use of the state to sustain capitalist production relations, and finally to state steering of the business cycle by the indirect means of monetary and fiscal policies.

The ‘purely economic’ anticyclic measures of the democratic countries were, of course, also part and parcel of fascist economic policy; but in the party dictatorships of the totalitarian states, they were complemented by political action in the domestic sphere as well as in foreign policy. Dictatorship as a means to carry on capitalist production relations is obliged to subserve the expansionist needs of state capital, with new imperialist conflicts the inevitable result. It was the repercussions of fascism on foreign policy that troubled the victors of World War I, not its domestic policies, which enjoyed their silent approval. Although capitalist economists now saw that the market mechanism was not capable of coping with the crisis, there was no question of their sitting back passively as they watched social unrest grow after the war, since the Bolshevik experiment and fascism were practical proof enough that under very different conditions (and not only under socialism, i.e., state capitalism), the effects of crisis, e.g., unemployment and idle means of production, could be combated if the state were willing to take the appropriate measures.

According to the market theory, which though false is nonetheless needed by capital, crisis was rooted in a lack of effective demand, which in turn had its origins in capitalist growth itself. In this view, of course, consumption determines production, from which it follows that an increasing saturation of consumer needs must result in a slackening of production and hence a decline in investments. The consequence is unemployment and idle capital. In bourgeois theory the market and prices function as equilibrium mechanisms, in which each production factor is guaranteed its share of total production, accordingly the dilemma of crisis cannot be resolved through redistribution lest this be at the cost of capital returns, which were already on the decline, further undercutting the propensity to invest. The market, therefore, cannot be expected to
generate the demand required for full employment; that demand, rather, must be created from without, through state-induced public demand, and added to general demand.

State-induced public demand could not, however, be financed by taxation, since this would have reduced market demand, already insufficient, even more. Thus, as in wartime, deficit financing, the expansion of state credit, was the answer. By means of government loans and their use for public works, idle capital was brought back into the capitalist circulation process to boost total production. The result of this, of course, was a growing state debt, which, however, was not considered a burning problem as long as total production grew at a faster rate than the interest burden on it.

In contradiction to bourgeois consumption theory, which projects the inevitable collapse of the market system, state economic intervention by way of induced public demand was seen as an anticyclic policy that would maintain – or restore – market equilibrium. Yet it is patent that capital accumulation precludes equilibrium between supply and demand in terms of an equivalence of production and consumption. In a capitalist economy good times with full employment are possible only as a result of capital expansion in pursuit of profits. When there is no accumulation, insufficient demand is a permanent condition. It is not enough, therefore, merely to expand production and to adjust demand to supply. For accumulation to take place, the profitability of capital must be improved. Its own static theory notwithstanding, in the real economic process bourgeois economics is also obliged to propose state-induced demand to generate an additional demand in order to expand the market.

State economic policy was supposed to prevent the major economic ups and downs, i.e., crises as well as booms, which undermine the economic equilibrium.

In addition to the manipulatory measures of expanding or contracting public demand, monetary policy, i.e., the expansion or contraction of credit by means of increasing or reducing the money supply and by altering interests rates, was supposed to have a regulatory effect on the economy. The instruments of state intervention in a modified market economy are too well known to require further discussion here, but together they spell what has come to be known as a ‘mixed economy,’ vaunted as the solution to the problem of capitalist crises.

The idle capital made available to the state by means of loans represents an already existing surplus value that had not been put to use as further profit-generating capital. It puts idle people and plant to work; the resulting product is not sold on the market but matches the value of the state’s loans. In this way money capital is ‘consumed’ and hence can no longer be regarded as a part of the mass of surplus value available to capital for purposes of accumulation. Here capitalist society produces not in accordance with its own needs but in accordance with its own false theory, i.e., it produces for consumption, if only public consumption. In that event, however, this type of production is no longer capitalist production, but the employment of an anticapitalist mode of production possible only in exceptional cases, never as the rule.

The expansion of state credit, like any other form of credit expansion, carries with it an inflationary trend which, however, can to some extent be controlled at the price of limiting state-induced production, a general contraction of credit, and the cooling-off effect this has on economic activity. A ‘mixed economy,’ therefore, tends toward its own dissolution, and capital is once again placed at the mercy of its own crisis cycle. The theory that boasted of having mastered the problem of crisis itself has a new crisis on its hands in which the instruments of a mixed economy are not only of no use but indeed even help to deepen the crisis. Instead of achieving full employment, even with its inflationary tendency, by monetary and fiscal policies and public spending, there arise new problems to be dealt with: rising unemployment, precipitous economic decline, and a
rising rate of inflation. Inflation can be checked, but only at the price of more unemployment; and if one tries to remedy unemployment, the price is more inflation, which undermines both the national and international economies. In the face of this dilemma, the proponents of a limited economy came up with the idea of using more direct means to control the business cycle, i.e., means such as are used in the state-capitalist countries. Not without some justification, therefore, has this been referred to as ‘creeping socialism’ in capitalist circles, which equate state capitalism with socialism.

State-induced production is also referred to as nationalization, and accordingly state participation in the economy and nationalization of private enterprises give the appearance of being ‘socialist’ measures capable of effecting a fundamental, if slow, transformation of society. As more and more industries are nationalized, the means of production, now state property, would belong to the nation and the market economy would come to an end without revolution. This thought is given further sustenance by the fact that whole industries have, indeed, been nationalized, although in the capitalist market economies where this has taken place, it has so far altered nothing. In the advanced capitalist countries it has for the most part been unprofitable industries or factories which the state has taken over or subsidized, or new enterprises that could only be started with state support and that often gave rise to some intricate concoctions of public and private capital. Still, in these countries private capital remained dominant, the element around which state economic policy turned.

Just as the destruction of capital can contribute to a new upswing by forcing capitalist reorganization, public spending, which rests on unprofitable production, may be seen as a countervailing tendency to capital’s own inherent tendency toward disintegration. Capital expansion implies capital destruction; still, every new accumulation phase must surpass the previous one if a renewed upswing is to begin. How long this kind of capitalist reproduction can go on cannot be ascertained a priori from theoretical considerations alone; the answer must await empirical observation once the tendencies working against capitalism’s decline show their ultimate ineffectiveness.

Accumulation, which is a necessary condition for a capitalist economy, cannot be replaced by state functions in a ‘mixed economy.’ Expanding production alone does not generate profit; for production to yield profit it must take place along with, and in spite of, state-induced production if a state of pseudo-prosperity is ever to be overcome in favor of a real boom. If this is no longer possible, sooner or later the crisis-alleviating effect of state-induced production must become blunted and the crisis flare up anew. Any further expansion of state demand would then do no more than add steam to the disintegration of the private sector of the economy, until finally the possibility of any further accumulation would cease to exist. State economic intervention is thus a two-edged sword, and therewith sets its own limits; yet if it stays within these limits, the state of pseudo-prosperity it had been able to achieve must ultimately revert to obvious crisis.

A mixed economy is a token of capitalist decay, not a new form of capitalist production relations, as is the case with state capitalism. The dominant position enjoyed by private capital, the indirect methods used to manage the economy, the restriction of state-induced production to public consumption, and the retention of monopolistic competition – all these things together add up to the fact that in a mixed economy the state is still a state of private property which it is the state’s task to defend. One cannot expect such a state to make the step from mixed economy to state capitalism on its own; yet without this step it must continue to obey the laws of capitalist production, with no chance of really controlling the economy as required. It can let a crisis run its course, or if surplus values reseats are available, it can try to employ stop-gap measures to keep social unrest at a minimum; but it cannot permanently continue to expand profitless production
through inflationary state credits without destroying profit-yielding production in the process.

It is of course true that the economic integration of state and capital cannot be reversed. Private capital had ultimately to call on the services of the state if it was to continue to exist, while the state must rely on private capital in exercising its economic functions. Once effected, integration precludes the state’s employing an economic policy contrary to the interests of private capital or its expropriating private capital to thereby assume sole control over the economy. Mixed economies, with or without ‘socialist’ governments, now as in the past are patent proof that in a mixed economy the state still belongs to private capital, which precludes in advance the transition to state capitalism.

It can no longer be maintained that economic management by the state will make for stable capital development or prevent crises; the role of the state, therefore, in a mixed economy is gradually whittled down again to the tasks it has always performed, namely, the use of coercion to maintain existing reduction relations. With state interventions into the market mechanism ineffective, and the inflated state sector (like the state itself) only a burden accelerating capitalist decline, a mixed economy reverts to commonplace capitalism. The very existence of such a swollen state apparatus requires some cutback in state-induced production (if only to secure the state’s own share in the surplus value), and pursuant to this end, the state begins making decisions meant to increase profit and promote accumulation.

At this point the struggle over economic policy sharpens; capital demands an end to all state policies cutting into surplus value, while the victims of these policies call for enlarging the economic powers of the state in the direction of state capitalism. But since state capitalism requires a revolution, that form is not precisely on the order of the day. In the capitalist countries revolutionary Marxism-Leninism is today totally reformist and, moreover, sees itself as such; it has for the time being shelved the goal of state capitalism, not only to protect the existing state-capitalist systems from convulsions but also to meet the ever greater needs of the communist party bureaucrats. Not only, then, is the possibility of state capitalism itself limited by the existing power relations between the classes domestically and among nations worldwide; we even find that state-capitalist principles become adulterated within state capitalism itself and within the ‘socialist’ movements that have cast their lot with it.

State capitalism, clad in the banner of ‘socialism,’ appeared to be fundamentally irreconcilable with the capitalist world. But for reasons that we shall not go into here, capitalism was no more able to destroy state capitalism than state capitalism was able to remake the world in its own image. The coexistence of the two systems was a fact long before it was accepted and put to practical advantage by either side. Just as perfect competition has always been but a theoretical construct and has never described capitalism as it really existed, so too is pure state capitalism an abstraction having little to do with historical state capitalism. In either case reality provided only a rough approximation of the features which theory had mapped out in relief, and even these rough approximations varied in appropriateness depending on the broader setting in which the systems were situated. Because state capitalism could not isolate itself from the world market and from world politics, it was deprived from the outset of an intended feature that distinguished it from other systems, namely, economic planning, which, although attempted, remained under the influence of processes taking place in the capitalist world around it. Just as the production ‘planning’ of individual firms stands in sharp contrast to the anarchy reigning in the economy of the capitalist system seen as a whole, under state capitalism national planning takes place within a planless world economy, and its effectiveness is made as questionable on that account as the ‘rational’
efforts of the individual entrepreneur are undermined by the uncontrollable market economy. Thus even state-capitalist nations come under the sway of capitalism's economic cycles, and for this reason they too are interested in maintaining a relative stability on the world market so as not to jeopardise beyond measure their own plan-based economies.

But though there may, indeed, be a general desire for social stability, this is not enough to abolish the laws of motion of capitalist society. The willingness to coexist peaceably alters nothing in the expansion needs of capital and thereby in the imperialistic rivalries between different capitalist systems. The expansion of state capitalism diminishes the expansion of private capital, just as private capital accumulation has an unavoidable influence on planning in the state-capitalist system, and indeed even obliges it to yield to the general need to accumulate. The crisis situation only brings out these contradictions more sharply. Coexistence, therefore, does not mean the integration of the different social system's into one world economy in which all nations participate equally and equitably, but a condition in which existing contradictions have not reached such a critical extreme that they must erupt in violent upheaval. Neither the seemingly 'socialist’ tendencies of state economic interventions in the capitalist countries nor the capitalist methods and practices of the state-capitalist countries are able to reconcile the two systems and bring about cooperation between the two in their common interest. It has been the temporary possibility of peaceful coexistence, or the temporary impossibility of belligerent confrontations, that has been responsible for the illusion that the economic interests of the two systems could be fulfilled through joint exploitation of the world proletariat.

But joint exploitation is not so much the issue as the dividing up of the ever diminishing loot between the capitals of all descriptions. In this struggle national boundaries are transgressed, and social formations themselves are transcended. The surplus product of the state-capitalist system searches for its enlargement in the surplus value of the capitalist system, while the countries producing surplus value share in the surplus product of state capitalism; the distinction, therefore, between surplus product and surplus value loses all sense and is no longer tenable, at least as far as the world economy as a whole is concerned. While on the one hand the state-capitalist systems, which have undergone their own separate process of integration, are again beginning to show cracks, the common front of capital against state capitalism is also coming apart at the seams. The socialist bloc, envisioned as a second world market, is being engulfed by the capitalist world market, and the political unity of the state-capitalist systems is being undermined in the process.

State capitalism is as little able as capitalism to eliminate national and hence imperialist rivalries. Since no world state exists, the state is tied to the nation and the ruling class is bound to the state. This situation in no way alter either imperialists or the multinational character of many capitalist corporations, since these forms of capitalist internationalism are only means through which certain nationally organized capital entities exercise their power and enlarge their profits. In the state-capitalist nations the national state is the basis on which the new class rules; and state capitalism remains an economy bound to national interests. Were the state-capitalist countries really socialist, they would close ranks and abolish the nation-state both politically and economically. But as things stand now, relations among the state-capitalist countries are essentially the same as those existing in the capitalist world. Common interests must take a back seat to national interests. Differences in political and economic power engender relations of exploitation and dependency, which continue to reproduce themselves without end. Just as in the capitalist camp the stronger power subordinate the weaker, and though
supranational institutions are to be found in both capitalist and state-capitalist countries, the changes they have been able to effect in this regard have been negligible. In the rivalry between capitalist and state-capitalist power, newly acquired spheres of influence must not only be defended but also expanded. State capitalism itself embarks on an imperialist course in no way inferior to capitalist imperialism except that it avails itself of socialist ideologies. Even this is nothing new, both world wars furnishing prior examples.

Despite their different political and economic forms, capitalism and state capitalism are united in opposition to the interests of the world proletariat. The capital-labor relationship is still the hallmark of all existing production relations. The equation of state ownership with socialism implies no more than the rule of a new class that, in the interests of self-preservation must close its mind to socialism. The hopes attached to the welfare state of the mixed economy, as well as those engendered by the ‘socialist’ ideology of state capitalism, have been unmasked as illusions by the real development of capital. Although illusions may be dispelled, the conditions that engendered them remain. In both capitalist and state-capitalist countries, the state apparatus can exercise its power without the consent of the worked. But it cannot arrest the decline of capital or eliminate crises, nor can it abolish the class struggle.

The abolition of the ‘political economy of the workers’ in the state-capitalist countries has set the stage for a class struggle that must inevitably turn directly against the state, and which therefore can no longer achieve its more far-reaching socialistic aims within the confines of state capitalism. Even though a mixed economy cannot itself develop into state capitalism, it is still able to use the state to intervene in economic struggles in order to safeguard the continued existence of capital. Indeed, on this account there still exists the danger that the workers will once again limit their political demands to a ‘workers’ state,’ despite the experiences of the state-capitalist countries, in order to carry the day against their capitalist adversaries. Although for the moment this danger is not acute, it remains implicit in the revolutionary ideologies social democracy and Bolshevism have generated over the past century. If these ideologies continue to prevail in the social struggles we can expect in the future, it is fair to say that the impending revolution already contains the seeds of counterrevolution within it. To abolish capitalism, therefore, the first task is to make Bolshevism a thing of the past once and for all.

1976

Chapter 6: The Great Depression and the New Deal

Although all capitalistic crises are basically the same, each one varies with respect to its initiation, its length and depth, and the reactions evoked by it. It is the changing capital structure itself which accounts for these variations. Since capitalism is composed of numerous nation-states of dissimilar configurations but operates on a global scale, the international crises affect different countries differently. The economic crisis of 1929 differed from all preceding crises not only in its greater impact on the world economy but also in its political repercussions and their effects on capitalism’s further development. It is thus necessary to refer to both the identities and the dissimilarities, as well as to the abstract reasons for and their concrete appearances in any particular crisis, even though all crises are grounded in the capitalist system as such.

The crisis of 1929 came as a great surprise to the Americans. But this was so only because preceding crises had rather been forgotten or were referred to as occurrences of
the irrevocable past, and also because the lack of a general theory of capitalistic development forbade the recognition of the crisis mechanism as the basic “regulator” of the capitalist economy. To be sure, there were business-cycle theories[1] based on empirical evidence. However, they were more of a descriptive than explanatory nature and were generally regarded as aberrations, leaving the rule of standard theory – that is, the theory of the automatic self-adjustability of the market – unaffected. At any rate, the relevant discussions were of a strictly academic character and did not reflect a more general awareness of the contradictions inherent in capitalist production. And this the more so because in principle, as well as for lack of necessary data, there is no way to predict the rise of a crisis that changes a period of prosperity into one of depression. All capitalist actions are, at all times, merely reactions to blindly operating, uncontrollable changes in the socioeconomic relations that underlie the capitalist system and affect it either positively or negatively low level, although a crisis is unpredictable as to the time of its arrival, certain market phenomena indicate its possible approach.

Capitalist prosperity depends on the expansion of capital. Due to the fact of profit production, it is obvious that total social production requires the accumulation of capital to employ the same or an increasing number of workers. Only a part of the total social product falls to the working class; another part serves the consumption needs and the competitively enforced accumulation requirements of the capitalists or capitalist corporations. When the part of the social product earmarked for accumulation is reinvested in additional capital, implying its profitability, there exists a state of prosperity, with a minimum of unemployed labor and the maximum utilization of the means of production. In brief, prosperity depends on the rate of accumulation which, in turn, depends on the given profitability of capital. However, the latter is determined not only by the rate of labor exploitation but also by the mass of profit in relation to the expansion requirements of the already accumulated capital. The same or even an increased rate of exploitation may not suffice to yield a mass of profit conducive to further capital expansion. The consequent arrest or reduction of investments initiates the crisis and the depression in its wake.

There is no need here to dwell on this matter, the less so because everyone dealing with it is agreed on the need for capital investments to overcome depressions or to secure a state of prosperity. Whatever the particular depression theory, be it one in terms of overproduction, underconsumption, or market disproportionalities, all recognize the need for the resumption of capital expansion as a precondition for a “normal” economic development and social stability. In practice, at any rate, it is the restoration of a lost profitability that concerns all capitalist reactions to the crisis situation.

Although not recognized as such, the crisis of 1929 was actually a continuation of the unresolved economic crisis preceding World War I. This crisis had been sidetracked by the war, so to speak, even though the war was itself the political expression of the crisis. The rapid industrialization and capital formation of the Central European powers had demanded a larger share of world exploitation, while the older capitalist nations could only defend their privileged positions through their own continuous expansion, regardless of the capitalization needs of other countries. Since the war was fought for relative shares in world exploitation, it involved all nations either directly or indirectly. Since it ended with the defeat of the Central European countries, it led to a reorganization of the international power structure, with America becoming the leading capitalist nation.

This reorganization affected all European nations negatively a point not seen at once. For America, however, war production had provided a great impetus for capital expansion, fully justifying President Wilson’s anticipations when, in 1916, he told his fellow-citizens that “we must play a great part in the world whether we choose it or not.
We have got to finance the world in some important degree and those who finance the world must understand it and rule it with their spirits and their minds."[2] The temporary eclipse of European competition gave the United States a foothold on formerly inaccessible shores, and the anarchic conditions of devastated Europe helped to secure the newly won positions. America turned from a debtor into a creditor nation, and her rise to economic dominance changed all existing international relations.

America’s postwar prosperity was based on a productive apparatus built to support a worldwide war. The accelerated capital expansion had enough momentum to continue long beyond the existence of the conditions that had been its cause. But finally America, too, succumbed to the postwar realities, and her expansion came to a halt in 1929, not again to be resumed on any significant scale until World War II. The Great Depression had its “start” in America only because in other countries the postwar depression had never really ended. But the American collapse led these nations into even deeper decline and disorganized trade relations almost to the point of extinction. There was no profit in further expansion, and there was no way to organize the economic world structure in accordance with the profit requirements of a general resumption of the accumulation process.

Prior to 1929 depressions were of a deflationary nature, that is, the “laws of the market” were allowed to run their course, in the expectation that sooner or later the supply and demand mechanism would regain a lost equilibrium, restore the profitability of capital, and thus assure its further development. The war economy itself however, was an inflationary process, as the increasing indebtedness of governments pressed upon the profitability of capital. The increased production had been for “public consumption,” destroying men, materials, and machines and delaying the production of the profitable means of production on which the expansion of capital depends.

In a “purely” economic depression the deflationary process merely destroys capital values, through bankruptcies and lowered prices, without seriously affecting their physical counterparts, the means of production. The resulting shift of value relations, that is, the changed distribution of the socially available profit among the capitalist firm’s will in time provide the surviving capital entities with a higher rate of profit arid thus with incentives for new investments. The capitalistic concentration and centralization process plays a greater mass of profit into the hands of fewer capitals, thereby improving their chances to resume their expansion on the basis of an altered capital structure, which allows for an increase in the productivity of labor and a profitable accumulation. The destruction of capital values during an ordinary depression is thus a precondition for a new economic upswing, which is to say that the deflationary process is an indispensable requirement of capital development.

The war economy, however, is of an inflationary nature. Capital values are sustained in the form of the public debt. The post-war depression of the European economies was thus characterized by monetary inflation in order to eliminate the public debt and to change the distribution of the social product in favor of capital. The inflationary measures varied in different countries in accordance with both their economic health and their monetary policies. The richer nations attempted, at first, to restore the international gold standard suspended during the war in order to maintain, or renew, their prewar positions in the international credit and investment markets. But the recovery of the European economies was far too slow to achieve social stability and a level of economic activity sufficient to promote another period of general expansion. In contrast, and after a short-lived depression in 1921, the American economy prospered to an extent unknown at any other time. Prices remained relatively stable, profits increased, the labor
force expanded, and the new inventions automobiles, telephones, radios, refrigerators, etc. – found continually expanding markets.

However, for both internal and external reasons the American prosperity could not last. Although America’s dependence on foreign trade is less than that of other capitalist countries, it is there nonetheless, as the expansion of capital implies the extension of markets through capital and commodity exports. This, of course, requires the ability of other nations to buy American goods, that is, their own ability to sell on the American market. But the war and the ensuing European stagnation had led to a further disintegration of foreign trade, which was already greatly hampered by protectionist policies and important differentials in labor productivity. Though not immediately perceivable, the sail state of the European economies was bound to affect America’s prosperity, for, just as every major crisis arising somewhere spreads over the whole globe, so a state of prosperity cannot be maintained in isolation from the rest of the world.

Assuming capitalism were a closed system, it would reach its limits at that point of development where the number of workers and their productivity as determined by the accumulation of capital would not yield profits large enough for its further expansion. At such a point accumulation, and therewith the system itself would come to a halt. The fact of continuous accumulation in the real capitalist world shows that these abstract limits have not been reached, while the recurrent crises indicate the existence of these limits, which come concretely to light in the interruptions of the expansion process. It is then a question of adjusting the profitability of capital to its expansion requirements which determines the state of the economy. As long as these adjustments can be made in the sphere of production, via the market relations, it is possible, although not certain, to overcome the immanent barriers to the production of capital. With respect to the American prosperity that preceded the crash of 1929, the emerging discrepancy between the possible rate of labor exploitation and the objectively required rate of expansion necessary to sustain the conditions of prosperity showed itself in the increasingly speculative character of this prosperity and in the enormous expansion of the credit system.

The American prosperity was largely and increasingly based on fictitious profits and fictitious capital, “created” on the stock market, which had no equivalent in real capital values and real profits. To some extent these fictitious values and their continuous expansion functioned just the same as an impetus for the further increase of production, even though this increase was not based on actual but on expected profits, which might or might not be realized. The increase in production, in turn, accelerated the speculative fever made possible through the availability of bank credits. Because from a capitalistic point of view it is quite immaterial for what particular purposes credits are extended, they will be used where they are the most lucrative. At the same time, however, credit expansion indicates a shortage of capital for the maintenance of a given pace of capital expansion. While credit itself can create nothing, it may prolong, or initiate, a scale of production that would have been far lower without it. It is for this reason that every crisis of capital is preceded by an extraordinary credit increase, by an effort, that is, to expand the level of production in order to maintain a given rate of profit. As the harbinger of an approaching crisis, the credit extension is also instrumental in the rapidity of the economic collapse when production fails to reach a level of profitability commensurable with the blown up mass of capital. In any case profits can only be made through production’ and if they are not satisfactory with respect to the existing capital whether real or fictitious the claims based on them cannot be met and a part of the recognised capital ceases to be such.
Although initiated by the stock market crash of 1929, the ensuing depression was not the result of mere speculation or of a false monetary policy promoting credit extension for speculative purposes. Both occurrences fell together with a slackening of the rate of investment due to declining profits in relation to the employed capital. It was rather this situation, the relative stagnation of productive capital, which led to the speculative boom, which could only enlarge the overall discrepancy between the profitability and the expansionary needs of the economy. Even without the artificial expansion of the market value of capital, the upswing was bound to come to an end, although, perhaps, this might have happened at some other time, with less dramatic impact and fewer disastrous consequences than those released by the stock market collapse and the disintegration of the banking system.

As it was, however, the crisis was blamed on the stock market, that is, on the unexplained loss of nerve at the first serious decline of the selling boom, which lowered or wiped out not only the inflated part of stock values but also part of the “justified” market value of capital. Treated as a question of psychology, all that seemed necessary in this situation was to halt the decline of stock prices by the restoration of confidence in the workability and progressive unfolding of the system. But since “confidence” cannot replace money, the capitalists tried first of all to safeguard as much as possible of the money value of their stock by selling at any price, so long as buyers could be found. In a short time the stock market value of capital was reduced to half the size it had reached in 1929, leading to the collapse of many enterprises and financial institutions. Banks began to fail because their loans had served speculation instead of productive investments, and their failures led to runs on the banks for reasons both of fear and of necessity.

The productive apparatus of the nation was not affected by these happenings in its financial structure. The reduction of the market value of capital, as registered on the stock market, should have improved the profitability of industrial production, since it could now be related to a diminished mass of capital. The fact, however, that production declined even further demonstrated that the cause of the crisis was not to be found in the speculative boom but was rather the result of an already existing decline of the economy. This showed itself most drastically in agriculture, where prices had fallen to about half of their war-time height, not to rise throughout the 1920s. Industrial workers, as a whole, were not able during this period to teach what was officially considered the necessary annual minimum wage of $2,000. Though the demand for labor increased, it did not increase fast enough to offset the declining rate of capital expansion which, due to the rising productivity of labor, accompanied an increase of output of about 40 percent. But this was in the main output of consumer goods not destined for the expansion of capital-producing capital. That the existing rate of growth could still be regarded as a prosperous one was precisely due to the frozen wage level and the decline of farm prices, which bolstered the profitability of industrial capital and restricted the prosperity to a privileged minority. According to estimates of the Brookings Institution, “in the boom year of 1929, 78 percent of all American families had incomes of less than $3,000. Forty percent had family incomes of less than $1,500. Only 2.3 percent of the population enjoyed incomes of over $10,000. Sixty thousand American families, in the highest income brackets, held savings which amounted to the total held by the bottom 25 million families.”[3] In the bourgeois view all production is destined for consumption and therefore determined by the consumers. Actually production is determined by its profitability. Its aim is the transformation of a given capital into a larger one, which can only be realized at the expense of consumption. If consumption were the rationale of production, there would be no accumulation of capital. There right be an expansion of the productive apparatus as a precondition for the expansion of consumption, but not the accumulation of capital as
capital. No matter what a capitalist firm or corporation produces, it will always try for the largest difference between its production costs and the selling prices for its commodities. On the social level this implies that there is always a surplus product that does not enter into consumption but takes on the form of additional capital, unless it remains idle money capital. In the latter form, however, it can only comprise a fraction of the total of the unused capital, which finds its augmentation in idle production capacity, unsaleable inventories, and a general glut on the commodity markets. With production frozen in the commodity form and unable to take on the money form, the capitalist crisis also manifests itself as an interruption of the circulation process and a general shortage of money. That is to say, the idle money, which cannot find profitable employment, comes to the fore as a general lack of money and a decreasing effective demand. And thus it seems that the crisis is caused by overproduction or its corollary, insufficient demand, whereas, actually, these are only market manifestations of an interrupted process of accumulation.

It is not enough, then, to enlarge the output of consumer goods, as happened during America’s postwar prosperity, unless the larger output is accompanied by a corresponding extension of the productive apparatus through which the expansion of capital is materialized. The increase of consumer goods may be a consequence of accumulation, but it cannot be its source, since it depresses the profitability of capital by reducing the rate of accumulation. It was thus the boom in consumer durables, under conditions of relative capital stagnation, which provided one of the contradictions of the prosperity. Of course, this was not a question of economic policy but an expression of blocked investment opportunities due to the precarious conditions of the world economy. The rate of capital expansion depends on the mass of profit available after social consumption needs have been met. The less consumed, the more can be accumulated, and vice versa. But in the world at large production scarcely sufficed to assure the necessary consumption requirements, and profit rates were consequently low. It was the low rate of profit which prevented American capital exports through direct investment abroad. What capital export there was took the form of short-term credits, which could not be transformed into long-term investments. In fact, a great part of this capital returned to the United States via the reparation and allied-debt arrangements. While America financed the German reparations, the latter financed the allied war-time debt to the United States. This circular money flow could not enhance a general upswing and came to an end before capital stagnation turned into the Great Depression.

Of interest in this context was America’s inability to expand its capital either internally or externally. Still, money had been made during the war, and was being made after it, to allow for a buying boom suggestive of a real prosperity, even though it was not based on the expansion of capital. But this could only be a temporary affair, not only because it was so largely based on credit, but also because profits did not rise with the increasing economic activity. It was a period often dubbed in retrospect a “profitless prosperity,” which offered no incentives for further capital investments. Not only was the existing productive capacity able to accommodate the prevailing demand, but it was never fully used throughout this whole period. Production did not exceed the demand formed by consumption goods and was, by that token, capitalistically unjustifiable. There was no overproduction as yet because production had been curtailed to the given market demand, which did not include sufficient demand for new plants and equipment.

Socially this implied capital stagnation, which denies a part of capital, namely that part producing for expansion, its necessary profits, thereby reducing the general rate of profit for capital as a whole. To raise the rate of profit, as a precondition for the enlargement of capital, requires a restructuring of the whole of the economy, which leads
to the profitability of a still larger mass of the total capital. To this end the reallocation of
the social capital in a market economy is only possible by way of crises and depressions.
But the crisis must first make its appearance on the surface of the market, even though it
was already present in changed value relations in the production process. And it is via the
market that the needed reorganization of the capital structure is brought about, even
though this must be actualized through changes in the exploitative capital-labor relations
at the point of production.

Before this happens the depression runs its course. After the stock market collapse
production declined progressively, reducing the national income within three years to less
than half of what it was in 1929. Apart from enterprises disappearing altogether,
production was generally cut, which led by 1932 to 15 million unemployed. Many of the
employed workers were on half-time. To give a particular instance, industrial
construction, which is an indicator for general production, declined from $949 million to
$74 million; steel production was down to 12 percent of its capacity. Five thousand banks
closed, wiping out close to 10 million savings accounts. Farm income, which amounted in
1929 to $12 billion, was reduced by 1932 to $5 billion. The price of crude oil, which had
been $2.3 1 per barrel in 1926, fell to 10 cents by the end of 1930.

This list could be continued endlessly, for the crisis was all-inclusive and, with the
exception of the really rich, affected all layers of society.

It was perhaps the very rapidity of the decline which stunned the population into a
kind of disbelief in the reality of the crisis. This situation could not possibly last, it was
thought, and would end as suddenly as it had come about. As in a natural catastrophe, all
tried to rescue what was still savable; the entrepreneurs by cut-throat competition, the
workers by accepting lower wages. The government of Herbert Hoover ceaselessly
assured the population that the depression would end in a few weeks, that it had nothing
to do with the economic system, which was basically at Round as ever, but was probably
cauised by unsound speculation activities on the part of other nations and unfair terms of
trade. As the depression persisted, a false optimism took the place of despair, for it was
now said “that the slump has continued so long and has proceeded so far that it seems
hardly tenable to believe that the end is still far off. It is on this idea that a spirit of
optimism is growing up in business circles.”[4] To improve upon this new optimism,
reductions in the higher income tax rates were proposed in order to induce new capital
investments, in the belief that additional capital expenditures would raise the national
income and finally yield larger revenues at the lower tax rate. Public works were initiated
to reduce unemployment, but within the frame of a balanced budget. Eventually,
however, taxes were raised in the interest of “sound finance,” because “the first
requirement of confidence and of economic recovery is the financial stability of the
United States government, and because government borrowings would denude commerce
and industry of their resources, jeopardize the financial system, and actually extend
unemployment and demoralize agriculture rather than relieve it.”[5] The measures taken
to counteract the depression, or rather the lack of such measures, intensified the crisis but
did not diminish Hoover’s optimism, for, as he later explained, “it is the function of
Presidents to be encouraging,” even when this contradicts the facts.

The highly unequal distribution of income that characterizes the capitalistic
upswing and is, in fact, its precondition, becomes even more unequal in times of
depression. A part of the lower incomes disappears altogether, while another part is
severely curtailed; and this reduction of buying power is euphemistically described as a
lack of “effective demand,” causing the general over-production. Of course, since the
economy does not come to a dead stop, part of production continues to yield wages and
profits, and their recipients find themselves in an enviable position, which they try to
maintain with all the means at their disposal. The social misery is not at once a general misery, and this divides the privileged from the unfortunates even more than before, each group fearing the other, which intensifies the conflicts between classes and within the various layers of society.

For some time, however, the population at large seemed to share Hoover’s confidence in the viability of the economic system, for the complaints made were directed not so much against the system as such as against its mismanagement by an incompetent government. The latter was expected to restore the customary conditions of the past, not alter the social structure. In the absence of an effectively organized counter-ideology, the capitalist ideology maintained its hold over the broad masses, which desired the end of the depression, not the end of capitalism. It was this mental climate which explains the rather curious first reactions to the deepening depression, namely, the various self-help schemes, which occupied great numbers of people, either by a return to the land, where this seemed feasible, or by all sorts of barter agreements based on diverse kinds of labor. These were of course no solutions but makeshift arrangements to weather the depression, the ending of which was presumably the work of the government, or of a new government should the existing one fail in this.

However, the depression is no respecter of ideology, and necessity immunizes against all false consciousness. Whatever the conformist notions of the dispossessed and unemployed, they had to eat; and without any savings to speak of, they had to rely on charity in order to exist. There was no unemployment insurance, no relief program for the destitute millions, only private charity and communal welfare institutions hardly able to deal with the ever present social misery and totally unfit to deal with mass unemployment. Yet there were no other places people could turn for help. Streaming into the welfare agencies, they soon found a way to act collectively by spontaneously forming loose organizations based on the locations of these agencies.

During the first three years of the depression, no real efforts were made to adapt the relief institutions to the demands of the crisis. An ineffective public works program was soon abandoned. It was a principle on the part of the government that the crisis should be met through “the maintenance of a spirit of mutual self-help through voluntary giving. This is of infinite importance to the future of America. No governmental action, no economic doctrine, no economic plan or project can replace that God-imposed responsibility of the individual man and woman to their neighbors.” But the number of neighbors able or willing to help decreased even more rapidly than the number of unemployed increased. The state governments had to come to the rescue of the local communities, until state funds, too, were exhausted, leaving the Federal government as the last resort.

The depression went deeper and deeper, leading to a social crisis that could be overcome only by way of a sharp policy turn and the government’s conscious intrusion into the economic system. By the end of 1932 the politicians, and some economists, were increasingly prone to express fearful prophecies to the effect that if a satisfactory solution of the unemployment problem were not found soon, great convulsions and hunger riots would be unavoidable. A noticeable radicalization of the jobless as well as the employed showed itself in hunger marches, while spontaneous demonstrations and even plundering became increasingly frequent. More organizations of the unemployed came into being on their own or were formed with the aid of existing political labor organizations. The unrest became an object of great concern, since it expressed itself in an atmosphere of general uncertainty and social tension. In and of itself the unemployed movement was too weak to pass the bounds in which it could be held down with the usual instrumentalities, but in
conjunction with the state of mind prevailing throughout society, it formed the seat of a general fermentation which, at times, was assuming an almost revolutionary character.

The gradual exhaustion of the sources of relief implied increasing misery. The minimum amount by which starvation could be warded off was at the time 22 cents daily per person, but nowhere could this amount be raised. Rents, like bills for light and cooking gas, could not be paid, and people were evicted from their homes. The extremely low standard of living caused the rate of illness to shoot upward, with dysentery and pellagra the dominating diseases. Crime was for many the only means of existence. The distress of the homeless became ever more acute. On the edge of the cities the unemployed built for themselves so-called Hoovervilles out of boxes, tin cans, and the refuse of dumps; holes in the earth used as dwelling places ceased to be a rarity. Thousands upon thousands lived in improvised tent camps. People by the millions roamed the highways, moving from the north and the east to the south and the west to get away from the housing problem and also in the false hope of finding some way to exist elsewhere. Driven out by force from hostile communities, they lived in “jungles,” in railway cars, and under bridges. Breadlines were overcrowded and people were freezing to death in the cold. Still, rebellions were only sporadic and were suppressed with the utmost brutality. The great despair created an even greater fear on the part of the authorities, which prepared the police and National Guard for civil war. The army itself was called upon to defeat the veterans of World War I, who demonstrated in Washington to demand early payment of a promised bonus, only to be dispersed with the aid of cannon, tanks, machine guns, and flame throwers under the command of MacArthur and Eisenhower.

The real responsibility for this misery, according to John Edgerton of the National Association of Manufacturers, lay with the jobless themselves, for “they do not practice the habit of thrift and conservation, but gamble away their savings in the stock market and elsewhere. Why blame our economic system, or government, or industry?”[7] While this attitude is understandable, it is also meaningless, since it does not remove the problem of persistent mass unemployment and its possible social consequences. What is more astonishing was the refusal on the part of the impoverished to make themselves responsible for the elimination of their misery. Instead, they insisted on the “right to work” and demanded from the government the means of existence until the demand had been met. Even where they directly violated private property for instance, by taking possession of unused mines to dig coal to be sold on the market on their own account—they invoked the principle of necessity, not the conviction that capitalism had become untenable.

Whatever the numerous reasons why the American workers did not possess that degree of class consciousness which characterized the workers in the industrial European nations, “the overriding, central fact was that during the worst and longest depression in the history of any industrial nation the American working class did not show any demonstrable change in its political and economic commitments.”[8] And though that degree of class consciousness displayed in Europe led nowhere, it at least provided some independent response to the economic crisis, whereas in America the movements of protest addressed themselves exclusively to the as yet unchallenged social institutions. Quite apart from the question as to whether the left-wing political organizations were prepared for any anti-capitalist actions, should a chance have offered itself, they were at any rate programmatically committed to some type of social change. But in the elections of 1932, the Socialists received fewer votes than they had received thirty years before, and the Communists polled only 120,000 votes.
Generally hope was associated with a new government, one more willing to combat the depression than was possible under the basically deflationary policies of the Hoover administration. These policies had already been breached by force of circumstances. Some government aid was dispensed via the creation of the Reconstruction Finance Corporation in 1931, which was authorized to lend money to banks, businesses, and farms to shore up the faltering economy. Public works to help both private business and the unemployed led to large deficits, despite the desire for a balanced budget. But the decline continued and found no adequate compensatory reactions through government. As the economic system was not challenged, it was the Hoover administration which had to take the blame for the unmitigated distress. The two-party system of American politics automatically ensured that the Democratic Party should gain from the failures of the Republican administration. The 1932 elections brought the Democrats into power and Franklin D. Roosevelt into the White House. In his pre-election speeches, as is customary, Roosevelt promised everything to everybody but, in however a general way, insisted on the government’s responsibility to strengthen the economy and to aid its casualties. He promised a government committed to pulling the nation out of the depression, in contrast to Hoover, for whom such ideas implied the subjugation of economic laws to the arbitrary rule of government and the destruction of traditional capitalism.

Roosevelt had no such intentions. What his ambition desired was the presidency, and to get himself elected he did not hesitate to propose incompatible solutions to the social problems. He, too, was for a balanced budget and, at the same time, for government interventions in the economy on behalf of the general welfare. “Through his warm, outgoing approach and his setting forth of generalities, he had kept a heavy majority in Congress and among the public behind him. They read into his promises their own wishes. ... In the twentieth-century tradition, he was trying very hard to be President of all the American people. ... To the desperate Americans of 1933, Roosevelt wished to dispense aid to all groups but, and here was where much trouble began, to require concessions and responsibilities from each in return. As Roosevelt had to make choices and move from generalities to specifics, misunderstandings developed and disappointments burgeoned. These came later. In that first summer the New Deal seemed to encompass businessmen, farmers, workers; men and women; the white-collared and the blue-collared – all in the alliance for recovery.”[9]

Roosevelt’s party slogan, the New Deal, implied the beginning of a fresh game but with the same players. The old cardsharps were to be turned into honest men, sacrificing their advantages so as not to ruin their partners and the game. Class collaboration and fair competition, the unattainable ideals of bourgeois society, were finally to be realized through the neutral umpireship of a benevolent government. The impossible was to be made possible by an act of will to see society prosper again as it had at times in the past. But how to begin? As always by dealing with the material nearest at hand. It was the very lack of a definite program, the playful experimentation with concrete issues, the pragmatic approach of learning by doing which overcame the downward trend of stagnation and the general apathy to which it had led.

Roosevelt’s inauguration coincided with what was perhaps the lowest point of the depression. In his inaugural address Roosevelt insisted that the nation must now move “as a trained and loyal army willing to sacrifice for the good of a common discipline.” To that end he would demand from Congress “the one remaining instrument to meet the crisis – a broad Executive power to wage war against the emergency, as great as the power that would be given to me if we were in fact invaded by a foreign foe.[10] His first presidential actions were then aptly described as the “hundred-days war.” It began with
an attack on the financial chaos through the declaration of a bank holiday to stem withdrawals from the banks that were still functioning. Those banks which appeared to be solvent were reopened under guarantees of the government. The Emergency Banking Authorized the Federal Reserve System to provide its members with practically unlimited credits. The run on the banks was actually halted, and in order not to lose the newly gained confidence in the restored banking system, the Federal Deposit Insurance System was established by law, insuring small depositors against future losses.

Aware of the fact that only inflationary methods could block a further decline of the economy, Roosevelt still searched for a type of inflation that would not unduly enlarge the national debt. He tried, on the one hand, to reduce the costs of government and, on the other, to increase the money supply through the issuing of unsecured currency and through the devaluation of the dollar. Since other countries, including Great Britain, had left the gold standard in the fall of 1931, devaluation of the dollar had been expected also in the United States, and the dollar, and with it gold, was leaving the country. To halt the flight of the dollar, as well as to devaluate it, Roosevelt suspended the convertibility of the dollar into gold for American citizens and temporarily stopped the export of gold. He then devaluated the dollar in terms of gold by 40 percent. America left the gold standard. The devaluation raised prices to some extent and provided the monetary means to finance the recovery program. Roosevelt liked to think of these measures not so much as inflationary but as the application of the principle of “monetary management.”

Legislation followed in quick succession to deal with the agricultural crisis, unemployment, and the economy in general. The Agricultural Adjustment Administration saw its main function in the raising of farm prices through crop reductions. The farmers’ plight was caused not only by the lack of demand for their products but also by a disparity between agricultural and industrial prices due to the more advanced monopolization of industry. Numerous farmers could no longer pay their taxes, not to speak of the interests on their mortgages, and faced dispossession from their farms, which they often succeeded in preventing by direct action. There was seemingly a greater militancy in the rural than in the urban population, no doubt because in the farmers’ case property was directly involved. Credit was extended to them in return for their reduction of production. Since American agriculture is almost exclusively based on single cash crops, a change to subsistence farming was not feasible; hunger stalked the countryside as well as the city slums. It is a curious situation, indeed, when a general abundance of foodstuffs finds its accompaniment in starvation, even among the food producers, and when no other solution offers itself but the reduction of production and the destruction of un-saleable food products. It is just as curious to speak of overproduction when, in fact, food is merely withheld from people more than ready to consume it. Yet foodstuffs of all descriptions were dumped and covered with poison and quicklime to prevent the hungry from using it. Wheat and cotton were plowed under, millions of pigs and cows were destroyed in the hope of raising prices, through artificial scarcities. Farmers were rewarded for not producing commodities, although this was of benefit only to the larger agricultural enterprises, not to the small farmers.

Like anything else in the New Deal, its agricultural program was beset with many contradictions. A false romanticism on the part of Roosevelt was able to combine the reduction of agricultural production with the desire to lead at least part of the superfluous city population back to the serenity of country life. The drift from the land to the city in search for more lucrative occupations, or any kind of work, was to be reversed by a government-sponsored homestead policy as a part of the solution of the farm problem. While the number of farmers was to be increased, or at least maintained, production was to be reduced in order to raise prices to provide a living for all. But crop limitation
allowed the landlords to drive their tenant farmers from the land and at the same time to pocket their share of government subsidies. “Recovery” of this type merely increased the misery of tenants and share-croppers. But, then, they were an inarticulate and powerless minority, which could easily be overlooked even among the “forgotten men.”

Like all good Americans, Roosevelt hated the English “dole,” into which a limited system of unemployment insurance had “degenerated,” providing direct cash relief without work. An inescapable change from relief in kind to cash relief threatened to bring the “dole” to America. This morale-destroying situation could only be prevented by the combination of relief with work, which characterized the whole unemployment program under the New Deal. The early Civil Works Administration (CWA) invented work for “work’s sake” to give regular exercise and training to the workers, so that they would be in good condition when business might need them back. “The fact that enormous numbers of people were getting out of the habit of working,” it was said, “together with the impossibility of getting the young ones into the habit, aroused the greatest concern among those responsible for the framing of social policy. The old stigma of idleness must be re-established, that stigma which gave this country its development, until a rising offer of work may meet with an eager acceptance at least.”[11] The young, in particular, had to be rescued from the disintegrating influence of the combination of idleness and want. To that end the Civil Conservation Corps (CCC) came into being to put the 18- to 25-year-old men into labor camps and to occupy them, in exchange for room, board, and some pocket money, with the planting of trees, the building of minor roads, tracks, and dams, and the fight against soil erosion. Although the CCC form of relief was the most expensive, it was the only one that found general appreciation, for as its director, R. Fechner, pointed out, “the 2,300,000 youths trained in CCC camps since its inception in March 1933, were about 85 percent prepared for military life and could be turned into first-class fighting men at almost an instant’s notice.”[12]

At the same time, public works were resumed under Harold Wilkes of the Public Works Administration (PWA) in order to combine the reduction of unemployment with the stimulation of capital expenditures, but with only minor results in either direction. City halls, courthouses, schools, post offices, highways, and harbors were constructed, but with so much caution that it was hardly possible to speak of an increase of public works. Rather, “they have merely been prevented from fading altogether. Public works, as such, in fact, have played only a relatively small part in the experimentation of ‘deficit financing’ by which it was hoped ‘to prime the pump’ of recovery.”[13]

The costs of work relief are far higher than those of direct relief. At the beginning of 1934 the Civil Works Administration had more than four million persons on its payroll, some of whom were not eligible for public welfare. The large expense induced Roosevelt to put an end to the CWA and to return its clients to the relief rolls, which cut government expenses by more than half and subjected the relief recipients once again to the humiliations of the “means test,” that is, the proof of total destitution. A year later, however, Roosevelt found it necessary to reinstitute public employment and to launch the Works Progress Administration (WPA), which hired about three million people out of more than twenty million relief recipients. The WPA paid somewhat more than was allotted to welfare cases, but less than the prevailing wage rates, so as not to “encourage the rejection of opportunities for private employment.”

The sudden changes in welfare policy led to serious flare-ups among the unemployed and to attempts, with the aid of the left-wing political organizations, to form a nationally coordinated movement that could act as a pressure group in Congress and influence events in the interests of the unemployed. But their lobbying activities were of little avail. More disturbing in the eyes of Roosevelt and the “progressive” wing of the
Democratic Party was the spreading of competitive “fascist” tendencies, as exemplified by the rise and growing power of Huey Long in Louisiana, who took some of the wind out of Roosevelt’s sails by a more consistent demagoguery, which did not hesitate to promise a thorough distribution of wealth that would make “every man a king.” All kinds of schemes for resolving the economic crisis were advanced, such as the so-called Townsend Plan, or Old-Age Pension Program, and Upton Sinclair’s “End Poverty in California” plan, which was to give the workers some access to the means of production and distribute the wealth more evenly. These movements intensified a divisive ideological split within the Democratic Party and drove its “conservative” wing to the Republicans in opposition to the New Deal. To keep the party intact and to retain its leadership, Roosevelt tried to balance the contrary interests by means of compromises, which either advanced or retarded the New Deal. The frictions in the Democratic Party reflected those within the nation as a whole and explain the increasingly visible partisanship as well as opposition with respect to the New Deal measures.

The Grand Design of the New Deal, namely, the National Industrial Recovery Act (NRA), was thus destined to fall apart without, and independently of the fact that the Supreme Court of the United States declared it in violation of the Constitution and therefore invalid, together with the AAA and some other New Deal legislation. The NRA implied business self-regulation, under the auspices of government, to end the state of fierce competition that brought prices and wages down without reaching a new stabilizing economic plateau. It indicated the loss of confidence in the self-adjustability of the market mechanism. “The cat is out of the bag,” wrote R. C. Tugwell, one of Roosevelt’s early advisers, “there is no invisible hand. There never was. We must now supply a real and visible guiding hand to do the task which that mythical, non-existing, invisible agency was supposed to perform but never did.”[14] The economy had to be planned in order to remain a capitalist economy. It is therefore no contradiction that the “planning” consisted exactly of those measures that had hitherto been the results of unconscious market forces, that is, the increasing concentration of capital and its acceleration in times of crisis and depression. To facilitate this process, antitrust laws had to be set aside to allow trade associations to fix their own prices and profit margins through a “fair” distribution of market shares in all industries.

Harking back to the “unifying” experiences of Word War I, during which the government was to some extent able to subordinate all special interests to the “common” goal of winning the war, the “war” on the depression was supposed to yield similar results through the suspension of capital competition and the elimination of class conflicts. The self-regulation of business was therefore to be complemented by strengthening organized labor to assure more equal working conditions and to uphold “reasonable” wage levels. Parallel to setting behavioral codes for the various industries, the NRA, through special legislation, was to guarantee the workers’ right to collective bargaining and the unhampered formation of independent trade unions. And this the more so because in 1932 the American labor movement showed signs of a revived militancy both despite and because of its organizational decay. Union membership, which comprised about 12 percent of all employed workers in 1922, had been decimated to 6 percent by 1932. From then on, however, the number of strikes to defend both wages and unions increased rapidly, which merely led to a further deterioration of the economy. The argument for the labor clause of the NRA was based on the consideration “that unions tended to keep wages up, hours down and working conditions safe – all purposes of the plan. The most cutthroat competition, worsening all three, invariably came from those industries or low-cost areas that kept unions out. The pattern in the steel industry or much of the South was that anyone who joined a union lost his job. If such industries or areas
were to have the benefit of the codes, then their workers should be allowed to join unions and bargain collectively.”[15]

For lack of any comprehension of the contradictions inherent in capital production, Roosevelt and the proponents of the New Deal were “underconsumptionists,” that is, they mistook the results of the depression for its cause. Wages were to be propped up to increase the buying power for a larger production, and prices were to rise with higher wages, thereby increasing the entrepreneurial profits. It was all so simple; it only ignored the fact that wages are costs of production, so that the higher they are, the lower will be profits and the incentive for production increases. When prices are raised, the buying power of wages is cut down, of course, unless wages and profits rise at the same time, which presupposes capital expansion under conditions of full employment. But for the advocates of the New Deal, depression meant lowered wages and declining prices, and raising both was then the way to recovery. This was to be attained through the restraint of competition, without regard for the actual profitability of capital, on which the state of the economy, and therewith the state of competition, depends. Monopolization, being the effect of competition, was now to be reached without competition, by means of gentlemen agreements that assured everyone the required profits and the workers a living wage.

In reality things worked out quite differently, or rather they worked out in the only way they could within the confines of capitalism. Although most industries subscribed to NRA codes, or at least paid lip service to them, the codes were written up, and the authorities therewith created were dominated by big business and its special interests to the detriment of small producers, the workers, and the public at large. The control over prices and production granted to the various trade associations reduced itself finally to mere price fixing, which broke the deflationary spiral but did not enhance the economy to any noticeable extent. It did, however, accentuate the further concentration of capital and, in that sense, was one of the preconditions for the resumption of the capital-expansion process. The unlamented demise of the NRA by verdict of the Supreme Court led to some shadowboxing on the part of Roosevelt, although it merely removed the legal sanction from the “natural” course of events, namely, the increasing monopolization of capital.

What has been said so far does not exhaust the measures taken under the New Deal. But what has been left out are its relatively minor aspects, such as the often-repeated attempted reform of the security markets in order to reduce fraudulent speculation; some restriction of banking practices to protect deposits; workmen’s accident compensation laws; employment agencies to expedite the allocation of labor; and the government’s entry into the power business, through the Tennessee Valley Authority, which was supposed to serve as a “yardstick” to evaluate the pricing policies of private power companies and to reclaim wasteland through the erection of dams and waterways. Long overdue innovations, such as the Social Security Act, involving unemployment and old-age insurance, and the National Labor Relations Act, became laws in the middle of 1935.

Within the context of the outspokenly reactionary character of American capitalism, all this New Deal legislation appeared to be of a progressive nature, challenging the tradition of “rugged individualism” and comforting those who saw themselves as “collectivists” merely because they opposed strict laissez faire in favor of social reforms such as had long been realized in the European capitalist nations. While the bourgeois reform movement was based on the fear of the possible consequences of the increasing polarization of society and its effect on the class struggle, the workers took advantage of the temporary division of the ruling class to attend to their own immediate needs. The growing capitalist opposition to the New Deal forced the Roosevelt
administration to rely to some extent on the good will and the support of the working class, if only to save the capitalist system from the folly of its less enlightened defenders. The labor clause of the NRA, legally defining the right to organize, encouraged the extension of old organizations and the formation of new ones, but it also induced the capitalists to fight these organizations and their demands despite the NRA. The passing of the National Labor Relations Act created the impression that the government was solidly behind labor’s organization drive and would compel industry to accept its results. Roosevelt became the hero and defender of the working class.

With the government seemingly on the side of labor, a strike wave ensued for higher wages and better working conditions, based on the reviving trade unions and newly formed industrial unions, represented by the CIO. The fight for union recognition embraced industries such as steel, rubber, textiles, automobiles, which had until then managed to keep unions out. Unionization took on spectacular proportions, with often a tenfold increase in membership within one year. The resistance of management gave these struggles a militant character, with – for America – new tactics, such as the sit-down strike and even, as in San Francisco, the general strike. The government’s noninterference brought Roosevelt much of the labor vote in 1936 as well as heavy financial support in the election campaign. But with the main industries organized and the unions bureaucratized, rank-and-file initiative again subsided to make room for the ordinary bargaining procedures of the labor market, thus revealing the hollowness of labor’s victories, which had only served to integrate the unions more thoroughly into the capitalist system.

Working-class militancy also reflected a changing economic situation, noticeable not only in America but on a worldwide scale. The downward trend had been arrested. The forces of recovery operating within the depression, as well as the decrease in unemployment via public expenditures, increased production up to the out-put level of 1929. This was sufficient for the Roosevelt administration to drastically reduce public works, as well as the WPA, in a new effort to balance the budget in response to the demands of the business world. But the output level of 1929 had not been enough to avoid a large amount of unemployment. “We must look to a much more rapid expansion of production than has taken place between 1933 and 1935,” wrote David Weintraub, “before we can expect a return either to the unemployment or the employment levels of the pre-depression period. A rough calculation indicates that, in order for unemployment to drop to the 1929 level by 1937, goods and services produced would have to reach a point 20 percent higher than that of 1929, even if the productivity level of 1935 remained unchanged. However, it was the restoration of profitability on the existing level of production, not full employment, which motivated the increasingly negative attitude with respect to the New Deal and led Congress to diminish its appropriations for work relief, slowly phasing out its various projects.

The recovery proved to be short-lived. At the end of 1937 the Business Index fell from 110 to 85, bringing the economy back to the state in which it had found itself in 1935. Steel production declined from 80 percent of capacity to 19 percent. Millions of workers lost their jobs once again. The New Deal was now adjudged a dismal failure, and the optimism engendered by it dissipated into general apathy. It seemed that stagnation was now the “normal” state of affairs and that nothing could be done about it. Those who still managed to live reasonably well and, of course, those who profited from the increased productivity of labor felt inclined to make the New Deal responsible for the new downturn and pleaded for giving the market a chance to run its own course.

There was of course the nuisance of the jobless, but their plight encountered increasing indifference. Society was now prepared to live with them, for, as Marry
Hopkins, head of the WPA, explained, people “were bored with the poor, the unemployed and the insecure.”[17] This surplus population, it was said with some justice, “does not count in the welfare of the whole population. They are cast out of the groups within the economic system. They have no market for their only economic good, their skill and labor. At present the unemployed constitute a new class in America, and just now they enjoy legal equality with other classes. ... But with the passing of time the line of demarcation will become more definite. People will be born into this class who never will be employed. The classes inside the economic system will bear children who will not ever be in contact with the group outside the system. The unemployed class will become a class of outcasts. There will be no place for them no real or fictitious social service they can render. The natural thing for society is to ignore this class and abandon it. It will exist as a nonentity, no one will care what becomes of it. Its members will steal and beg and live in squalor like their brothers in India.[18]

For all practical purposes by 1938 the New Deal was dead and buried. The economy revived once more, but there were still ten million unemployed in 1939. While total output regained the 1929 level, private investments were still one third below the level of 1929. Business blamed this situation on high taxes which accompanied the budget deficits and on the encroachment of government induced production on the fields of competitive private investments. Meanwhile, the pragmatically evolved New Deal found a belated theoretical justification in the emerging Keynesian economics. It was now argued that it was not so much the New Deal as its limited application and its inconsistencies that must be held responsible for its apparent failure. “The basic fact was that in 1939,” according to Herbert Stein, “the country was unwilling to commit itself to spending as the way to prosperity, especially when the commitment seemed to be permanent. To get out of the ‘bottom of the well,’ the government would spend as an emergency measure, but it was not prepared to regularize and perpetuate the process.”[19]

Keynes’s theories were unrelated to the New Deal; in deficit financing in order to cope with extraordinary government expenditures is as old as and older than capitalism. Since it was always practiced in times of war, it was obvious that it would also be used in the “war” against the depression. Even the idea of the “multiplier effect” of government-induced production made its appearance long before Keynes formulated his theories. But despite the lack of a realistic theory of capital production, the bourgeoisie felt intuitively that government deficit financing may be an effective short-term expedient but could not possibly be a long-term solution. It is clear, of course, that any large-scale investment, from whatever source, will increase production, and that this increase will lead to some additional production apart from the initial investment. But behind the desire for a balanced budget lies the instinctive recognition that a continuous expansion of production by way of government deficit financing must finally destroy the capitalist system.

Of course, the bourgeoisie does not distinguish between production in general and capitalist production. Similarly economics concerns itself with mutually determining flows of abstract incomes and expenditures. If expenditures fall behind incomes, equilibrium is upset but may be restored by compensatory government expenditures. These expenditures must be larger than what is required for the ordinary needs of government, which are met by taxation. The balancing deficit is realized through borrowings on the capital market and turns into the national debt. It is assumed, however, or at least hoped, that government-induced production through deficit financing will revivify the economy and increase incomes sufficiently to yield more taxes and more savings and thus eliminate the earlier deficit. It was then a question not of balancing the budget from year to year but of balancing it over the whole of the business cycle, the
deficits of the depression years being compensated by surpluses of the prosperous ones, meanwhile increasing employment and stabilizing economic activities.

It was the expectation of the “pump-priming” effect of government expenditures which induced the New Dealers to adhere to both deficit financing and the principle of the balanced budget; it was only that the balancing of the budget had to be continuously postponed, while fear of the increasing public debt set a low ceiling to the latter. With the disappointments caused by the sluggishness of the recovery, confidence in government-induced production was lost, even on the part of Roosevelt, and more attention was paid to the expansion needs of private enterprise. Although relentlessly practiced, the bourgeois mind refuses to admit that it is not the mere increase of social production but only the increase of the profitability of capital which can lead the private-enterprise system out of the depression. If there is no parallel increase of profits, government expenditures, which are by nature non-profitable, can only deepen the depression despite all the multiplier effects of an increased production. This does not mean that the “pump” of private capital production remains dry in spite of all the priming done by government. It means that only under particular and favorable conditions will the “priming” have a positive effect. In most cases it will be detrimental to private enterprise and finds its limitation in the capitalist system itself.

In any case the Keynesian theory found no verification in the New Deal. The depression was finally ended not by a new prosperity but through World War II, that is, through the colossal destruction of capital on a worldwide scale and a restructuring of the world economy that assured the profitable expansion of capital for another period. National solutions to the economic crisis had everywhere failed, but by attempting such solutions, the capitalist world system, already shaken to its foundations, had still further deteriorated. Imperialistic solutions were now the order of the day, not least because of the quasi-autarchic anti-depression measures that preceded the war. Governmental interventions in the economy are restricted to the nation but affect the world at large and find their limits both at home and abroad. At some point the government-induced expansion of profitless production comes into conflict with the narrowing profit base of capital and plunges the nation into even deeper decline. This is the point at which the imperialist solution seems to be the only way to secure the national capital at the expense of other capitalist nations. An accentuated economic nationalism precedes the international conflicts, even where it serves, at first, no more than the recovery needs of the capitalist nation-state. The New Deal, too, tried to overcome the depression in relative isolation from the decaying world economy, only to partake in its further disruption. With the Spanish Civil War the alignment of the imperialistic forces began to take shape, and the eventuality of a new global war began to agitate the world. Government-induced production became armaments production; in the United States this took the form of an enlarged naval program. The actual outbreak of war turned America into the “arsenal of democracy,” but it took America’s entry into the war to overcome the Depression and to reach the goal of full employment. Death, the greatest of all the Keynesians, now ruled the world once more.

Notes.


6. Address of President hoover on Unemployment Relief, October, 1931, p.3.


15. 0. Martin, Madam Secretary Frances Perkins, 1976, p.264.


1978.

**Spontaneity and Organisation**

(1977)

Source: [Collective Action Notes Home Page](#).

The question of organisation and spontaneity was approached in the labour movement as a problem of class consciousness, involving the relations of the revolutionary minority to the mass of the capitalistically-indoctrinated proletariat. It was considered unlikely that more than a minority would accept, and, by organising itself, maintain and apply a revolutionary consciousness. The mass of the workers would act as revolutionaries only by force of circumstances. Lenin accepted this situation
optimistically. Others, like Rosa Luxemburg, thought differently about it. In order to realise a party dictatorship, Lenin concerned himself first of all with questions of organisation. In order to escape the danger of a new dictatorship over the workers, Rosa Luxemburg stressed spontaneity. Both, however, held that just as under certain conditions the bourgeoisie determined the ideas and activities of the labouring masses, so under different conditions a revolutionary minority could do likewise. At the same time that Lenin saw this as a chance to usher in the socialist society, Rosa Luxemburg feared that any minority, placed in the position of a ruling class, might soon think and act just like the bourgeoisie of old.

Behind these attitudes there was the conviction that the economic development of capitalism would force its proletarian masses into anti-capitalistic activities. Although Lenin counted on, he simultaneously feared, spontaneous movements. He justified the need for conscious interferences in spontaneously-arising revolutions by citing the backwardness of the masses and saw in spontaneity an important destructive but not constructive element. In Lenin’s view, the more forceful the spontaneous movement, the greater would be the need to supplement and direct it with organised, planned party-activity. The workers had to be guarded against themselves, so to speak, or they might defeat their own cause through ignorance, and, by dissipating their powers, open the way for counter-revolution.

Rosa Luxemburg thought differently because she saw the counter-revolution not only lurking in the traditional powers and organisations but capable of developing within the revolutionary movement itself. She hoped that spontaneous movements would delimit the influence of those organisations that aspired to centralise power in their own hands. Although both Luxemburg and Lenin saw the accumulation of capital as a process that spawned crises, Luxemburg conceived the crisis as more catastrophic than did Lenin. The more devastating a crisis, the more embracing would be the expected spontaneous actions, the less the need for conscious direction and centralistic control, and the greater the chance for the proletariat to learn to think and act in ways appropriate to its own needs. Organisations, in Luxemburg’s view, should merely help release the creative forces inherent in mass actions and should integrate themselves in the independent proletarian attempts to organise a new society. This approach presupposed not a clear, comprehending revolutionary consciousness but a highly-developed working class, capable of discovering by its own efforts ways and means of utilising the productive apparatus and its own capacities for a socialist society.

There was still another approach to the question of organisation and spontaneity. Georges Sorel and the syndicalists were not only convinced that the proletariat could emancipate itself without the guidance of the intelligentsia, but that it has to emancipate itself from the middle-class elements that control political organisations. In Sorel’s view, a government of socialists would in no sense alter the social position of the workers. In order to be free, the workers themselves would have to resort to actions and weapons exclusively their own. Capitalism, he thought, had already organised the whole proletariat in its industries. All that was left to do was to suppress the state and property. To accomplish this, the proletariat was not so much in need of a so-called scientific insight into necessary social trends as of a kind of intuitive conviction that revolution and socialism were the inevitable outcome of their own continuous struggles. The strike was seen as the workers’ revolutionary apprenticeship. The growing number of strikes, the extension of strikes, and their increasing duration pointed towards a possible general strike, that is, to the impending social revolution. Each particular strike was a reduced facsimile of the general strike and a preparation for this final upheaval. The growing revolutionary will could not be gauged by the successes of political parties, but by the
frequency of strikes and the elan therein displayed. Organisation was preparation for
direct action and the latter, in turn, formed the character of the organisation. The
spontaneously-occurring strikes were the organisational forms of revolt and were also
part of the social organisation of the future in which the producers themselves control
their production. The revolution proceeded from action to action in a continuous merging
of spontaneous and organisational aspects of the proletarian fight for emancipation.

By stressing spontaneity, labour organisations admitted their own weakness. Since
they did not know how to change society, they indulged in the hope that the future would
solve the problem. This hope, to be sure, was based on the recognition of some actual
trends such as the further development of technology, the continuation of the
concentration and centralisation processes accompanying capitalistic development, the
increase of social frictions, etc. It was nevertheless a mere hope which compensated for
the lack of organisational power and the inability to act effectively. Spontaneity had to
lend ‘reality’ to their apparently hopeless tasks, to excuse an enforced inactivity and
justify consistency.

Strong organisations, on the other hand, were inclined to disregard spontaneity.
Their optimism was based on their own successes not on the probability of spontaneous
movements coming to their aid at some later date. They advocated either that organised
force must be defeated by organised force, or held to the view that the school of practical
every-day activity as carried on by party and trade union would lead more and more
workers to recognise the inescapable necessity of changing existing social relations. In
the steady growth of their own organisations, they saw the development of proletarian
class consciousness and at times they dreamed that these organisations would comprise
the whole of the working class.

All organisations, however, fit into the general social structure. They have no
absolute ‘independence’; in one way or another all are determined by society and help
determine society in turn. None of the organisations in capitalism can consistently be
anti-capitalistic. ‘Consistency’ refers merely to a limited ideological activity and is the
privilege of sects and individuals. To attain social importance, organisations must be
opportunistic in order to affect the social processes and to serve their own ends
simultaneously.

 Apparently opportunism and ‘realism’ are the same thing. The former cannot be
defeated by a radical ideology which opposes the whole of the existing social relations. It
is not possible to slowly assemble revolutionary forces into powerful organisations ready
to act at favourable moments. All attempts in this respect have failed. Only those
organisations that did not disturb the prevailing basic social relationships grew to any
importance. If they started out with a revolutionary ideology, their growth implied a
subsequent discrepancy between their ideology and their functions. Opposed to
capitalism, but also organised within it, they’ could not help supporting their opponents.
Those organisations not destroyed by competitive adversaries finally succumbed to the
forces of capitalism by virtue of their own successful activity.

In the matter of organisation this, then is the dilemma of the radical: in order to do
something of social significance, actions must be organised. Organised actions, however,
turn into capitalistic channels. It seems that in order to do something now, one can do
only the wrong thing and in order to avoid false steps, one should undertake none at all.
The political mind of the radical is destined to be miserable; it is aware of its utopianism
and it experiences nothing but failures. In mere self-defence, the radical stresses
spontaneity always, unless he is a mystic, with the secretly-held thought that he is talking
nonsense. But his persistence seems to prove that he never ceases to see some sense in the
nonsense.
Taking refuge in the idea of spontaneity is indicative of an actual or imagined inability to form effective organisations and a refusal to fight existing organisations in a ‘realistic’ manner. For to fight them successfully would necessitate the formation of counter-organisations, which, by themselves, would defeat the reason for their existence. ‘Spontaneity’ is thus a negative approach to the problem of social change and only in a purely ideological sense may it also be considered positive as it involves a mental divorce from those activities that favour the prevailing society. It sharpens critical faculty and leads to disassociation from futile activities and hopeless organisations. It looks for indications of social disintegration and for the limitations of class control. It results in a sharper distinction between appearance and reality and is, in brief, the trade mark of a revolutionary attitude. Since it is clear that some social forces, relations and organisations tend to disappear and others tend to take hold, those interested in the future, in the new forces in the making, will emphasise spontaneity; those more intimately connected with the old ones will stress the need for organisation.

Even a superficial study of organised activity reveals that all important organisations, no matter what their ideology, support the status quo, or, at best, foster a limited development within the general conditions characteristic of a particular society in a particular historical period. The term status quo is helpful in clarifying the concept of rest within the concept of change. It must be regarded as is any theory or practical tool, and it has its uses quite apart from all its philosophical implications. It is clear, of course, that pre-capitalistic conditions, however transformed, are incorporated in capitalistic conditions and that, likewise, post-capitalistic conditions, in one form or another, are appearing within capitalistic conditions. But this refers to general development and though the specific cannot really be divorced from the general, it is continuously separated by the practical activities of men.

Status quo, as here applied to capitalism, means a period of social history in which the workers, within the conditions of a complex social interdependence, are divorced from the means of production and are thereby controlled by a ruling class. The particulars of political control are based on the particulars of economic control. So long as the capital-labour relationship determines social life, so long shall we find society basically ‘unchanged’, no matter how much it may appear to have changed otherwise. Laissez-faire, monopoly or state-capitalism are developmental stages within the status quo. While not denying differences between these stages, we must stress their basic identity and by opposing what they have in common oppose not only one or another but all of them simultaneously.

Development or merely change within the status quo may be ‘good’ or ‘bad’ from the time-conditioned point of view of the controlled. An example of the first would be the workers’ successful fight for better living conditions and greater political freedom; of the second, the loss of both with the ascendancy of fascism – quite apart from the question of whether or not the first is a partial cause of the second. Participation in organisations that foster development within the status quo is often an inescapable necessity. It is therefore of no avail to oppose such organisations with a maximum programme realisable only outside the status quo. Nevertheless, before entering or remaining in ‘realistic’ organisations, it is necessary to inquire in what direction changes within the status quo may go and how they may affect the working population.

For a long time now trade unions and political labour parties have ceased to act in accordance with their original radical intentions. ‘Problems of the day’ transformed these movements and led to a situation in which there are no ‘real’ labour organisations despite the numerous pseudo-organisations still at large. Even the socialist wing of the movement conceives of reform not as a transition to socialism but as the means to a better, more
agreeable capitalism, despite the fact that its literature often continues to employ socialistic terms. The fight for better living conditions within the market economy, because it was a fight over the price of labour power, transformed the labour movement into a capitalistic movement of labourers. The greater the proletarian pressure, the greater became the capitalistic need to increase the productivity of labour by technological and organisational procedures and by the national and international extension of business activities. Like competition in general, the proletarian struggle, too, served as an instrument for increasing the pace of capital accumulation, for pushing society from one production level to another. Not only the leaders of labour but the rank and file, too, lost their early revolutionary aspirations as the rising productivity of labour accelerated capital expansion and allowed for both higher profits and better wages. Although wages diminished in relation to production, they increased in absolute terms and raised the living standards of great masses of industrial workers in the leading capitalist countries. Profits were augmented and capital formation was further hastened by foreign trade and colonial exploitation. This helped to stabilise the conditions of a rising so-called labour aristocracy. Periodically the process was interrupted by crises and depressions which acted, although blindly, as co-ordinating factors in the capitalistic re-organisation process. In the long run, however, the double-barrelled support of capital expansion by both working class and capitalistic competition led to a complete fusion of interests between labour organisations and the controllers of capital.

There were, of course, organisations that fought against the integration of the labour movement into the capitalistic structure. They interpreted reform as a step towards revolution and tried to engage in capitalistic activities and at the same time maintain a revolutionary goal. They saw the fusion of capital and labour as a temporary affair, to be suffered or utilised while it lasted. Their half-heartedness in matters of collaboration prevented their attaining organisational significance; and this, in turn, led them to emphasise spontaneity. Left wing socialists and revolutionary syndicalists belong in this category.

Some countries have higher living standards than others, the high wages of some labouring groups imply low wages for others. Equalising tendencies operating in competitive capitalism with regard to productivity, profit-rates and wage levels, tend to eliminate special interests and particular privileges. Just as the capitalists try to escape this levelling process through monopolisation, so organised labour groups try to secure their special positions despite the class-needs of the proletariat as a whole. These special interests are bound to become ‘rational’ interests. By defending their political and economic organisations in order to retain the socio-economic privileges secured through them, the workers defend not only that particular stage of capitalistic development which guarantees their special position but also their nations’ imperialistic policies.

In order to maintain the status quo, basic social relations are more ‘efficiently’ organised and re-organised. Present-day re-organisation within the social class structure is totalitarian in character. Ideology, too, becomes totalitarian both as a precondition and as a result of this re-organisation. Non-totalitarian organisations turn totalitarian in an attempt to preserve themselves. In totalitarian nations the so-called labour organisations act exclusively on behalf of the ruling classes. They do so in ‘democratic’ countries too, although in a less obvious manner and with a partly different ideology. Apparently there is no way to replace these organisations with new ones of a revolutionary character – a hopeless situation for those who want to organise the new society within the shell of the old and for those still bent upon ‘improvements’ within the status quo, since all reforms would now require totalitarian means. Bourgeois democracy within the conditions of laissez faire – that is, the social situation in which labour organisations of the traditional
type could form and develop – either no longer exists or is on the way out. The whole discussion around the question of organisation and spontaneity which agitated the old labour movement has now lost its meaning. Both types of organisations, those depending on spontaneity and those trying to master it, are disappearing. Propaganda for new organisations amounts to no more than the hope that they will spontaneously arise. Like the believers in spontaneity, the advocates of organisation, too, are now ‘utopians’ in face of the emerging totalitarian reality.

To some, however, the existence of Bolshevik Russia seems to contradict both the statement that the old labour movement has disappeared and the contention that discussion about organisation and spontaneity has become meaningless because of altered social conditions. After all, those who stressed organisation had their way in Russia and continue to exert their power in the name of socialism. They may regard their success as a verification of their theory and so may also those reformist organisations that became government parties as, for instance, the British Labour Party. They may regard their present position not as a transformation into totalitarian capitalism but as a step towards the socialisation of society.

The Labour Government and its supporting organisations merely demonstrate, however, that the old labour movement has been brought to an end by its organisational success. It is quite obvious that the Labourites’ sole concern is in maintaining the status quo. They are, of course, still engaged in re-organising the political and governmental structure, but the defence of capitalism has become the defence of their own existence. And to defend capitalism means to continue and to accelerate the concentration and centralisation of economic and political power camouflaged as the ‘nationalisation’ of key industries. It involves social changes which both increase and secure the manipulative and controlling powers of capital and government and which integrate the labour movement into a developing network of totalitarian organisations that serve none but the ruling classes.

If organisations such as those that dominate the British labour movement gain political influence and do not use it for revolutionary ends, it is not because their ‘democratic ideology’ forbids them to come to real, as distinct from governmental, power by means other than majority consent. Their own organisations, ‘democratic’ only in terminology, are determined by a bureaucracy and closely resemble the capitalistic democratic structure which presupposes the absolute rule of the owners and controllers of capital. Neither do they fear what strength remains in their capitalistic adversaries; their conservatism stems directly from their own organisational interests which are bound up with the pre-totalitarian stage of capitalistic development.

The totalitarian evolution of these organisations is a small-scale repetition of the transformation of the liberal into the authoritarian society. It is a slow and contradictory process and implies an inter-organisational struggle as well as a fight against competing political movements. It takes place at a time when the international extension of the capitalistic concentration process turns monopolistic into nationalistic interests; when the world economy is the monopoly of a few nations or power blocs and the direct control over production and marketing that exists in each advanced nation is being realised on a world-wide scale. Under these conditions, the labour movement is no longer able to support capital expansion solely by fighting for its special group interests. It must become a national movement and must partake in the re-organisation of the world economy in accordance with changing power relationships. However, the labour movement, hampered by tradition and having vested interests of its own finds it difficult to turn from a mere supporter of nationalism into a driving force of imperialism. New political
movements spring up to exploit this inflexibility and, where it persists, to replace the labour movement by a national-socialist movement.

To be sure, the national-socialist movement is ‘national’ only in order to be imperialistic. Bourgeois ‘internationalism’ that is, the free world market, was a fiction. It was ‘free’ only because it was free from competition against the leading industrial nations and the international trusts. Capital expansion while delimiting competition on the one hand spread competition on the other; old monopolistic positions were destroyed in favour of new monopolistic constellations. If monopolistic interferences in the ‘free’ world market hindered capitalistic expansion, at the same time they forced newly-developing nations, and arising private interests within them, to establish their own competitive monopolistic restrictions in order to secure for themselves a place within the world economy.

The fight to enter the ‘free’ world market, as well as the struggle to keep all newcomers out, hastened general capitalistic development at the price of a growing disproportionality of the economy as a whole. The discrepancy between the total social forces of production thereby released and the privately-and nationally-determined organisation of world-production and trade became the wider the more capitalistic progress was made. Unable to arrest the growth of the productive forces because of the competitive situation, re-organisations of the world economy in accordance with the changing distribution of economic power proceeded by way of crises and wars. This led, in turn, to a renewed emphasis on nationalism although all political and economic issues are determined by the capitalistic nature of the world economy. Nationalism is merely the instrument for large-scale competition; it is the ‘internationalism’ of capitalist society.

Proletarian internationalism was based on an acceptance of the fictitious ‘free-trade’ principle of the bourgeoisie. It conceived of international development as a mere quantitative extension of the familiar national development. Just as capitalist enterprise broke through national boundaries, so the labour movement gained an international base without changing its form or activities. The only qualitative change that could be expected in the wake of the quantitative changes was the proletarian revolution, and this because of the idea of the polarisation of society: which means that an always smaller number of rulers would face an always growing mass of the ruled. Logically, this process could lead either into absurdity or to the social expropriation of individual expropriators.

If the fight over the price of labour power was regarded as resulting in the steady growth of proletarian class consciousness and the creation of an objective base for socialism, the whole of the capitalist concentration process was also welcomed as a necessary developmental step in the direction of the new society. Large-scale business, cartellisation, trustification, financial control, state-interferences, nationalism, and even imperialism were held to be signposts of the ‘ripening’ of capitalist society toward social revolution. If it encouraged the reformists to envision the legally-won control of government as a sufficient requirement for social change, it also made it possible for revolutionaries to hope that even under less ‘ripe’ conditions socialism could be instituted through the capture of governmental powers. The quarrels between socialists and Bolsheviks were over tactical issues and did not affect their basic agreement that capitalism’s ‘last stage’ could be transformed to socialism by governmental actions. If the socialists seemed to wait for ‘progress’ to run its course and hand the government over to them, the Bolsheviks were out to make progress and make it faster.

The Russian defeat in the first world war and the widely-supported need to ‘modernise’ Russia in order to secure her national independence led to the collapse of Czarism and to a revolution that brought the ‘progressive elements’ to power. The more aggressive wing of the socialist movement soon concentrated power into its own hands.
To hasten the socialisation process, the Bolsheviks forced the population to act in strict accordance with their political programme. From their point of view it did not matter whether their decisions were still of a capitalistic character so long as they were in line with the general capitalistic development towards state-capitalism and so long as they increased production and maintained the Bolshevik government which was seen as a guarantee that in the end, despite all inconsistencies, compromises and concessions to capitalistic principles and capitalist powers, a state of socialism could be decreed from above. The point was to keep the government revolutionary, that is, in Bolshevik hands and to preserve its revolutionary character through rigid indoctrination of its members with a basically unchanging ideology. By fostering a fanaticism able to oppose all deviations the Bolsheviks attempted to keep the organisational machine more powerful than all its enemies. Government dictatorship, supported by a dictatorially-directed party and a hierarchical system of privileges, was regarded as the inescapable first step in the actualisation of socialism.

Beyond the growth of monopolistic organisation, state interferences in the economy and the organisational requirements of modern imperialism a tendency towards totalitarian control operated in all countries, particularly in those suffering under more or less ‘permanent’ crisis conditions. If the capitalist crisis, like its economy, is international, it does not hit all countries equally hard nor in identical ways. There are ‘richer’ and ‘poorer’ countries with regard to material, human and capitalistic resources. Crises and wars lead to a re-shuffling of power positions and to new trends in economic and political development. They may be expressions of power relocations already actualised or of instruments for bringing them about. In either case the capitalistic world finds itself decisively changed and differently organised. New organisational innovations become general, though not necessarily similar, by way of the competitive struggles. In some countries new forms of social control, ushered in by a high capital concentration, may be predominantly of an economic character, in others they will take on political appearance. Actually there may be more advanced centralistic control in the former than in the latter. But if this is the case, it only forces the less centralistically-determined nations to increase their political control capacities. A fascistic regime results from the social struggles that accompany internal difficulties and from the need to compensate, by way of organisation, for weaknesses not shared by capitalistically stronger nations. The political authoritarian regime is a substitute for the lack of a ‘freely-developed’ centralistic system of decision making.

If totalitarianism is a result of changes within the world economy, it is also responsible for the now world-wide tendency to supplement economic force by political-organisational means. In other words, the development of totalitarianism can be understood only in terms of the capitalist world situation. Bolshevism, Fascism and Nazism are not independent national products but national reactions to changed forms of world competition, just as the trend towards totalitarianism in ‘democratic’ nations is in part a reaction to the pressures for and against imperialistic activities. Of course, only the larger capitalistic countries are independent competitors for world control; numerous smaller nations, already out of the race, merely adapt themselves to the social structure of the dominating powers. Still, modern society’s totalitarian structure developed first not where it was commonly to be expected – where there was high economic power concentration – but in the weaker capitalistic nations. The western-trained Bolsheviks saw in state-capitalism, the last stage of capitalist development, an entrance to socialism. To reach the entrance by political means necessitated their dictatorship, and to make it effective meant to be totalitarian. The fascist regimes of Germany, Italy and Japan represented attempts through organisation to make up for what was lacking in terms of
traditional capitalistic strength, to find a short-cut to large-scale competition, since the general economic development prevented them either from increasing or keeping their shares in world exploitation.

Approached from this point of view, the whole capitalist development has been moving toward totalitarianism. The trend became apparent with the beginning of the present century. The media for its realisation are crises, wars and revolutions. It restricts itself not to special classes and particular nations, but involves the population of the world. From this point of view, it may also be said that a ‘fully-developed’ capitalism would be a world-capitalism, centralistically controlled in totalitarian fashion. If realisable, it would correspond to the socialist and Bolshevik goal of world government, planning the whole of social life. It would correspond also to the limited ‘internationalism’ of capitalists, fascists, socialists and Bolsheviks who envision such partial organisations as Pan-Europe, Pan-Slavism, Latin-Bloc, numbered Internationals, Commonwealth, Monroe-Doctrine, Atlantic Charter, United Nations and so forth, as necessary steps towards world government.

In the light of today, nineteenth century capitalism appears to have been an ‘undeveloped’ capitalism, not fully emancipated from its feudalistic past. Capitalism, challenging not exploitation but only the monopolistic position of a particular form of exploitation, could truly unfold itself ‘within the shell’ of the old society. Its revolutionary actions were aimed at governmental control merely in order to break through feudalism’s restrictive borders and to secure capitalistic liberties. The capitalists were thoroughly occupied with and satisfied by their extension of world trade, their creation of the proletariat and industry and their accumulation of capital. ‘Economic freedom’ was their chief concern and as long as the state supported their exploitative social position, the state’s composition and separateness were none of their concern.

The relative independence of the state was not a main characteristic of capitalism, however, but merely an expression of capitalistic growth within incomplete capitalistic conditions. The further development of capitalism implied the capitalisation of the state. What the state lost in ‘independence’ it gained in power; what the capitalists lost to the state they regained in increased social control. In time the interests of state-owned capital became identical, which indicated that the capitalist mode of production and its competitive practice were now generally accepted. State-wide, nationally-organised capitalism made it apparent once more that it had subdued all opposition, that the whole of society, including the labour movement – and no longer merely the capitalist entrepreneurs – had become capitalistic. That the capitalisation of the labour movement was an accomplished fact was manifest in its increasing interest in the state as the instrument of emancipation. To be ‘revolutionary’ meant escaping the narrow ‘trade union consciousness’ of the period of Manchester-capitalism, fighting for the control of the state and increasing the latter’s importance by extending its powers over ever wider areas of social activity. The merging of state and capital was simultaneously the merging of both with the organised labour movement.

In Russian bolshevism we have the first system in which the merger of capital, labour and the state was accomplished through the political maneuver of the radical wing of the old labour movement. In Lenin’s view, the bourgeoisie itself was no longer able to revolutionise society. The time for a capitalist revolution in the traditional sense had passed. In order to escape colonial status, the imperialistic stage of capitalism forced backward nations to adopt as their developmental starting point what, under laissez-faire conditions, had been considered the possible end of the competitive processes. Backward nations could liberate themselves not by traditional means of capital development but by political struggles in the Bolshevik pattern. Challenging not the capitalist system of
exploitation but only its restriction to particular groups of entrepreneurs and financiers, the Bolshevik party usurped control over the means of production through control of the state. There was no need to submit to the historical scheme of money-making and capital-amassing in order to reach social control positions. Exploitation did not depend on laissez-faire conditions but on the control of the means of production. It should be even more profitable and secure with a unified and centralised control system than it had been in the past under the indirect control of the market and with sporadic interventions of the state.

If in Russia the totalitarian initiative came from the radical labour movement, it was because of its close proximity to Western Europe, where similar processes were under way, although they were dealt with in reformist, non-revolutionary fashion. In Japan the initiative was taken by the state and the process took on a different character with the old ruling classes being made the executors of state policies. In Western Europe the capitalisation of the old labour movement and its influence on the state had reached such a point, particularly during the war years, that this movement was drained of initiative with regard to social change. It could not overcome social stagnation (caused partly by its own existence and accentuated by the depressive results of the war), without first radically transforming itself. Attempts at bolshevisation failed, however. Unlike the Russian, the Western bourgeoisie possessed a greater flexibility within the ‘progressive’ democratic institutions and operated upon a wider and more integrated social base. It was in Germany, capitally the strongest country of all the nations which were defeated in the first world war and neglected by the division of its spoils, in which fascism developed last. But bolshevism had pointed the way to power through party-activity. Totalitarian control by way of the party – the possibility of party-capitalism – was demonstrated in Russia. New political parties, partly bourgeois, partly proletarian, operating with nationalistic-imperialistic ideologies and with more or less consistent state-capitalistic programmes came into being to face the old organisations as new ‘revolutionary’ forces. With a mass-base of their own, fed by the insoluble crisis, with less respect for legality and traditional procedures and with the support of all the elements that were driving for an imperialistic solution of the crisis conditions, they were able first in Italy and later in Germany to defeat the old organisations. Even in America, the strongest capitalist nation, attempts were made during the Great Depression to secure the state’s newly-won increased authority by the creation of mass-support for government-directed class collaboration policies.

The collapse of the fascist nations in the second world war did not alter the totalitarian trend. Although the independence of the defeated nations is at an end, their authoritarian structure remains. Only those aspects of their totalitarianism that were directly concerned with independent war-making have been destroyed or subordinated to the needs of the victorious powers. Although the seats of control have shifted and new methods have been invoked, there is more authoritarianism in the world today than there was prior to and even during the war. Moreover, ‘victorious’ nations like England and France find themselves in the same position today as the defeated nations after the first world war. It appears that the whole development of Central Europe between the two wars will be repeated in England and France.

Totalitarianism, however, is no longer restricted to the political ambitions of new organisations but is fostered by all active political forces. In order to compete internally against fascist and Bolshevik tendencies, the prevailing organisations must, themselves, adapt totalitarian methods. Because all internal struggles reflect imperialistic rivalries, war-preparations push society still further towards totalitarianism. Because the state controls more and more of the social and economic activities, the defence of private and
monopolistic interests requires the strengthening of their own centralistic inclinations. In brief, the social forces that were released in two world wars and that are attempting to find solutions within the status quo, all tend to support and to develop a totalitarian capitalism.

Under these conditions, a revival of the labour movement as it has been known in the past and as it still exists in emasculated form in some countries is clearly out of the question. All successful movements, under whatever name, will try to adhere to authoritarian principles. Whether social control is exercised in the form of state-monopolistic alliances, fascism or party-capitalism the degree of power in the hands of the controllers signifies the end of laissez-faire and the extension of totalitarian capitalism. Of course, it is improbable that capitalism will ever reach an absolute totalitarian form; it had never been a laissez-faire system in the full sense of the term. All that these ‘labels’ designate are the dominant practices within a variety of social practices and differentiations in organisation in accordance with the ruling practice. It is clear, however, that the new powers of the state, highly-concentrated capitalism, modern technology, the control of the world economy, the period of imperialistic wars and so forth make necessary for the maintenance of the capitalistic status quo a social organisation without opposition, a comprehensive centralistic control of the socially-effective activities of men.

If the end of the old labour movement made the question of organisation and spontaneity meaningless, as seen by this movement and dealt with in its controversies, the question may still be meaningful in a wider sense quite apart from the specific problems of working class organisations of the past. Like revolutionary outbursts, crises and wars also have to be considered as spontaneous occurrences. More information exists and greater experience has been accumulated with regard to crises and wars, however, than with regard to revolution.

In capitalism, the ordering of society’s fundamental requirements regarding production and the proportioning of social labour towards the satisfaction of social needs is largely left to the automatism of the market. Monopolistic practices disrupt the mechanism, but even without such interferences this form of socio-economic practice can serve only the peculiar ‘social’ needs of capitalism. The kind of indirect relation between supply and demand established by the market automatism refers to, and is determined by, the profitability of capital and its accumulation. The conscious ‘ordering’ aspects of the monopolies, concerned as they are with their own special interests only, increase the irrationality of the system as a whole. Even state-capitalistic planning first of all serves the particular needs and the security of its ruling and privileged groups, not the real needs of society. Because the actions of capitalists are determined by profit requirements and by special, not social interests, the actual results of their decisions may differ from their expectations; the social result of various decisions, individualistically-determined, may disturb social stability and defeat the intentions behind such decisions. Only some, not all, social consequences of individualistic actions are known in advance. Private interests forbid a social organisation which could provide a reasonable certainty about the main consequences of its actions. This implies a social development of growing frictions, disproportionalities, postponed re-organisations leading to violent clashes between old and new interests, to crises and depressions which seem to be spontaneous occurrences because of the lack of organisation to deal with society from a social, non-class point of view.

There is no possibility within the status quo of organising social activities in the interests of society as a whole. New organisations are only expressions of shifting class positions and leave the basic class relationship unaffected. Old ruling minorities are
replaced by new ruling minorities, the proletarian class is broken up into various status
groups, layers of the middle-class disappear, others rise to greater influence. Since all
social practical, concrete activity, if it is social at all, is social only in effect and not by
design – by ‘accident’ so to speak – there exists no force in society whose own
continuous growth delimits the social ‘anarchy’ and develops a more complete awareness
of social necessities and opportunities, which could lead to social self-determination and
to a truly social society. In a way, then, it is the number and variety of organisations in
capitalism which prevent the organising of society. This means that not only must all
unco-ordinated and contradictory activities result in expected or unexpected crises, but
also that the activities of all people, organised as well as unorganised, are more or less
‘responsible’ for spontaneous outbursts in the form of crisis or war.

There is no way, however, to retrace in all its important details the process that led
to crisis or war, and thus explain, after the fact, what particular activities and their
arrangements within the developmental processes determined the catastrophe. It is easier,
and for capitalistic purposes sufficient, arbitrarily to select a starting point, such as that
the war led to crisis and the crisis to war, or less sophisticatedly, to point to Hitler’s
idiosyncrasies or to Roosevelt’s hunger for immortality. Wars appear both as spontaneous
outbursts and as organised enterprises. The blame for their outbreak is laid at the
doorsteps of particular nations, governments, pressure groups, monopolies, cartels and
trusts. Yet, to put the entire blame on specific organisations and particular policies for
crises and wars means to overlook the real problem here involved and indicates an
inability to meet it effectively. To point to the organisational elements involved without
stressing their limitations within the ‘anarchic’ total social setting promulgates the
illusion that possibly ‘other organisations’ and ‘other policies’ could have prevented such
social catastrophes even within the status quo. The status quo, however, is only another
term for crises and wars.

There was, to be sure, some kind of ‘order’ observable in capitalism and a definite
developmental trend based on this ‘order’. It was provided for by the growing
productivity of labour. Increased productivity, starting in one or more spheres of
production, led to a general modification of the productive level of society and to
consequent alterations in all socio-economic relationships. The changes were reflected in
altered political relations and led into a changed relationship, less or more contradictory,
between the class structure and the productive forces of society.

What are the forces of production. Obviously, labour, technology, and
organisation; less obviously, class frictions and therefore ideologies. In other words,
productive forces are human actions, not something separate that determines human
actions. Therefore, a previous line of development need not necessarily be followed.
Social situations may be arrested or conditions may be created that destroy what has
previously been built. But if the ‘social goal’ were the extension and continuation of a
previous developmental tendency, history might indeed be the story of ‘social progress’
through the unfolding of its productive capacities.

That capitalism came into being presupposed a certain growth of the social
productive forces, an increase in surplus labour and the capacity to support a growing
non-producing class. To speak in terms of ‘growing productive forces’ as the determinant
of the total social development was particularly apt under the commodity-fetishism of
laissez-faire capitalism, for under its economic individualism it seemed as if ‘productive
forces’ developed independently of capitalistic wishes and necessities. The insatiability
for accumulation developed with productive forces rapidly and their enhancement
allowed for continuous re-organisation of the socio-economic structure, and, in turn, the
re-organisations acted as new incentives for a further raising of social productivity. It was
said that capitalism, historically speaking, had justified itself because of its ‘blind’ but progressive development of the productive forces of society, among which the modern industrial proletariat was considered the greatest.

If it should appear that a full release of society’s productive capacities would make possible the formation and maintenance of a classless society, it is perfectly clear that the immediately privileged classes will not give up their present-day control just because of the probability of a future socialist society. At any rate, on such an issue the owners and controllers of production cannot act as a ‘class’; a ‘revolution by consent’ is nonsense. Accumulation for the sake of accumulation continues and leads to further capital and power concentration, that is, to capital destruction, to crises, depressions and wars. For capitalism simultaneously develops and retards the productive forces and widens the gap between actual and potential production. The contradiction between class structure and productive forces excludes the ‘freezing’ of the prevailing level of production as well as its expansion toward a real abundance.

If for no other reason than force of custom it appears probable that the immediate future, like the immediate past, will be characterised by further growth of the productive forces. This implies the sharpening of competition, despite all attempts at partial or complete control of production. Although larger capitalistic units have absorbed numerous smaller enterprises and secured temporary monopolistic conditions for the whole industries and combinations of industries, this process has merely intensified international competition and the struggle between the remaining non-monopolistic enterprises. In state-capitalism competition takes on a different but most all-inclusive form, because of the complete atomisation by the terroristic state machine of the mass of the population and in the bureaucracy itself because of the hierarchical structure of its organisation.

The application of new technological and organisational forces of production necessitates additional social controls. The disorganisation of the proletariat marks the beginning of the process that leads to the total atomisation of the whole population and to the state monopoly of organisation. At one pole we find all organised force concentrated; at the other pole, an amorphous mass of people unable to combine for a fight in their own interests. In so far as they are organised, the masses are organised by their controllers; in so far as they are able to raise their voices, they speak with their masters’ words. In all organisations, the atomised mass of people face always the same enemy, the totalitarian state.

The atomisation of society requires an all-encompassing state organisation. The socialists and Bolsheviks considered capitalist society inefficiently organised with regard to production and exchange and in other, extra-economic respects. The emphasis on organisation was emphasis on social control. Socialism was to be first of all the rational organisation of the whole of society. And an efficiently organised society excludes, of course, unforeseen activities capable of issuing into spontaneous occurrences. The spontaneous element in society was to disappear with the planning of production and the centralistically-determined distribution of goods. Not only the Bolsheviks, but the fascists, too, spoke of spontaneity only so long as their power was not absolute. When all existing social layers submitted to their authority, they became society’s most thorough organisers. And it was precisely this organising activity that they designated with the term socialism.

The contradiction between class structure and productive forces remains, however, and therewith the inescapability of crisis and war. Although the inactivated masses can no longer resist totalitarianism in traditional organised fashion, and although they have not evolved new weapons and forms of action adequate to the new tasks, the contradictions of
Spontaneity and Organisation

the social class structure remain unresolved. While giving temporary security, the
terroristic authoritarian system also reflects the increasing insecurity of totalitarian
capitalism. The defence of the status quo violates the status quo by releasing new,
uncontrolled, or uncontrollable activities. The most powerful controls over men are really
weak when compared with the tremendous contradictions that rend the world today.
Though all contradictions now oppose one organisation, capitalist society was never so
badly organised as it is now when it is completely organised.

If there is no guarantee that socialism must necessarily evolve in the course of
further social development, neither is there any reason to assume that the world will come
to an end in totalitarian barbarism. The organisation of the status quo cannot prevent its
disintegration. As there is no absolute totalitarianism, openings for attack remain within
its structure. The real social significance of its noticeable weaknesses is still obscure.
Some points of disintegration, although theoretically conceivable, are still unobservable
and can be described only in very general terms. Just as the modern class-struggle theory
required for its formulation not only the capitalistic development but also the actual
proletarian struggles within the capitalist system, so it is probably necessary first to
observe actual attempts at revolt under totalitarianism in order to be able to formulate
specific plans of action, to point to effective forms of resistance, and to find and exploit
the weaknesses of the totalitarian system.

The apparent hopelessness and insignificance characteristic of all beginnings is no
reason for despair. Neither pessimism nor optimism touch the real problem of social
actions. Both attitudes do not decisively affect the individual’s actions and reactions,
determined as they are by social forces beyond his control. The interdependence of all
social activity, while being a medium of control, also sets limits to all controlling
activities. The labour process, in both its organisational and technological aspects,
depending as it does simultaneously upon anonymous forces and direct decisions,
possesses enough relative independence through its changeability to make centralistic
manipulations difficult. The totalitarian manipulators cannot free themselves of specific
forms of the division of labour which often delimit the powers of centralistic control.
They cannot defy definite degrees of industrialisation without endangering their own rule.

Resistance will thus be exercised in manifold forms, some meaningless, some self-
defeating, and others effective. While some present-day forms of action may be
disregarded, older forms may be revived because of certain outward similarities in the
totalitarian structure with former authoritarian regimes. If trade union policy no longer
implies action ‘on the point of production’ but manipulations between governmental
bodies, effective new ways of sabotage and struggle may be found in industry and in
production generally. If political parties express the trend towards totalitarianism, a
variety of organisational forms is still conceivable for assembling anti-capitalistic forces
for concerted actions. If such actions are to be adapted to totalitarian reality as attempts to
overcome that reality, stress must be laid upon self-determination, agreement, freedom
and solidarity.

The search for ways and means to end totalitarian capitalism, to bring self
determination to the hitherto powerless, to end competitive struggles, exploitation and
wars, to develop a rationality which does not set individuals against society but
recognises their actual entity in social production and distribution and allows for human
progress without social snuggles, will go on in the empirical, scientific manner dictated
by seriousness. It seems clear, however, that for some time to come the results of all types
of resistance and struggle will be described as spontaneous occurrences, though they are
nothing but the planned actions or accepted inactivities of men. Spontaneity is a manner
of speech, attesting to our inability to treat the social phenomena of capitalism in a
scientific, empirical way. Social changes appear as climactic outbursts of periods of capital formation, disorganisation, competitive frictions and long-accumulated social grievances that finally find their organisational expression. Their spontaneity merely demonstrates the unsociality of capitalism’s social organisation. The contrast between organisation and spontaneity will exist as long as there exists a class society and attempts to end it.

**Interview with Lotta Continua**

(1977)

Source: Kurasje Archive; Transcribed: by Andy Blunden, for marxists.org 2003.

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Question: We seem to be entering into a new period of serious economic and social crisis. What are the new features of this period, in comparison with the 1930’s?

Answer: The basic reasons for the current crisis at the same as those which caused all previous capitalist crises. But all crises have also specific features with respect to their initiation, the reactions released by them, and their outcome. The changing capital structure accounts for these peculiarities. Generally, a crisis follows in the wake of a period of successful capital accumulation, wherein the profits produced and realized are sufficient to maintain a given rate of expansion. This state of capitalistic prosperity requires a steadily increasing productivity of labor, large enough to offset the relative decline of profitability resulting from the changing capital structure. The competitive and therefore blind pursuit of profit on the part of individual capitals cannot help but ignore the changing capital/labor composition of the social capital. The crisis erupts, when an arising disproportionality between a required rate of profit for the social capital and its necessary rate of accumulation forbids its further expansion. This underlying but empirically unascertainable discrepancy comes to the fore in terms of market relations as a lack of effective demand, which is only another expression for a lack of accumulation on which the effective demand depends.

Prior to 1930 periods of depression were answered by deflationary procedures, that is, by letting the ‘laws of the market’ run their course in the expectation that sooner or later the declining economic activity would restore the lost equilibrium of supply and demand and thus revive the profitability of capital. The crisis of 1930, however, was too deep and too extensive to allow for this traditional way of coping with it. It was answered by inflationary procedures— that is, by governmental interventions in the market mechanism, up to the point of international warfare, for the restructuring of the world economy through a forced centralization of capital at the expense of weaker national capitals, and by the outright destruction of capital in both its monetary and physical forms. Financed by way of government deficits, that is, by inflationary methods, the results were still
deflationary, but on a far larger scale than had been accomplished previously by passive reliance on the “laws of the market.” The long depression period and the second world war, and the attendant enormous destruction of capital, created conditions for an extraordinarily long period of capital expansion in the leading Western nations.

Both deflation and inflation led then to the same result, to a new upswing of capital, and were subsequently and alternatingly utilized in the attempt to secure the newly-won economic and social stability. Undoubtedly, it is possible by way of deficit-financing, that is, by way of credit, to enliven a stagnant economy. But it is not possible to maintain the rate of profit on capital in this manner and thereby perpetuate the conditions of prosperity. It was then only a question of time until the crisis-mechanism of capital production would reassert itself. By no. it is obvious that the mere availability of credit to expand production is no solution to crisis, but a fleeting make-shift policy with only temporary “positive” effects. if not followed up by a genuine upswing of capital, based on larger profits, it must collapse in itself. The “Keynesian remedy” has led merely to a new crisis situation with growing unemployment and growing inflation – both equally detrimental to the capitalist system.

The present crisis has not as yet reached that degree of devastation which, in the 1930’s, led from depression to war. Although unable to overcome the current crisis, the anti-depression measures alleviate to some extent the social misery caused by the decline of economic activity. But in a stagnating capitalist economy, these measures become themselves elements in its further deterioration. They make it more difficult to regain a starting-point for a new upswing. Also the degree of international “integration” of the capitalist economy, by way of liberal trade policies and monetary arrangements, is steadily undermined by the deepening depression. Protectionist tendencies disturb the world market still further. As the depression cannot be overcome, except at the expense of the working population, the bourgeoisie must try all available means, economic as well as political, to reduce the living standard of the workers. The increase of unemployment, though of some help, is not enough to cut wages sufficiently to increase the profitability of capital. The incomes of all non-capitalist layers of society must be reduced, the so-called welfare measures diminished, in an attempt to reach that profitability of capital which allows for its further expansion. Although a rapid rate of inflation has this effect, it also finds its limitations in the increasing anarchy of capitalist production and in society in general. As a permanent policy it threatens the existence of the system itself.

Question: In this connection, how do you see the role of the Left, especially the Communist Party; what is the meaning of Eurocommunism?

Answer: One must distinguish between the “objective left” in society, that is, the proletariat as such, and the organized left, which is not strictly of a proletarian nature. Within the organized left, at any rate in Italy, the Communist Party holds the dominating position. At this particular time, it most probably determines “left policies” despite opposition from other organizations either to its left or to its right. But the Communist Party is not a communist organization in the traditional sense. Long since it turned into a social-democratic formation, a reformist party, at home within the capitalist system and therefore offering itself as a supporting instrument. Practically, it exists to satisfy the bourgeois aspirations of Its leadership and the need, of its bureaucracy, by mediating between labor and capital in order to secure the social status quo. The fact of its large working class following owing indicates the worker’s unreadiness, or unwillingness, to
overthrow the capitalist system and their desire to find, instead, accommodation within it. The illusion that this is possible supports the opportunist policies of the Communist Party. Because a prolonged depression threatens to destroy the capitalist system, it is essential for the Communist Party, as well as for other reformist organizations, to help the bourgeoisie overcome the crisis conditions. They must therefore try to prevent working-class actions which may delay, or prevent a capitalist recovery. Their reformist and opportunist policies take on an open counterrevolutionary character as soon as the system finds itself endangered by working-class activities that cannot be satisfied within the crisis-ridden capitalist system.

The “Eurocomunism” sported by the Communist Party has no meaning because communism is not a geographic but a social category. This empty term marks an attempt on the part of European communist parties to differentiate their present attitudes from past policies; it is a declaration that the former, albeit long forgotten, state-capitalist goal has, been given up in favor of the mixed economy of present-day capitalism.

“Eurocommunism” is a request for official recognition and for full integration into the capitalist system, which implies, of course, an integration into the various nation-states that comprise the European territory. It is a quest for larger “responsibilities” within the capitalist system and its governments, and a promise not to disrupt the limited degree of cooperation reached by capitalist nations in the European context, and to abstain from all activities that may disturb the apparent consensus between the East and the West. It does not imply a radical break with the state-capitalist part of the world, but merely the recognition, that this part, too, is not interested in the extension of state-capitalist system by revolutionary means, but rather into a fuller integration into the capitalist world-market, despite the remaining socioeconomic differences between the private- and the state-capitalist systems.

Question: What possibilities are there for revolutionary action, or action which wants to prepare for a future revolution? What possibilities do you see for workers, unemployed, students, the left-wing groups?

Answer: Revolutionary actions are directed against the system as a whole – for its overthrow. This presupposes a general disruption of society which escapes political control. Thus far, such revolutionary actions have occurred only in connection with social catastrophe, such as were released by lost wars and the associated economic dislocations. This does not mean that such situations are an absolute precondition for revolution, but it indicates the extent of social disintegration that precedes revolutionary upheavals. Revolution must involve a majority of the active population. Not ideology but necessity brings the masses into revolutionary motion. The resulting activities produce their own revolutionary ideology, namely an understanding of what has to be done to emerge victoriously out of the struggle against the system’s defenders. At the present time the possibilities for revolutionary action are extremely dim, because the chances of success are practically nil. Because of previous experiences, the ruling classes expect revolutionary activities and have armed themselves accordingly. Their military power is not as yet threatened by internal dissension; politically they still have the support of the large labor organizations and of the majority of the population; they have not as yet exhausted the mechanisms for manipulating the economy, and, despite an increasing international competition for the shrinking profits of the work economy, they are united world-wide against proletarian upheavals wherever they may occur. In this common front
are also to be found the so-called socialist regimes; in the defence of their own exploitative class relations.

While a socialist revolution at this stage of development seems more than doubtful, all working-class activities in defense of their own interests possess a potential revolutionary character because capitalism finds itself in a state of decay that might last for a long time. No one is able to predict the dimensions of the depression for lack of relevant data. But everyone faces the actual crisis and has to react to it, the bourgeoisie in its way, the working class in opposite ways. In periods of relative economic stability, the worker’s struggle itself hastens the accumulation of capital, by forcing the bourgeoisie to adopt more effective ways to increase the productivity of labor, so as to retain a necessary rate of profit. Wages and profits may rise together without disturbing the expansion of capital. A depression, however, brings this simultaneous (though unequal) rise of profits and wages to an end. The profitability of capital must be restored before the accumulation process can be resumed. The struggle between labor and capital now involves the system’s very existence, bound as it is to its continuous expansion. Objectively, the ordinary economic struggle takes on revolutionary implications and thus, political forms, because one class can only succeed at the expense of the other. The working class does not need to conceive of its struggle as the road to revolution, within a state of persistent capitalistic decline its struggles take on revolutionary connotations quite apart from all awareness.

Of course, the workers might be prepared to accept, within limits, a decreasing share of the social product, if only to avoid the miseries of drawn-out confrontations with the bourgeoisie and its state. But this might not be sufficient to bring about a new economic upswing and therewith not enough to halt the growing unemployment. The division between employed and unemployed, while a capitalist necessity, turns into a capitalist dilemma with a steadily growing unemployment under conditions of economic stagnation and decline. If one wishes to suggest to the workers how to react to the deepening crisis, all that could be said is to organize both employed and unemployed into organizations under their own direct control, and to fight for immediate needs, regardless of the state of the economy and the class-collaborationism of the official labor movement. In other words to fight the class struggle as it is fought by the bourgeoisie. The advantage on the part of the bourgeoisie, its state apparatus, must be matched by a greater power, which, at first, can only by the continuous disruption of the production process, which is the basis of all capitalist power, and by relentless activities of the unemployed to force from the bourgeoisie the means of existence. As far as the radical students and revolutionary groups are concerned, in order to be effective at all they must submerge themselves in the movements of the workers and unemployed; not to realize any special program of their own, but to articulate the meaning of the impending class struggle and the directions it has to take due to the imminent laws of capital production.

Question: What role do you see for violence, and in particular for armed struggle, in radical activity?

Answer: This is not a question which can be answered by allotting to violence either a positive or negative role. Violence is imminent to the system and thus a necessity for both labor and capital. Just as the bourgeoisie can only exist by virtue of its control over the means of production, so it must defend this control by extra-economic means, through its monopoly over the means of suppression. Already a refusal to work makes the possession
of the means of production meaningless, for it is only the laboring process which yields
the capitalist profit. A “purely economic” struggle between labor and capital is therefore
out of the question; the bourgeoisie will always supplement this struggle with violence
wherever it threatens its existence by seriously threatening the profitability of capital. It
does not allow the workers to choose between non-violent and violent methods of class
struggle. It is the bourgeoisie, in possession of the state apparatus, which determines which
one it will be on any particular occasion. Violence can only be answered by violence,
even if the weapons employed are unequal to the extreme. No question of principle enters
here, but merely the reality of the social class structure.

However, the question posed is whether or not the radical elements in anti-capitalist
struggles should take the initiative in the use of violence, instead of leaving the decision
to the bourgeoisie and its mercenaries. There might be situations, of course, which find
the bourgeoisie unprepared and where a violent clash with its armed forces might favor
the revolutionaries. But the whole history of radical movements shows clearly that such
accidental occurrences are of no avail. In military terms, the bourgeoisie will always
have the upper hand, unless the revolutionary movement takes on such proportions as to
affect the state-apparatus itself, by splitting or dissolving its armed forces. It is only in
conjunction with great mass movements, which totally disrupt the social fabric, that it
becomes possible to wrest the means of suppression and therewith the means of
production from the ruling classes.

The futility of badly-matched military confrontations has not been able to prevent them.
There do arise situations, moreover, where such confrontations release the trigger for
greater things and my lead to mass movements, such as are generally the preconditions
for revolutionary violence. It is for this reason that it is so dangerous to insist upon non-
vioence and to make violence the exclusive privilege of the ruling class. But here we
speak of highly critical situations, not such as exist presently in the capitalist countries,
and also about large and sufficiently armed forces able to wage their struggle for a
considerable length of time. In the absence of such highly critical situations, such actions
amount to no more than collective suicide, not unwelcome to the bourgeoisie. They may
be appreciated in moral or even aesthetic term, but they do not serve the course of the
proletarian revolution, except by entering into revolutionary folklore.

For revolutionaries it is psychologically quite difficult, if not impossible, to raise their
voices against the futile application of “revolutionary justice” by terrorist groups and
individuals. Even Marx, who despised all forms nihilistic actions, could not help being
elated by the terrorist feats of the Russian “Peoples’ Will” As a matter of fact, the
counter-terror of revolutionary groups cannot be prevented by mere recognition of its
futility. Their perpetrators are not moved by the conviction that their actions will lead
directly to social change, but by their inability to accept the unchallenged, the perpetual
terror of the bourgeoisie unchallenged. And once engaged in illegal terror, the legal terror
forces them to continue their activities until the bitter end. This type of people is itself
product of the class-ridden society and a response to its increasing brutalization. There is
no sense in forming a consensus with the bourgeoisie and condemning their activities
from proletarian point of view. It is enough to recognize their futility and to look for more
effective ways to overcome the ever-present capitalist terror by the class actions of the
proletariat.
The reprinting of this collection of essays and reviews, which were written during the last 40 years, may find its justification in the current ferment of ideas by which a new left-wing within the socialist movement attempts to derive a theory and practice more adequate to the present situation and the needs of social change. As yet merely of a theoretical nature, this trend has led to a growing interest in the comprehension of past revolutionary movements. However, although its proponents try to differentiate themselves from the old and discredited labour movement, they have not as yet been able to evolve a theory and practice of their own which could be considered superior to those of the past. In fact, the ‘lessons of history’ seem to be largely wasted on the new generation, which often merely repeats in a more insolent fashion and with less sophistication the proven mistakes of the past. Instead of finding their orientation in the actual social conditions and their possibilities, the new leftists base their concerns mainly on a set of ideologies that have no relevance to the requirements of social change in capitalist nations. They find their inspiration not in the developmental processes of their own society but in the heroes of popular revolution in faraway countries, thereby revealing that their enthusiasm is not as yet a real concern for decisive social change.

Of course, there stands a theory behind this strange aberration, namely, the assumption that anti-imperialist struggles of the ‘Third World’ will abet the social revolution in capitalist nations, thus leading to world-wide social transformation. Although this theory may only indicate the revolutionaries’ present frustration in the given non-revolutionary situation, it was at one time the accepted doctrine of a revolutionary movement which briefly tried, but failed, to extend the Russian into a world revolution. In this respect, the ideas of the new revolutionaries still relate to the old Leninism, which Stalin described as the “Marxism of the period of imperialism.”

In Lenin’s view, it was not the strongest but the weakest link in the chain of imperialist nations that would, through its own revolution, release a world-revolutionary process. Moreover, as imperialism had become an absolute necessity for capitalism, the anti-imperialist struggle was at once a struggle against world capitalism. He envisioned the world revolution as a kind of repetition of the Russian Revolution on a global scale. Just as the Russian Revolution had been a ‘peoples’ revolution’, embracing workers, peasants and the liberal bourgeoisie, without therefore, in Lenin’s mind, losing its socialist character, so the world revolution could be seen as a unitary fight of national-revolutionary movements and working-class struggles in the imperialist nations. And just as, according to Lenin, the existence of the Bolshevik Party in Russia guaranteed the transformation of the ‘peoples’ revolution’ into a communist revolution, so, on the world scale, the Bolshevik International was to transform the national-revolutionary struggles into struggles for international socialism.

More than half a century has passed since this theory was celebrated as a necessary extension of the theories of Marx, who did not emphasise the imperialistic difficulties of capitalism but based his hopes for a socialist revolution on the inherent contradictions of the capitalist system of production. In Marx’s view, a fully developed capitalism was a precondition for a socialist revolution, even though he thought it possible that such a
revolution may receive its impetus from the outside, that is, from revolutionary occurrences in less developed nations. What Marx had specifically in mind was a revolution in Russia which could conceivably lead to a European revolution. Should the latter succeed, it was reasonable to assume that the character of the international revolution as a whole would be determined by the capitalistically-advanced nations. However, the Russian Revolution did not spread to the West and in its isolation could not realise a socialist society but merely a form of state-capitalism under the authoritarian rule of the Bolshevik Party.

It is of course true that bourgeois revolutions in the traditional sense are no longer possible. The monopolistic control of the world economy by the great capitalist powers and their productive preponderance excludes an independent national capitalistic development in underdeveloped nations. To aspire to this goal nonetheless requires their political liberation from imperialist rule, as well as from their native ruling classes, allied as they are with the foreign oppressors. Because the struggle for liberation has to base itself on the broad masses, it cannot use traditional capitalist ideologies, but must be carried on with anti-imperialist and therefore anti-capitalist ideologies.

These national-revolutionary movements are not signs of an impending world-wide socialist revolution, but just so many attempts at an independent capitalistic development — albeit in a state-capitalist form. To the degree to which the liberated nations succeed in freeing themselves from foreign control, they do increase the difficulties of capitalism and further its dissolution. To that extent, they may also aid the class struggle in the dominating capitalist countries. But this does not alter the fact that the goals of the proletarian revolution in the capitalist nations are necessarily different from those that can be realised in backward countries.

It would be ideal, no doubt, to combine the anti-capitalist and anti-imperialist struggles into one great movement against all forms of exploitation and oppression. Unfortunately, this is only an imaginary possibility; unrealisable because of the actual material and social differences between the various differently developed nations. The history of Russia since 1917, as the prototype of ‘socialist revolutions’ in backward countries, illuminates the objective limitations to their transformation. Today, we even experience the sorry spectacle of so-called socialist countries, all of them adhering to the Leninist ideology, facing one another in deadly enmity and preparing to destroy one another. It is quite obvious that the national interests of state-capitalist systems — like all national interests — contain in themselves their own imperialistic tendencies. It is thus no longer possible to speak of common needs of the national-revolutionary and the international-socialist movement.

The international socialist movement must of course be an anti-imperialist movement. But it has to actualise its anti-imperialism through the destruction of the capitalist system in the advanced countries. Were this accomplished, anti-imperialism would become meaningless and the social struggles in the underdeveloped part of the world would focus on internal class differences. To be sure, the weakness of anti-capitalist movements in the developed countries is one more reason for the existence of national-revolutionary movements. For the latter cannot wait for the proletarian revolution in the dominating capitalist countries; yet, where they succeed, they can reach at best only partial release from foreign exploitation but not the conditions of socialism. On the other hand, successful proletarian revolutions in the capitalistically developed nations could lead to the internationalisation of all social struggles and progressively hasten the integration of underdeveloped nations into a socialist world system.

That there are national-revolutionary movements in the backward nations but not as yet socialist movements in the imperialist countries is due to the greater and more
pressing misery in the former. It is also due to the dissolution of the colonial structure resulting from the second world war and the re-organisation and modification of imperialist rule in the post-war world. Force of circumstances interconnects the national movements with the currently waged imperialist power struggles and 'liberation' from one type of imperialism leads to subordination to another. Under present conditions, in brief, national revolutions remain illusory, with respect both to real national independence and to its apparent socialist ideology. They may, however, be preconditions for future struggles for more realistic goals. But this, too, depends on the course of events in the capitalistically-advanced nations.

The preoccupation with national-revolutionary movements that still characterises left-wing radicalism has led, on an international scale, to a re-dedication to Leninist principles in either a Russian or Chinese garb and dissipates the energies thereby released into meaningless and often grotesque activities. By trying to actualise the Leninist ideas of revolution and its organisation in capitalistically-advanced nations, would-be radicals necessarily hinder the development of a revolutionary consciousness adequate to the tasks of the socialist revolution. Because new revolutionary socialist movements may arise in response to capitalism's increasing social and economic difficulties, it is essential to pay renewed attention to the aspirations and accomplishments of former similar movements and here, in particular, to Bolshevism and its Leninist creed.

In this connection, it is particularly apt to recall another movement which emerged out of the shambles of the Second International and the expectations based on the Russian Revolution. Most of the items in this anthology concern themselves with the problems of the international labour movement at the turn of the century — that is, with the reasons for, and the consequences of, the growth of a labour movement that ceased to be revolutionary because of the resilience of capitalism and its ability to improve the living conditions of the labouring population. Still, the immanent contradictions of capitalism led to the first world war and while leading to the partial collapse of the old labour movement, also gave rise to a new radicalism culminating in the Russian and Central European revolutions.

These revolutions involved the organised as well as unorganised masses of workers, which created their own and new form of organisation for action and control in the spontaneously-arising workers’ and soldiers’ councils. But in both Russia and Central Europe the actual content of the revolution was not equal to its new revolutionary form. Whereas in Russia it was mainly the objective unreadiness for a socialist transformation, in Central Europe, and here particularly in Germany, it was the subjective unwillingness to institute socialism by revolutionary means, which largely accounts for the self-limitation and finally the abdication of the council movement in favour of bourgeois democracy. The ideology of Social Democracy had left its mark; the great mass of workers mistook the political for a social revolution; the socialisation of production was seen as a governmental concern, not as that of the workers themselves. In Russia, it is true, the Bolshevik Party advanced the slogan ‘All power to the Soviets,’ but only for opportunistic reasons, in order to reach its true goal in the authoritarian rule of the Bolshevik Party.

By itself, the workers’ self-initiative and self-organisation offers no guarantee for their emancipation. It has to be realised and maintained through the abolition of the capital-labour relationship in production, through a council system, which destroys the social class divisions and prevents the rise of new ones based on the control of production and distribution by the national state. However difficult this may prove to be, the history of the existing state-capitalist systems leaves no doubt that this is the only way to a socialist society. This had already been recognised by small minorities in the radical
movement prior to, during, and after the Russian Revolution and was brought into the open within the communist movement as an opposition to Bolshevism and the theory and practice of the Third International. It is this movement and the ideas it brought forth, which this volume recalls, not, however, to describe a particular part and phase of labour history, but as a warning, which may also serve as a guide for future actions.

The revolutions which succeeded, first of all, in Russia and China, were not proletarian revolutions in the Marxist sense, leading to the ‘association of free and equal producers’, but state-capitalist revolutions, which were objectively unable to issue into socialism. Marxism served here as a mere ideology to justify the rise of modified capitalist systems, which were no longer determined by market competition but controlled by way of the authoritarian state. Based on the peasantry, but designed with accelerated industrialisation to create an industrial proletariat, they were ready to abolish the traditional bourgeoisie but not capital as a social relationship. This type of capitalism had not been foreseen by Marx and the early Marxists, even though they advocated the capture of state-power to overthrow the bourgeoisie — but only in order to abolish the state itself.

Although designated as socialism, state-control of the economy and over social life generally, exercised by a privileged social layer as a newly emerging ruling class, has perpetuated for the industrial as well as agricultural labouring classes the conditions of exploitation and oppression which had been their lot under the semi-feudal social relations of capitalistically-underdeveloped nations. That this new social system could also be applied in capitalistically more advanced nations was demonstrated after the second world war, through the extension of state-capitalist system into the West by way of imperial conquest. In either case, ‘socialism’ became quite generally identified with the prevailing state-capitalist systems. Movements exist everywhere whose proclaimed goals are precisely the establishment of similar regimes in additional countries, even though, for opportunistic reasons, these goals may be toned down at times, or even totally disclaimed. There exists then the danger that possible new revolutionary outbreaks may once again be side-tracked into state-capitalist transformations.

This possibility finds its support in the centralising tendencies inherent in capitalism itself. The concentration of capital, its monopolisation, and the rise of corporations in which ownership is separated from direct control, and, finally, the reluctant integration of state and capital in the mixed economy, with its fiscal and monetary manipulations, seem to spell a tendency in the direction of a fullfledged state-capitalism. What once constituted a vague hope on the part of social reformers and what in backward countries became a reality through revolution, appears now as an unavoidable requirement for securing the social relations of capital production.

Although the so-called mixed economy will not automatically transform itself into state-capitalism, new social upheavals may well lead to it in the name of socialism. It is true that ‘Marxism-Leninism’ presents itself today as a purely reformist movement, which, like the Social Democracy of old, prefers the democratic processes of social change to the revolutionary overthrow of capitalism. In some countries, France and Italy, for instance, relatively strong communist parties offer their services to capitalism to help it overcome its crisis conditions. But should everything fail, and an intensified class struggle pose the question of social revolution, there can be no doubt that these parties will opt for state-capitalism, which in their views, is the only possible form of socialism. Thus, the revolution would be at once a counter-revolution. The end of capitalism demands therefore, first of all, the end of Bolshevik ideology and the rise of an anti-Bolshevik revolutionary movement, such as has been attempted at the earlier revolutionary situation to which this book tries to draw attention.
Rosa Luxemburg in Retrospect

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It will soon be sixty years since the mercenaries of the German social-democratic leadership murdered Karl Liebknecht and Rosa Luxemburg. Although they are mentioned in the same breath, as they both symbolized the radical element within the German political revolution of 1918, Rosa Luxemburg’s name carries greater weight because her theoretical work was of greater seminal power. In fact, it can be said that: she was the outstanding personality in the international labor movement after Marx and Engels; and that her work has not lost its political relevance despite the changes the capitalist system and the labor movement have undergone since her death.

Just the same, like everyone else, Rosa Luxemburg was a child of her time and can only be understood in the context of the phase of the social-democratic movement of which she was a part. Whereas Marx’s critique of bourgeois society evolved in a period of rapid capitalistic development, Rosa Luxemburg was active in a time of increasing instability for capitalism, wherein the abstractly formulated contradictions of capital production showed themselves in the concrete forms of imperialistic competition and in intensified class struggles. While the actual proletarian critique of political economy, according to Marx, consisted at first in the workers’ fight for better working conditions and higher living standards, which would prepare the future struggles for the abolition of capitalism, in Rosa Luxemburg’s view this ‘final’ struggle could no longer be relegated to a distant future but was already present in the extending class struggles. The daily fight for social reforms was inseparably connected with the historical necessity of the proletarian revolution.

Without entering into Rosa Luxemburg’s biography,¹ it should be said, that she came from a middle-class background and that she entered the socialist movement at an early age. Like others, she was forced to leave Russian Poland and went to Switzerland to study. Her main interest, as behooved a socialist influenced by Marxism, was political economy. Her early work in this field is now only of historical interest. There was her inaugural-dissertation, The Industrial Development of Poland (1898), which did for Poland, though in a less extensive manner, what Lenin’s The Development of Capitalism in Russia, did for Czarist Russia a year later. And there were her popular lectures at the Social-Democratic Party School, posthumously published by Paul Levi (1925) under the title Introduction of National Economy. In the latter work, it should be noted, Rosa Luxemburg declared that the validity of political economy is specific to capitalism, and will cease to exist with the demise of this system. In her dissertation, she came to the conclusion that the development of the Polish economy would proceed in conjunction with that of Russia, would end in complete integration, and therewith would end the nationalist aspirations of the Polish bourgeoisie. But this development would also unify the Russian and Polish proletariat and lead to the eventual destruction of Polish-Russian

capitalism. The main contradiction of capitalist production was seen by her as one between the capacity to produce and the limited capacity to consume within the capitalist relations of production. This contradiction leads to recurrent economic crises and the increasing misery of the working class and therewith, in the long run, to social revolution.

It was only with her work on *The Accumulation of Capital* (1912) that Rosa Luxemburg’s economic theories became controversial. Although she claimed that this book grew out of complications arising in the course of her popular lectures on National Economy, namely, her inability to relate the total capitalist reproduction process to the postulated objective limits of capital production, it is clear from the work itself that it was also a reaction to the emasculation of Marxian theory initiated by the “Revisionism” that swept the socialist movement around the turn of the century. Revisionism operated on two levels: the primitive empirical level personified by Eduard Bernstein, who merely compared the actual capitalist development with that deducible from Marxian theory, and the more sophisticated theoretical turnabout of academic marxism, culminating in Tugan-Baranowsky’s Marx-interpretation and those of his various disciples.

Only the first volume of *Capital* was published during Marx’s lifetime, and the second and third were prepared by Friedrich Engels from unrevised papers left to his care, although they had been written prior to the publication of the first volume. Whereas the first volume deals with the capitalist process of production, the second concerns itself with the circulation process. The third volume, finally, deals with the capitalist system as a whole in its phenomenal form, as determined by its underlying value relations. Because the reproduction process necessarily controls the production process, Marx thought it useful to display this fact by means of some abstract reproduction diagrams in the second volume of *Capital*. The diagrams divide total social production into two sections: one producing means of production, the other means of consumption. The transactions between these two departments are imagined to be such as to enable the reproduction of the total social capital to proceed either on the same or on an enlarged scale. But what is a presupposition for the reproduction diagrams, namely, an allocation of the social labor as required for the reproduction process, must in reality first be brought about blindly, through the uncoordinated activities of the many individual capitals in their competitive pursuit of surplus-value.

The reproduction diagrams do not distinguish between values and prices; that is, they treat values as if they were prices. For the purpose they were intended to serve, namely, to draw attention to the need for a certain proportionality between the different spheres of production, the diagrams fulfill their pedagogical function. They do not depict the real world, but are instrumental in aiding in its understanding. Restricted in this sense, it does not matter whether the interrelations of production and exchange are dressed in value or price terms. Because the price form of value, taken up in the third volume of *Capital*, refers to the actual capitalist production and exchange process, the imaginary equilibrium conditions of Marx’s reproduction diagrams do not refer to the real capitalist world. Still, Marx found it quite necessary to view the process of reproduction in its fundamental simplicity, in order to get rid of all obscuring interferences and dispose of the false subterfuges, which assume the semblance of scientific analysis, but which

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cannot be removed so long as the process of social reproduction is immediately analyzed in its concrete and complicated form.

Actually, according to Marx, the reproduction process under capitalistic conditions precludes any kind of equilibrium and implies, instead, “the possibility of crises, since a balance is accidental under the conditions of this production.” Tugan-Baranowsky, however, read the reproduction diagrams differently because of their superficial resemblance to bourgeois equilibrium theory, the main tool of bourgeois price theory. He came to the conclusion that as long as the system develops proportionately with respect to its reproduction requirements, it does not have objective limits. Crises are caused by disproportionalities arising between the different spheres of production but can always be overcome through the restoration of that proportionality which assures the accumulation of capital. This was a disturbing idea, as far as Rosa Luxemburg was concerned, and this the more so as she could not deny the equilibrating implications of Marx’s reproduction diagrams. If Tugan-Baranowsky interpreted them correctly, then Marx was wrong, because this interpretation denied the inevitable end of capitalism.

The discussion around Marx’s abstract reproduction diagrams was particularly vehement in Russia because of earlier differences between the Marxists and the Populists with regard to Russia’s future in face of her backwardness and her peculiar socio-economic institutions. Whereas the Populists asserted that for Russia it was already too late to enter into world competition with the established capitalist powers, and that, furthermore, it was quite possible to construct a socialist society on the basis of the not yet dissolved collectivity of peasant production, the Marxists maintained that development on the Western pattern was inescapable and that this development itself would produce the markets it required within Russia and in the world at large. The Marxists emphasized that it is the production of capital, not the satisfaction of consumption, that determines capitalist production. There is, therefore, no reason to assume that a restriction of consumption would retard the accumulation of capital; on the contrary, the less there is consumed, the faster capital would grow.

This “production for the sake of production” made no sense to Rosa Luxemburg—not because she was unaware of the profit motive of capitalist production, which constantly strives to reduce the workers’ share of social production, but because she could not see how the extracted surplus-value could be realized in money form in a market composed only of labor and capital, such as is depicted in the reproduction diagrams. Production has to go through the circulation process. It starts with money, invested in means of production and labor-power, and it ends with a greater amount of money in the hands of the capitalists, to be re-invested in another production cycle. Where would this additional money come from? In Rosa Luxemburg’s view, it could not possibly come from the capitalists; for if it did, they would not be recipients of surplus-value but would pay with their own money for its commodity equivalent. Neither could it come from the purchases of the workers, who only receive the value of their labor power, leaving the surplus-value in its commodity form to the capitalists. To make the system workable, there must be a “third market,” apart from the exchange relations of labor and capital, in which the produced surplus-value could be transformed into additional money.

This aspect of the matter Rosa Luxemburg found missing in Marx. She intended to close the gap and therewith substantiate Marx’s conviction of capitalism’s necessary collapse. Although *The Accumulation of Capital* approaches the realization problem

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5 ibid., p. 578.
historically – starting with classical economy and ending with Tugan-Baranowsky and his many imitators – so as to show that this problem has always been the Achilles heel of political economy, her own solution of the problem comprises, in essence, no more than a misunderstanding of the relation between money and capital and a misreading of the Marxian text. As she presents matters, however, everything seemingly falls in its proper place: the dialectical nature of the capital-expansion process, as one merging out of the destruction of pre-capitalist economies; the necessary extension of this process to the world at large, as illustrated by the creation of the world market and rampant imperialism in search of markets for the realization of surplus-value; the resulting transformation of the world economy into a system resembling Marx’s closed system of the reproduction diagram; and therewith, finally, the inevitable collapse of capitalism for lack of opportunities to realize its surplus-value.

Rosa Luxemburg was carried away by the logic of her own construction to the point of revising Marx more thoroughly than had been done by the Revisionists in their concept of a theoretically possible harmonious capital development, which, for them, turned socialism into a purely ethical problem and into one of social reform by political means. On the other hand, the Marxian reproduction diagrams, if read as a version of Say’s Law of the identity of supply and demand, had to be rejected. Like her adversaries, Rosa Luxemburg failed to see that these diagrams have no connection at all with the question of the viability of the capitalist system, but are merely a methodologically determined, intermediary step in the analysis of the laws of motion of the capitalist system as a whole, which derives its dynamic from the production of surplus-value. Although capitalism is indeed afflicted with difficulties in the sphere of circulation and therewith in the realization of surplus-value, it is not here that Marx looked for, or found, the key to the understanding of capitalism’s susceptibility to crises and to its inevitable end. Even on the assumption that there exists no problem at all with regard to the realization of surplus-value, capitalism finds its objective limits in those of the production of surplus-value.

According to Marx, capitalism’s basic contradiction, from which spring all its other difficulties, is to be found in the value and surplus-value relations of capital production. It is the production of exchange-value in its monetary form, derived from the use-value form of labor-power, which produces, besides its own exchange-value equivalent, a surplus-value for the capitalists. The drive for exchange-value turns into the accumulation of capital, which manifests itself in a growth of capital invented in means of production relatively faster than that invested in labor-power. While this process expands the capitalist system, through the increasing productivity of labor associated with it, it also tends to reduce the rate of profit on capital, as that part of capital invested in labor-power – which is the only source of surplus-value – diminishes relative to the total social capital. This long and complicated process cannot be dealt with satisfactorily in this short article, but must at least be mentioned in order to differentiate Marx’s theory of accumulation from that Rosa Luxemburg. In Marx’s abstract model of capital development, capitalist crises, as well as the inevitable end of the system, find their source in the temporary or, finally, total breakdown in the accumulation process due to a lack of surplus-value or profit.

For Marx, then, the objective limits of capitalism are given by the social production relations as value relations, while for Rosa Luxemburg capitalism cannot exist at all, except through the absorption of its surplus-value by pro-capitalist economies. This implies the absurdity that these backward nations have a surplus in monetary form large enough to accommodate the surplus-value of the capitalistically advanced countries. But as already mentioned, this wrong idea was the unreflected consequence of Rosa
Rosa Luxemburg’s false notion that the whole of the surplus-value, earmarked for accumulation, must yield an equivalent in money form, in order to be realized as capital. Actually, of course, capital takes on the form of money at times and at other times that of commodities of all descriptions — all being expressed in money terms without simultaneously assuming the money form. Only a small and decreasing part of the capitalist wealth has to be in money form; the larger part, although expressed in terms of money, remains in its commodity form and as such allows for the realization of surplus-value an additional capital.

Rosa Luxemburg’s theory was quite generally regarded as an aberration and an unjustified criticism of Marx. Yet her critics were just as far removed from Marx’s position as was Rosa Luxemburg herself. Most of theme critics adhered either to a crude underconsumption theory, a theory of disproportionality, or a combination of them. Lenin, for example – not to speak of the Revisionists – saw the cause for crises in the disproportionalities due to the anarchic character of capitalist production, and merely added to Tagan-Baranowsky’s arguments that of the underconsumption of the workers. But in any case he did not believe that capitalism was bound to collapse because of its immanent contradictions. It was only with the first world war and the revolutionary upheavals in its wake that Rosa Luxemburg’s theory found a wider response in the radical section of the socialist movement. Not so much, however, because of her particular analysis of capital accumulation, as because of her insistence upon the objective limits of capitalism. The imperialistic war gave her theory some plausibility and the end of capitalism seemed indeed actually at hand. The collapse of capitalism became the revolutionary ideology of the time and supported the abortive attempts to turn the political upheavals into social revolutions.

Of course, Rosa Luxemburg’s theory was no less abstract than that of Marx. Marx’s hypothesis of a tendency of the rate of profit to fall could not reveal at what particular point in time it would no longer be possible to compensate for this fall by an increasing exploitation of the relatively diminishing number of workers, which would increase the mass of surplus-value sufficiently to maintain a rate of profit assuring the further expansion of capital. Similarly, Rosa Luxemburg could not say at what time the completion of the capitalization of the world would exclude the realization of its surplus-value. The outward extension of capital was also only a tendency, implying a progressively more devastating imperialist competition for the diminishing territories in which surplus-value could be realized. The fact of imperialism showed the precariousness of the system, which could lead to revolutionary situations long before its objective limits were reached. For all practical purposes, then, both theories assumed the possibility of revolutionary actions, not because of the logical outcome of their abstract models of development, but because these theories pointed unmistakably to the increasing difficulties of the capitalist system, which could in any severe crisis transform the class struggle into a fight for the abolition of capitalism.

Although undoubtedly erroneous, Rosa Luxemburg’s theory retained a revolutionary character because, like that of Marx, it led to the conclusion of the historical untenability of capitalism. Although with dubious arguments, she nonetheless restored – against Revisionism, Reformism, and Opportunism – the lost Marxian proposition that capitalism is doomed to disappear because of its own unbridgeable contradiction and that this end, though objectively determined, will be brought about by the revolutionary actions of the working class.

The overthrow of capitalism would make all theories of its development redundant. But while the system lasts, the realism of a theory may be judged by its own particular history. Whereas Marx’s theory, despite attempts made in this direction, cannot be
integrated into the body of bourgeois economic thought, Rosa Luxemburg’s theory has found some recognition in bourgeois theory, albeit in a very distorted form. With the rejection by bourgeois economy itself of the conception of the market as an equilibrium mechanism, Rosa Luxemburg’s theory found a kind of acceptance as a precursor of Keynesian economics. Her work has been interpreted, by Michael Kalecki\(^6\) and Joan Robinson,\(^7\) for example, as a theory of ‘effective demand,’ the lack of which presumably explains the recurrent capitalistic difficulties. Rosa Luxemburg imagined that imperialism, militarism, and preparation for war aided in the realization of surplus-value, via the transfer of purchasing power from the population at large to the hands of the state; just as modern Keynesianism attempted to reach full employment by way of deficit-financing and monetary manipulations. However, while it in no doubt possible, for a time, to achieve full employment in this fashion, it is not possible to maintain this state of bliss, as the laws of motion of capital production demand not a different distribution of the surplus-value but its constant increase. The lack of effective demand is only another term for the lack of accumulation, as the demand required for prosperous conditions is brought forth by nothing other than the expansion of capital. At any rate, the actual bankruptcy of Keynesianism makes it unnecessary to kill this theory theoretically. It suffices to say that its absurdity shows itself in the present-day unrelieved growth of both unemployment and inflation.

While Rosa Luxemburg did not fare well with her theory of accumulation, she was more successful in her consistent Internationalism, which was, of course, connected with her concept of accumulation as the global extension of the capitalist mode of production. In her view, imperialist competition was rapidly transforming the world into a capitalist world and thereby developing the unhampered confrontation of labor and capital. Whereas the rise of the bourgeoisie coincided with the formation of the modern nation-state, creating the ideology of nationalism, the maturity and decline of capitalism implied the imperialistic ‘internationalism’ of the bourgeoisie and therewith also the internationalism of the working classes, if they were to make their class struggles effective. The reformist integration of proletarian aspirations into the capitalist system led to social-imperialism, as the other side of the nationalistic coin. Objectively, there was nothing behind the frantically growing nationalism but the imperialist imperative. To oppose imperialism demanded, then a total rejection of all forms of nationalism, even that of the victims of imperialist aggression. Nationalism and imperialism were inseparable and had to fought with equal fervor.

In view of the at first covert but soon overt social-patriotism of the official labor movement, Rosa Luxemburg’s internationalism represented the leftwing of this movement – but not completely. In a way, it was a generalization of her specific experiences in the Polish socialist movement, which had been split on the question of national self-determination. As we already know from her work on the industrial development in Poland, Rosa Luxemburg expected a full integration of the Russian and Polish capitalism and a consequent unification of their respective socialist organizations, both as a practical and as a principled matter. She could not conceive of nationally oriented socialist movements and even less of a nationally restricted socialism. What was true for Russia and Poland also held for the world at large; national fissions had to be ended in the unity of international socialism.

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\(^6\) Michael Kalecki, ‘The Problem of Effective Demand with Tagan-Baranowsky and Rosa Luxemburg.’
The Bolshevik section of the Russian Social-Democratic Party did not share Rosa Luxemburg’s strict internationalism. For Lenin, the subjugation of nationalities by stronger capitalist countries brought additional cleavages into the basic social frictions, which could, perhaps, be turned against the dominating powers. It is quite beside the point, to consider whether Lenin’s advocacy of the self-determination of nations reflected a subjective conviction, or democratic attitude, with regard to special national needs and cultural peculiarities, or was simply a revulsion against all forms of oppression. Lenin was, first of all, a practical politician, even though he could fulfill this role only at a late hour. As a practical politician, he realized that the different nationalities within the Russian empire presented a steady threat to the Czarist regime.

To be sure, Lenin was also an internationalist and saw the socialist revolution in terms of the world revolution. But this revolution had to begin somewhere and he assumed that it would first break the weakest link in the chain of competing imperialist powers. In the Russian context, supporting the self-determination of nations, up to the point of secession, suggested the winning of “allies” in any attempt to overthrow Czarism. This strategy was supported by the hope that, once free, the different nationalities would elect to remain within the new Russian commonwealth, either out of self-interest, or through the urgings of their own socialist organizations.

Until the Russian Revolution, however, this whole discussion around the national question remained purely academic. Even after the revolution, the granting of self-determination to the various nationalities within Russia was not very meaningful, for most of the territories involved were occupied by foreign powers. Still, the Bolshevik regime continued to press for self-determination in order to weaken other imperialist nations, particularly England, in an attempt to foster colonial revolutions against Western capitalism, which threatened to destroy the Bolshevik state.

The Russian Revolution found Rosa Luxemburg in a German prison, where she remained until the overthrow of the German monarchy. But she was able to follow the progress of the Russian Revolution. Though delighted by the Bolshevik seizure of power, she could not accept Lenin’s policies towards the peasants and with respect to the national minorities. In both cases she worried needlessly. Although her prediction that the granting of self-determination to the various nationalities within Russia would merely surround the new state with a cordon of reactionary counter-revolutionary countries, turned out to be correct, this was so only for the short run. Rosa Luxemburg failed to see that it was the principle of self-determination which dictated Bolshevik policy with regard to the Russian nationalities, than the force of circumstances over which the Bolsheviks had no control. At the first opportunity they began whittling away at the self-determination of nations, to end by incorporating all the new independent nations in a restored Russian empire, and, in addition, by forging for themselves spheres of interest in extra-Russian territories.

On the strength of her own theory of nationalism and imperialism, Rosa Luxemburg should have realized that Lenin’s theory could not be actualized, in a world of competing imperialist powers and would, most probably, not need to be put into practice should capitalist be brought down by an international revolution. The disintegration of the Russian empire was not due to or aided by the principle of self-determination, but was effected through the loss of the war; as it was the winning of another war, which led to the recovery of previously lost territory and to a revival of Russian imperialism. Capitalism is an expansive system and therefore necessarily imperialistic. It is the capitalistic way of overcoming national limitations to capital production and its centralization – of gaining, or securing, privileged or dominating
positions within the world economy. It is thus also a defense against this general trend; but in all cases, it is the inescapable result of capital accumulation.

As Rosa Luxemburg pointed out, the contradictory capitalist ‘integration’ of the world economy cannot alter the domination of weaker by stronger nations through the latter’s control of the world market. This situation makes real national independence illusory. what political independence can accomplish, at best, is no more than the subjugation of the workers under native instead of international control. Of course, proletarian internationalism cannot prevent, nor has it reason to prevent, movements for national self-determination within the colonial and imperialistic context. These movements are part of capitalist society just an imperialism is. But to ‘utilize’ these movements for socialism can only mean to try to deprive them of their nationalistic character through a consistent internationalism on the part of the socialist movement. Although oppressed people have the sympathy of the socialists, it does not relate to their emergent nationalism but to their particular plight as twice-oppressed people, suffering from both native and foreign exploitation. The socialist task in the ending of capitalism, which includes the support of anti-imperialist forces; not, however, to create new capitalistic nation-states, but to make their emergence more difficult, or impossible, through proletarian revolutions in the advanced capitalist countries.

The Bolshevik regime declared itself socialistic and by that token was to end all discrimination of national minorities. Under such conditions, national self-determination was, in Rosa Luxemburg’s eyes, not only senseless but an invitation to revive, via the ideology of nationalism, the conditions for a capitalist restoration. In her view, Lenin and Trotsky mistakenly sacrificed the principle of internationalism for momentary tactical advantage. While perhaps unavoidable, it should not be elevated into a socialist virtue. Rosa Luxemburg was right, of course, in not questioning the Bolshevik’s subjective sincerity as regards the establishment of socialism in Russia and the furthering of the world revolution. She herself thought it possible, by way of a westward extension of the revolution, to defy the objective unripeness of Russia for a socialist transformation. She blamed the West European socialists, and in particular the Germans, for the difficulties the Bolsheviks encountered, which forced them into concessions, compromises, and opportunist actions. And she assumed that the internationalization of the revolution would do away with Lenin’s nationalistic demands and resurrect the principle of internationalism in the revolutionary movement.

As the world revolution did not materialize, the nation-state remained the field of operation for economic development as well as for the class struggle. The “internationalism” of the Third International, under Russian dominance, served strictly Russian state interests, covered up by the idea that the defense of the first socialist state was a prerequisite for international socialism. Like national self-determination, this type of “internationalism” was designed to weaken the adversaries of the new Russian state. After 1920, however, the Bolsheviks no longer expected a resumption of the world-revolutionary process, and settled down for the consolidation of their own regime. Their ‘internationalism’ expressed now their own nationalism, just as the economic internationalism of the bourgeoisie serves no other end than the enrichment of nationally-organized capital entities.

The result of the second world war and its aftermath ended the colonialism of the European powers and led to the formation of numerous ‘independent’ nations; while, at the same time, two great power blocs emerged, dominated by the victorious nations Russia and the United States. Within each bloc there was no real national independence but rather the subordination of the nominally self-determined countries to the imperialistic requirements of the leading powers. This subordination was enforced by
both economic and political means and by the general necessity to adapt the economies and therewith the political life of the satellite nations to the realities of the capitalist world market.

For the former colonies this implied a new form of subjugation and dependence, which found its expression in the term neo-colonialism; for the reborn, capitalistically more-advanced nations it implied the direct control of their political structure through the proven methods of military occupation and puppet governments. This situation led, of course, to new “liberation movements” not only in the capitalist but also in the so-called socialist camp, providing the proof that there is no such thing as national self-determination, either in the market-controlled or the state-controlled economies.

That nationalism is really a vehicle upholding the ruling class was soon made evident in all liberated nations, as it provided political parvenus with an instrument for their own emergence as new ruling classes, in collaboration with the ruling classes of the dominating countries. Whether these now ruling classes adhere to the ‘free world’ or to the authoritarian part of the world, in either case the national form, on which their rule is based, precludes any step towards a socialist society. Wherever possible, their nationalism implies a fervent, even if miniature, imperialism, which sets ‘socialist nations’ against other nations, including other ‘socialist nations.’ Thus we have the sorry spectacle of a threatening war between the great ‘socialist countries’ Russia and China, and, on a smaller scale, the open warfare between ‘Marxist’ Ethiopia and “Marxist’ Somalia for the control of Ogaden.

With some variations, this story can be prolonged almost endlessly, characterizing the present state of world politics, in which small nations act as proxies for the great imperialist powers, or fight on their own behalf, only to fall victim to one or another power bloc. All this substantiates Rosa Luxemburg’s contention that all forms of nationalism are detrimental to socialism and that only a consistent internationalism can aid the emancipation of the working class. This unwavering internationalism is one of her greatest contributions to revolutionary theory and practice and sets her far apart from both the social-imperialism of Social Democracy and the Bolshevik opportunist concept of world revolution as advocated by its. great ‘statesman’ Lenin.

Like Lenin, Rosa Luxemburg looked upon the October Revolution as a proletarian revolution which, however, depended fully upon international events. At the time this view was shared by all revolutionaries whether Marxist or not. After all, as she said, by seizing power the Bolsheviks had “for the first time proclaimed the final aim of socialism as the direct program of practical policies”8. They had solved the “famous problem of winning a majority of the people, by revolutionary tactics that led to a majority, instead of waiting for the latter to evolve a revolutionary tactic.”9 In her view, Lenin’s party had grasped the true interests of the urban masses by demanding all power for the Soviets in order to secure the revolution. Still, the agrarian question was the axis of the revolution and here the Bolsheviks showed themselves as opportunistic in their policies as with regard to the national minorities.

In pre-revolutionary Russia the Bolsheviks had shared with Rosa Luxemburg the Marxist position that the land must be nationalized as a prerequisite for the organization of large-scale agricultural production in conformity with the socialization of industry. In order to gain the support of the peasants, Lenin abandoned the Marxist agricultural program in favor of that of the Social-Revolutionaries – the heirs of the old Populists.

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9 Ibid.
movement. Although Rosa Luxemburg recognized this turnabout as an ‘excellent tactic,’ for her it had nothing to do with the quest for socialism. Property rights must be turned over to the nation, or the state, for only then is it possible to organize agricultural production on a socialistic base. The Bolshevik slogan “immediate seizure and distribution of the land by the peasants” was not a socialist measure, but one which, by creating a new form of private property, cut off the way to such measures. “The Leninist agrarian reform,” she wrote, “has created a now and powerful layer of popular enemies of socialism in the countryside, enemies whose resistance will be much more dangerous and stubborn than that of the noble large landowners.”

This proved to be a fact, hampering both the restoration of the Russian economy and the socialization of industry. But, as in the case of national self-determination, here too the situation was determined not by the Bolsheviks’ policy but by circumstances beyond their control. The Bolsheviks were prisoners of the peasant movement; they could not hold power except with its passive support, and they could not proceed towards socialism because of the peasants. Moreover, their sly opportunism did not initiate the peasants’ seizure of the land, but merely ratified an accomplished fact, independent of their own attitude. While other parties hesitated to legalize the expropriation of land, the Bolsheviks favored it, in order to win the support of the peasants and thus to consolidate the power they had won by a coup d’etat in the urban centers. They hoped to maintain this support by a policy of low taxation, while the peasants required a government which would prevent a return of the landlords by way of counter-revolution.

As far as the peasants were concerned, the revolution involved the extension of property rights and was, in this sense, a bourgeois revolution. It could only lead to a market-economy and the enhanced capitalization of Russia. For the industrial workers, as for Lenin and Luxemburg, it was a proletarian revolution even at this early stage of capitalist development. But as the industrial working class formed only a minuscule part of the population, it seemed clear that sooner or later the bourgeois element within the revolution would gain the upper hand. Bolshevik state-power could only be hold by arbitrating between these contrary interests but success in this endeavor would negate both the socialist and the bourgeois aspirations within the revolution.

This was a situation not foreseen by the Marxist movement and not predictable in terms of Marxian theory, which held that the proletarian revolution presupposes a high capitalistic development in which the working class finds itself in the majority and thus able to determine the course of events. While Lenin was not interested in a bourgeois revolution, except as a preliminary to a socialist revolution, he was a bourgeois in that he was convinced that it was possible to change society by purely political means, that is, by the will of a political party. This idealistic reversal of Marxism, with consciousness determining the material development instead of being produced by it, implied in practice no more than a copying of the Czarist regime itself, in which the autocracy had ruled over the whole of society. In fact, Lenin insisted that if the Czar could govern Russia with the aid of a bureaucracy of a few hundred thousand men, the Bolsheviks should be able to do likewise and better with a Party exceeding this number. In any case, once in power the Bolsheviks had no choice but to try to maintain it in order to defend their sheer existence. In the course of time there emerged a state apparatus which took upon itself the authoritarian control not only of the population but also of economic development, by turning private property into state property without changing the social relations of production – that is, by maintaining the capital-labor relations that allow for the

Ibid.
exploitation of the working class. This new type of capitalism – properly called state-capitalism – persists to the present day in the ideological dress of ‘socialism.’

In 1918, Rosa Luxemburg could not envision this development, as it lay outside of all Marxist assumptions. For her, the Bolsheviks were making various mistakes, which might endanger their socialist goal. And if these mistakes were unavoidable within the context of the isolated Russian Revolution, they should not be generalized into a revolutionary tactic for times to come and for all nations to follow. However helplessly, she opposed the Russian reality with Marxian principles, so as at least to save the Marxian theory. But it was all in vain, for it turned out that private-party capitalism is not necessarily followed by a socialist regime, but could be transformed into a state-controlled capitalism, wherein the old bourgeoisie was replaced by a new ruling class, whose power is based on its collective control of the state and the means of production. She knew as little as Lenin how to go about building a socialist society, but while the latter proceeded pragmatically from the experiences of wartime state-controls of capitalist nations and envisioned socialism as the state-monopoly over all economic activity, Rosa Luxemburg persisted in proclaiming that such a state of affairs could not emancipate the working class. She could not imagine that the emerging Bolshevik society represented a historically new social formation, but saw in it no more than a false application of socialist principles. And thus she feared a possible restoration of capitalism by way of the agrarian reforms of Bolshevism.

As it turned out, the agrarian question agitated the Bolshevik state unceasingly, finally leading to the compulsory collectivization of the peasantry as an in-between solution between private-property relations on the land and the nationalization of agriculture. This was no real repudiation of Lenin’s peasant policies, which had been based on necessity, not on conviction. Except on paper, Lenin simply did not dare to nationalize the land, and Stalin did not dare more than the forced collectivizations of the peasants, in order to increase their production and exploitation, without depriving them of all private initiative. Even so, this was a frightful undertaking which almost destroyed the Bolshevik regime. If Rosa Luxemburg was right against Lenin with respect to the peasant question, her arguments were nonetheless beside the point, for it was just a question of time, and of the strength of the state apparatus before the peasants would lose their newly-won relative independence and fall once more under the control of an authoritarian regime.

It should have been evident from Lenin’s concept of the party and its role in the revolutionary process that, once in power, this party could only function in a dictatorial way. Quite apart from the specific Russian conditions, the idea of the party as the consciousness of the socialist revolution clearly relegated all decision-making power into the hands of the Bolshevik state apparatus. This general assumption found an even sharper accentuation in the Russian Revolution, divided, as it was, in its bourgeois and proletarian aspirations. If the proletariat was not able, according to Lenin, to develop more than a trade-union consciousness (that is, to fight for its interests within the capitalist system) it would certainly be even more unable to realize socialism, which presupposes an ideological break with all its previous experience. Echoing Karl Kautsky, Lenin was convinced that socialist consciousness had to be brought to the proletariat from the outside, through the knowledge of the educated middle class. The party was the organization of the socialist intelligentsia, representing revolutionary consciousness for the proletariat, even though it might also include a sprinkling of intelligent workers in its ranks. It was necessary that these specialists in revolutionary politics become the masters of the socialist state, if only to prevent the defeat of the working class through its own
ignorance. And as the party was to lead the proletariat, so the leadership of the party was to lead its members by way of a semi-militaristic centralization.

It was this arrogant attitude of Lenin, pressed upon his party, which made Rosa Luxemburg quite wary about the possible outcome of the Bolsheviks’ seizure of power. Already in 1904 she had attacked the Bolshevik party concept for both its artificial separation of a revolutionary vanguard from the mass of the workers and for its ultra-centralization in general, as well as in party affairs in particular. “Nothing will more surely enslave a young labor movement to an intellectual elite hungry for power,” she wrote, than this bureaucratic strait-jacket, which will immobilize the movement and turn it into an automaton manipulated Central Committee. By denying the revolutionary character of Lenin’s party concept, Rosa Luxemburg prefigured the actual course of Bolshevik rule down to the present day. To be sure, her indictment of Lenin’s organizational ideas was based on their confrontation with the organizational structure of the Social Democratic Party, which, though highly centralized, aspired to a broad mass basis for its evolutionary work. This party did not think in terms of seizing power, but was satisfied with its electoral successes and the spreading of the socialist ideology as a basis for its growth. In any case, Rosa Luxemburg not believe that any type of party could bring about a socialist revolution. The party could only be an aid to revolution, which remained the privilege and required the activities of the whole working class. She did not see the socialist party as an independent organizer of the proletariat, but as part of it, with no functions or interests differing from those of the working class.

With this conviction, Rosa Luxemburg was only true to herself and to Marxism when she raised her voice against the dictatorial policies of the Bolshevik party. Although this party reached its dominating position via the demagogic demand for the sole rule of the Soviets, it had no intention of delegating any power to the Soviets, except, perhaps, where they were composed of Bolsheviks. It is true that the Bolsheviks in Petrograd and a few other cities held a majority of the Soviets, but this situation might change again and return the party to the minority position it had held during the first months after the February Revolution. The Bolsheviks did not look upon the soviets as organs of an emerging socialist society, but saw in them no more than a vehicle for the formation of a Bolshevik government. Already in 1905, which saw the first rise of the Soviets, Lenin recognized their revolutionary potential, which, however, gave him only one more reason to strengthen his own party and prepare it for the reins of government. To Lenin, the latent revolutionary power of the Soviet form of organization did not change its spontaneous nature, which implied the danger of the dissipation of this power in fruitless activities. Although a part of social reality, spontaneous movements could, in Lenin’s view, at best support but never supplant a goal-directed party. In October 1917, the question for the Bolsheviks was not one of choosing between Soviet- and party-rule, but between the latter and the Constituent Assembly. As there was no chance of winning a majority in the Assembly and thus gaining the it was necessary to dispense with realize the party dictatorship in the proletariat.

Although Rosa Luxemburg held that in one fashion or another the whole mass of people must take part in the construction of socialism, she did not recognize the soviets as typifying the organizational form which would make this possible. Impressed as she was in 1905 by the great mass-strikes taking place in Russia, she paid little attention to their soviet form of organization. In her eyes, the soviets were merely strike committees in the absence of other more permanent labor organizations. Even after the 1917 Revolution she felt that “the practical realization of socialism and an economic, social and juridical

system is something which lies completely hidden in the mists of the future." Only the general direction in which to move was known, not the detailed concrete steps that had to be taken to consolidate and develop the new society. Socialism could not be derived from ready-made plans and realized by governmental decree. There must be the widest participation on the part of the workers, that is, a real democracy, and it was precisely this democracy which alone could be designated as the dictatorship of the proletariat. A party-dictatorship was for her no more than “a dictatorship in the bourgeois sense,, in the sense of the rule of the Jacobins.”

All this is undoubtedly true, on the general level, but the bourgeois character of Bolshevik rule reflected – ideologically as well as practically – the objectively non-socialistic nature of this particular revolution, which simply could not proceed from the quasi-feudal conditions of Czarism to a socialist society. It was a sort of ‘bourgeois revolution’ without the bourgeoisie, as it was a proletarian revolution without a sufficiently large proletariat: a revolution in which the historical functions of the bourgeoisie were taken up by an apparently anti-bourgeois party by means of its assumption of political power. Under these conditions, the revolutionary content of Western marxism was not applicable, not even in a modified form. This may explain the vacuity of Rosa Luxemburg’s arguments against the Bolsheviks, her complaints about their disrespect for the Constituent Assembly and their terroristic acts against all opposition whether from the right or the left. Her own suggestions as how to go about with the building of socialism, however correct and praiseworthy, would not fit in with a Constituent Assembly, which is itself a bourgeois institution. Her tolerance towards all points of view and their wishes to express themselves in order to influence the course of events, cannot be realized under civil-war conditions. The construction of socialism cannot be left to a leisurely trial-and-error method by which the future may be discerned in the ‘mists’ of the present, but is dictated by current necessities that call for definite actions.

Rosa Luxemburg’s lack of realism with regard to Bolshevism and the Russian Revolution may be traced to ambiguities of her own. On the one hand she was a social democrat and on the other a revolutionary, at a time when both positions had fallen apart. She looked upon Russia with social-democratic eyes and upon Social Democracy with revolutionary eyes; what she desired was a revolutionary-Social Democracy. Already in her famous debate with Eduard Bernstein, she refused to choose between reform and revolution but endeavored to combine both activities in dialectical fashion in one and the same policy. In her view, it was possible to wage the class struggle in both the parliament and in the streets, not only through the party and the trade-unions but with the unorganized as well. The legal foothold gained within bourgeois democracy was to be secured by the direct actions of the masses in their everyday wage struggles. It was the masses’ actions, however, which were most important, as they increased the masses’ awareness of their class position and thereby their revolutionary consciousness. The direct struggle of the workers against the capitalists was the real ‘school of socialism.’ In the spreading of mass-strikes, in which the workers acted as a class, she saw the necessary precondition for the coming revolution, which would topple the bourgeoisie and install governments supported and controlled by the mature class – conscious proletariat.”

13 Ibid., p. 72
Until the outbreak of the first world war, Rosa Luxemburg did not fully comprehend the true nature of Social Democracy. There was a right wing, a center, and a left wing, Liebknecht and Luxemburg representing the latter. There was an ideological struggle between these tendencies, tolerated by the party bureaucracy because it remained purely ideological. The practice of the party was reformist and opportunistic, untouched by the left-wing rhetoric, if not indirectly aided by it. But there was the illusion that the party could be changed and restored to the revolutionary character of its origins. Suggestions to split the party were rejected by Rosa Luxemburg, who feared to lose contact with the bulk of the socialist workers. Her confidence in these workers was not affected by her lack of confidence in their leaders. She was thus more than surprised that the social-chauvinism displayed in 1914 united leaders and led against the party’s left. Even so, she was not ready to leave the party until its split in 1917 on the issue of war aims, which led to the formation of the Independent Socialist Party (USPD), in which the Spartacus League, composed of a circle of people around Liebknecht, Luxemburg, Mehring, and Jogiches, formed a small faction. In so far as this faction engaged in independent activities, these were a matter of propaganda against the war and the class-collaborationist policies of the old party. Only near the end of 1918 did Rosa Luxemburg recognize the need for a new revolutionary party and a new International.

The German Revolution of 1918 was not the product of any left-wing organization, though members of all organizations played various parts in it. It was a strictly political upheaval to end the war and to remove the monarchy held responsible for it. It occurred as a consequence of the German military defeat and was not seriously opposed by the bourgeoisie and the military, for it allowed them to place the onus of the defeat upon the socialist movement. This revolution brought Social Democracy into the government, which then proceeded to ally itself with the military, in order to crush any attempt to turn the political into a social revolution. Still under the sway of tradition and the old reformist ideology, the majority of the spontaneously-arising workers’ and soldiers’ councils supported the social-democratic government and declared their readiness to abdicate in favor of a National Assembly within the frame of bourgeois democracy. This revolution, it has been aptly said, “was a Social Democratic revolution, suppressed by the Social Democratic leaders: a process hardly paralleled in the history of the world.”16 There was also a revolutionary minority, to be sure, advocating and fighting for the formation of a social system of workers’ councils as a permanent institution; but this was soon systematically subdued by the military forces arrayed against it. To organize this revolutionary minority for sustained actions, the Spartacus League, in collaboration with other revolutionary groups, transformed itself into the Communist Party of Germany. Its program was written by Rosa Luxemburg.

Already at its founding congress, it became clear that the new party was internally split. Even at this late hour Rosa Luxemburg was not able to break totally with social-democratic traditions. Although she declared that the time for a minimum program short of socialism had passed, she still adhered to the politics of the double perspective, that is, to the view that the uncertainty of an early proletarian revolution demanded the consideration of policies defined within the given, social institutions and organizations. In practice this meant participation in the National Assembly and in trade unions. However, the majority of the congress voted in favor of anti-parliamentarism and for a struggle against the trade unions. Although reluctantly, Rosa Luxemburg bowed to this decision and wrote and acted in its spirit. As she was murdered only two weeks later, it is not possible to say whether or not she would have stuck to this position. In any case,

encouraged by Lenin, via his eminary Radek, her disciples soon split the new party and merged its parliamentary section with a part of the Independent Socialists to form a “truly Bolshevik Party;” this time, however, as a mass-organization in the social-democratic sense, competing with the old Social Democratic Party for the allegiance of the workers, in order to forge an instrument for the defense of Bolshevik Russia.

But all this is history. The failed revolutions in Central Europe, and the state-capitalistic development in Russia, overcame the political crisis of capitalism that followed the first world war. Its economic difficulties were not so overcome, and led-to a now world-wide crisis and the second world war. Because the ruling classes – old and now – remembered the revolutionary repercussions in the wake of the first world war, they defeated their possible recurrence in advance by the direct means of military occupation. The enormous destruction of capital and its further centralization by way of war, as well as the raising of the productivity of labor, allowed for a great upswing of capital production after the second war. This implied an almost total eclipse of revolutionary aspirations, save those of a strictly nationalist and state-capitalist character.

This effect was strengthened by the development of the ‘mixed economy,’ nationally as well as internationally, wherein governments influenced economic activities. Like all things of the past, Marxism became an academic discipline – an indication of its decline as a theory of social change. Social Democracy ceased to see itself as a working class organization, but rather as a people’s party, ready to fulfill governmental functions for capitalist society. Communist organizations took over the classic role of Social Democracy – and also its readiness to form, or to partake in, governments upholding the capitalist system. The labor movement-divided into Bolshevism and Social Democracy, which had been Rosa Luxemburg’s concern – ceased to exist.

Still, capitalism remains susceptible to crises and collapse. In view of present methods of destruction, it may destroy itself in another conflagration. But it may also be overcome by way of class struggles leading to its socialist transformation. The alternative enunciated by Rosa Luxemburg – socialism or barbarism – retains its validity. The current state of the labor movement, which lacks any revolutionary inclinations, makes it clear that a socialist future depends more on spontaneous actions of the working class as a whole, than on ideological anticipations of such a future which may find expression in newly-arising revolutionary organizations. In this situation, there is not much to be learned from previous experiences, except the negative lesson that neither Social Democracy nor Bolshevism had any bearing on the problems of the proletarian revolution. By opposing both, however, inconsistently, Rosa Luxemburg opened up another road towards the socialist revolution. Despite some false notions, with respect to theory and some illusions regarding socialist practice, her revolutionary impulse yielded the essential elements required for a socialist revolution: an unwavering internationalism and the principle of the self-determination of the working class within its organizations and within society. By taking seriously the dictum that the emancipation of the proletariat can only be its, own work, she bridged the revolutionary past with the revolutionary future. Her ideas thus remain as alive as the idea of revolution itself, while all her adversaries in the old labor movement have become part and parcel of the decaying capitalist society.

Marxism: Yesterday, Today, and Tomorrow
1978

In Marx’s conception, changes in people’s social and material conditions will alter their consciousness. This also holds for Marxism and its historical development. Marxism began as a theory of class struggle based on the specific social relations of capitalist production. But while its analysis of the social contradictions inherent in capitalist production has reference to the general trend of capitalist development, the class struggle is a day-to-day affair and adjusts itself to changing social conditions. These adjustments find their reflection in Marxian ideology. The history of capitalism is thus also the history of Marxism.

The labor movement preceded Marxian theory and provided the actual basis for its development. Marxism became the dominating theory of the socialist movement because it was able convincingly to reveal the exploitative structure of capitalist society and simultaneously to uncover the historical limitations of this particular mode of production. The secret of capitalism’s vast development — that is, the constantly increasing exploitation of labor power — was also the secret of the various difficulties that pointed to its eventual demise. Marx’s Capital, employing the methods of scientific analysis, was able to proffer a theory that synthesized the class struggle and the general contradictions of capitalist production.

Marx’s critique of political economy was necessarily as abstract as political economy itself. It could deal only with the general trend of capitalist development, not with its manifold concrete manifestations at any particular time. Because the accumulation of capital is at once the cause of the system’s unfolding and the reason for its decline, capitalist production proceeds as a cyclical process of expansion and contraction. These two situations imply different social conditions and therefore different reactions on the part of both labor and capital. To be sure, the general trend of capitalist development implies the increasing difficulty of escaping a period of contraction by a further expansion of capital, and thus a tendency toward the system’s collapse. But it is not possible to say at what particular point of its development capital will disintegrate through the objective impossibility of continuing its accumulation process.

Capitalist production, implying the absence of any kind of conscious social regulation of production, finds some kind of blind regulation in the supply and demand mechanism of the market. The latter, in turn, adapts itself to the expansion requirements of capital as determined on the one hand by the changing exploitability of labor power and on the other hand by the alteration of the capital structure due to the accumulation of capital. The particular entities involved in this process are not empirically discernible, so that it is impossible to determine whether a particular crisis of capitalist production will be of longer or shorter duration, be more or less devastating as regards social conditions, or prove to be the final crisis of the capitalist system by provoking a revolutionary resolution through the action of an aroused working class.

In principle, any prolonged and deep-going crisis may release a revolutionary situation that may intensify the class struggle to the point of the overthrow of capitalism — provided, of course, that the objective conditions bring forth a subjective readiness to change the social relations of production. In the early Marxist movement, this was seen as a realistic possibility, due to the fact of a growing socialist movement and the extension of the class struggle within the capitalist system. The development of the latter was thought to be paralleled by the development of proletarian class consciousness, the rise of working-class organizations, and the spreading recognition that there was an alternative to capitalist society.
The theory and practice of the class struggle was seen as a unitary phenomenon, due to the self-expansion and the attendant self-limitation of capitalist development. It was thought that the increasing exploitation of labor and the progressive polarization of society into a small minority of exploiters and a vast mass of exploited would raise the workers’ class consciousness and thus their revolutionary inclination to destroy the capitalist system. Indeed, the social conditions of that time allowed for no other perspective, as the unfolding of industrial capitalism was accompanied by increasing misery of the laboring classes and a noticeable sharpening of the class struggle. Still, this was merely a perspective afforded by these conditions, which did not as yet reveal the possibility of another course of events.

Although interrupted by periods of crisis and depression, capitalism has been able to maintain itself until now by a continuous expansion of capital and its extension into space through the acceleration of the increase in the productivity of labor. It proved possible not only to regain a temporarily lost profitability, but to increase it sufficiently to continue the accumulation process as well as to improve the living standards of the great bulk of the laboring population. The successful expansion of capital and the amelioration of the conditions of the workers led to a spreading doubt regarding the validity of Marx’s abstract theory of capitalist development. Empirical reality in fact seemed to contradict Marx’s expectations with regard to capitalism’s future. Even where his theory was maintained, it was no longer associated with a practice ideologically aimed at the overthrow of capitalism. Revolutionary Marxism turned into an evolutionary theory, expressing the wish to transcend the capitalist system by way of constant reform of its political and economic institutions. Marxist revisionism, in both overt and covert form, led to a kind of synthesis of Marxism and bourgeois ideology, as a theoretical corollary to the practical integration of the labor movement into capitalist society.

Not too much should be made of this, however, for the organized labor movement has at all times comprised only the smaller portion of the laboring class. The great mass of workers acclimatizes itself to the ruling bourgeois ideology and — subject to the objective conditions of capitalism — constitutes a revolutionary class only potentially. It may become revolutionary by force of circumstances that overrule the limitations of its ideological awareness and thus offer its class-conscious part an opportunity to turn potentiality into actuality through its revolutionary example. This function of the class-conscious part of the working class was lost through its integration into the capitalist system. Marxism became an increasingly ambiguous doctrine, serving purposes different from those initially contemplated.

All this is history: specifically, the history of the Second International, which revealed that its apparently Marxist orientation was merely the false ideology of a nonrevolutionary practice. This had nothing to do with a “betrayal” of Marxism, but was the result of capitalism’s rapid ascendency and increasing power, which induced the labor movement to adapt itself to the changing conditions of capitalist production. As an overthrow of the system seemed impossible, the modifications of capitalism determined those of the labor movement. As a reform movement, the latter partook of the reforms of capitalism, based on the increasing productivity of labor and the competitive imperialistic expansion of the nationally organized capitals. The class struggle turned into class collaboration.

Under these changed conditions, Marxism, insofar as it was not altogether rejected or reinterpreted into its opposite, took on a purely ideological form that did not affect the pro-capitalist practice of the labor movement. As such, it could exist side by side with other ideologies competing for allegiance. It no longer represented the consciousness of a workers’ movement out to overthrow the existing society, but a world-view supposedly
based on the social science of political economy. With this it became a concern of the more critical elements of the middle class, allied with, but not part of, the working class. This was merely the concretization of the already accomplished division between the Marxian theory and the actual practice of the labor movement.

It is of course true that socialist ideas were first and mainly — though not only — propounded by members of the middle class who had been disturbed by the inhuman social conditions of early capitalism. It was these conditions, not the level of their intelligence, that turned their attention to social change and therewith to the working class. It is therefore not surprising that the capitalist improvements at the turn of the century should mellow their critical acumen, and this all the more as the working class itself had lost most of its oppositional fervor. Marxism became a preoccupation of intellectuals and took on an academic character. It was no longer predominantly approached as a movement of workers but as a scientific problem to be argued about. Yet the disputes around the various issues raised by Marxism served to maintain the illusion of the Marxian nature of the labor movement until it was dispelled by the realities of World War I.

This war, which represented a gigantic crisis of capitalist production, led to a short-lived revival of radicalism in the labor movement and in the working class at large. To this extent it heralded a return to Marxian theory and practice. But it was only in Russia that the social upheavals led to the overthrow of the backward, semifeudal capitalist regime. Nonetheless, this was the first time that a capitalist regime had been ended through the actions of its oppressed population and the determination of a Marxist movement. The dead Marxism of the Second International seemed due for replacement by the living Marxism of the Third International. And because it was the Bolshevik Party, under Lenin’s guidance, that turned the Russian into a social revolution, it was Lenin’s particular interpretation of Marxism that became the Marxism of the new and “highest” stage of capitalism. This Marxism has quite justly been amended into the “Marxism-Leninism” that has dominated the postwar world.

This is not the place to reiterate the history of the Third International and the type of Marxism it brought forth. This story is well documented in countless publications, which either place the blame for its collapse upon Stalin’s shoulders or trace it back to Lenin himself. The facts are that the concept of world revolution could not be realized and that the Russian Revolution remained a national revolution and therefore bound to the realities of its own socioeconomic conditions. In its isolation, it could not be adjudged a socialist revolution in the Marxian sense, for it lacked all the preconditions for a socialist transformation of society — that is, the dominance of the industrial proletariat, and a productive apparatus that, in the hands of the producers, could not only end exploitation but at the same time drive society beyond the confines of the capitalist system. As things were, Marxism could only provide the ideology supporting, even while contradicting, the reality of state-capitalism. In other words, as in the Second International, so also in its successor, subordinated as it was to the special interests of Bolshevik Russia, Marxism could only function as an ideology to cover up a nonrevolutionary and finally a counter-revolutionary practice.

In the absence of a revolutionary movement, the Great Depression, affecting the world at large, issued not into revolutionary upheavals but into fascism and World War II. This meant the total eclipse of Marxism. The aftermath of the new war initiated a fresh wave of capitalist expansion on an international scale. Not only did monopoly capital emerge strengthened from the conflict, there also arose new state-capitalistic systems by way of either national liberation or imperialistic conquest. This situation involved not a reemergence of revolutionary Marxism but a “cold war,” that is, the confrontation of
differently organized capitalist systems in a continuing struggle for spheres of interest and shares of exploitation. On the side of state capitalism, this confrontation was camouflaged as a Marxist movement against the capitalist monopolization of the world economy, while for its part, private-property capitalism was only too glad to identify its state-capitalist enemies as Marxists, or Communists, bent on destroying with the freedom to amass capital all the liberties of civilization. This attitude served to attach the label “Marxism” firmly to the state-capitalist ideology.

Thus the changes brought about by a series of depressions and wars led not to a confrontation between capitalism and socialism, but to a division of the world into more or less centrally controlled economic systems and to a widening of the gap between capitalistically developed and underdeveloped nations. It is true that this division is generally seen as one between capitalist, socialist, and “third world” countries, but this is a misleading simplification of rather more complex differentiations between these economic and political systems. “Socialism” is commonly understood as meaning a state-controlled economy within the national framework, in which planning replaces competition. Such a system is no longer capitalism in the traditional sense, but neither is it socialism in the Marxian sense of an association of free and equal producers. Functioning in a capitalist and therefore imperialist world, it cannot help partaking in the general competition for economic and political power and, like capitalism, must either expand or contract. It must grow stronger in every respect, in order to limit the expansion of monopoly capital by which it would otherwise be destroyed. The national form of so-called socialist or state-controlled regimes sets them in conflict not only with the traditional capitalist world, or particular capitalist nations, but also with each other; they must give first consideration to national interests, i.e., the interests of the newly emerging and privileged ruling strata whose existence and security are based on the nation-state. This leads to the spectacle of a “socialist” brand of imperialism and the threat of war between nominally socialist countries.

Such a situation was inconceivable in 1917. Leninism, or (in Stalin’s phrase) “the Marxism of the age of imperialism,” expected a world revolution on the model of the Russian Revolution. Just as in Russia different classes had combined to overthrow the autocracy, so also on an international scale nations at various stages of development might fight against the common enemy, imperialist monopoly capital. And just as in Russia it was the working class, under the leadership of the Bolshevik Party, that transformed the bourgeois into a proletarian revolution, so the Communist International would be the instrument to transform the anti-imperialist struggles into socialist revolutions. Under these conditions, it was conceivable that the less-developed nations might bypass an otherwise inevitable capitalist development and be integrated into an emerging socialist world. Based on the presupposition of successful socialist revolutions in the advanced nations, this theory could be proven neither right nor wrong, as the expected revolutions did not materialize.

What is of interest in this context are the revolutionary inclinations of the Bolshevik movement prior to and shortly after its assumption of power in Russia. Its revolution was made in the name of revolutionary Marxism, as the political-military overthrow of the capitalist system and the establishment of a dictatorship to assure the transformation to a classless society. However, even at this stage, and not only because of the particular conditions prevailing in Russia, the Leninist concept of socialist reconstruction deviated from the notions of early Marxism and was based instead on those evolved within the Second International. For the latter, socialism was conceived as the automatic outgrowth of capitalist development itself. The concentration and centralization of capital implied the progressive elimination of capitalist competition and
therewith of its private-property nature, until socialist government, emerging from the democratic parliamentary process, would transform monopoly capital into the monopoly of the state and thus initiate socialism by governmental decree. Although to Lenin and the Bolsheviks this seemed an unrealizable utopia as well as a foul excuse for abstaining from any kind of revolutionary activity, they too thought of the institution of socialism as a governmental concern, though to be carried out by way of revolution. They differed with the Social Democrats with regard to the means to reach an otherwise common goal—nationalization of capital by the state and centralized planning of the economy.

Lenin also agreed with Karl Kautsky’s philistine and arrogant assertion that the working class by itself is unable to evolve a revolutionary consciousness, which has to be brought to it from the outside by the middle-class intelligentsia. The organizational form of this idea was the revolutionary party as the vanguard of the workers and as the necessary presupposition for a successful revolution. If, in this view, the working class is incapable of making its own revolution, it will be even less able to build up the new society, an undertaking reserved for the leading party as the possessor of the state apparatus. The dictatorship of the proletariat thus appears as that of the party organized as the state. And because the state has to have control over the whole society, it must also control the actions of the working class, even though this control is supposed to be exercised in its favor. In practice, this turned out to be the totalitarian rule of the Bolshevik government.

The nationalization of the means of production and the authoritarian rule of government certainly differentiated the Bolshevik system from that of Western capitalism. But this did not alter the social relations of production, which in both systems are based on the divorce of the workers from the means of production and the monopolization of political power in the hands of the state. It was no longer private capital but state-controlled capital that now opposed the working class and perpetuated the wage-labor form of productive activity, while allowing for the appropriation of surplus labor through the agency of the state. Though the system expropriated private capital, it did not abolish the capital-labor relationship upon which modern class rule rests. It was thus merely a question of time before the emergence of a new ruling class, whose privileges would depend precisely on the maintenance and reproduction of the state-controlled system of production and distribution as the only “realistic” form of Marxian socialism.

Marxism, however, as the critique of political economy and as the struggle for a nonexploitative classless society, has meaning only within the capitalist relations of production. An end of capitalism would imply the end of Marxism as well. For a socialist society, Marxism would be a fact of history like everything else in the past. Already the description of “socialism” as a Marxist system denies the self-proclaimed socialist nature of the state-capitalist system. Marxist ideology functions here as no more than an attempt to justify the new class relations as necessary requirements for the construction of socialism and thus to gain the acquiescence of the laboring classes. As in the capitalism of old, the special interests of the ruling class are made to appear as general interests.

But even so, in the beginning Marxism-Leninism was a revolutionary doctrine, for it was deadly serious about realizing its own concept of socialism by direct, practical means. While this concept implied no more than the formation of a state-capitalist system, this was the way in which, at the turn of the century, socialism had been quite generally understood. It is therefore not possible to speak of a Bolshevik “betrayal” of the prevailing Marxist principles; on the contrary, it realized the state-capitalist transformation of private-property capitalism, which had been the declared goal also of Marxist revisionists and reformists. The latter, however, had lost all interest in acting
upon their apparent beliefs and preferred to accommodate themselves to the capitalist status quo. What the Bolsheviks did was to actualize the program of the Second International by way of revolution.

Once they were in power, however, the state-capitalist structure of Bolshevik Russia determined its further development, now generally described with the pejorative term “Stalinism.” That it took on this particular character was explained by reference to the general backwardness of Russia and by her capitalist encirclement, which demanded the utmost centralization of power and inhuman sacrifices on the part of the working population. Under different conditions, such as prevailed in capitalistically more advanced nations and under politically more favorable international relations, it was said, Bolshevism would not require the particular harshness it had to exercise in the first socialist country. Those less favorably inclined toward this first experiment in socialism asserted that the party dictatorship was merely an expression of the still “half-Asiatic” nature of Bolshevism and could not be duplicated in the more advanced Western nations. The Russian example was utilized to justify reformist policies as the only way to improve the conditions of the working class in the West.

Soon, however, the fascist dictatorships in Western Europe demonstrated that one-party control of the state was not restricted to the Russian scene but was applicable in any capitalist system. It could be utilized just as well for the maintenance of existing social relations of production as for their transformation into state-capitalism. Of course, fascism and Bolshevism continued to differ with respect to economic structure, even as they became politically indistinguishable. But the concentration of political control in the totalitarian capitalist nations implied the central coordination of economic activity for the specific ends of fascist policies and therewith a closer approximation to the Russian system. For fascism this was not a goal but temporary measure, analogous to the “war socialism” of World War I. Nonetheless, it was a first indication that Western capitalism was not immune to state-capitalist tendencies.

With the hoped-for but rather unexpected consolidation of the Bolshevik regime and the relatively undisturbed coexistence of the opposing social systems until World War II, Russian interests required the Marxist ideology not only for internal but also for external purposes, to assure the support of the international labor movement in the defense of Russia’s national existence. This involved only a part of the labor movement, to be sure, but that part could disrupt the anti-Bolshevik front, which now included the old socialist parties and the reformist trade unions. As these organizations had already jettisoned their Marxian heritage, the supposed Marxian orthodoxy of Bolshevism became practically the whole of Marxist theory as a counter-ideology to all forms of anti-Bolshevism and all attempts to weaken or destroy the Russian state. Simultaneously, however, attempts were made to secure the state of coexistence through various concessions to the capitalist adversary and to demonstrate the mutual advantages that could be gained through international trade and other means of collaboration. This two-faced policy served the single end of preserving the Bolshevik state and securing the national interests of Russia.

In this manner, Marxism was reduced to an ideological weapon exclusively serving the defensive needs of a particular state and a single country. No longer encompassing international revolutionary aspirations, it utilized the Communist International as a limited policy instrument for the special interests of Bolshevik Russia. But these interests now included, in increasing measure, the maintenance of the international status quo in order to secure that of the Russian system. If at first it had been the failure of world revolution that induced Russia’s policy of entrenchment, it was now the stability of world capitalism that became a condition of Russian security, and which the Stalinist regime
endeavored to enhance. The spread of fascism and the high probability of new attempts to find imperialist solutions to the world crisis endangered not only the state of coexistence but also Russia’s internal conditions, which demanded some degree of international tranquility. Marxist propaganda ceased to concern itself with problems of capitalism and socialism but, in the form of anti-fascism, directed itself against a particular political form of capitalism that threatened to unleash a new world war. This implied, of course, the acceptance of anti-fascist capitalist powers as potential allies and thus the defense of bourgeois democracy against attacks from either the right or the left, as exemplified during the civil war in Spain.

Even prior to this historical juncture, Marxism-Leninism had assumed the same purely ideological function that characterized the Marxism of the Second International. It was no longer associated with a political practice whose final aim was the overthrow of capitalism, if only to bring about state-capitalism masquerading as socialism, but was now content with its existence within the capitalist system in the same sense in which the Social Democratic movement accepted the given conditions of society as inviolable. The sharing of power on an international scale presupposed the same on the national level, and Marxism-Leninism outside of Russia turned into a strictly reformist movement. Thus only the fascists were left as forces actually aspiring to complete control over the state. No serious attempt was made to forestall their rise to power. The labor movement, including its Bolshevik wing, relied exclusively upon traditional democratic processes to meet the fascist threat. This meant its total passivity and progressive demoralization and assured the victory of fascism as the only dynamic force operating within the world crisis.

It was of course not only Russia’s political control of the international communist movement, via the Third International, that explains its capitulation to fascism, but also the movement’s bureaucratization, which concentrated all decision-making power in the hands of professional politicians who did not share the social conditions of the impoverished proletariat. This bureaucracy found itself in the “ideal” position of being able to express its verbal opposition to the system and yet, at the same time, to partake of the privileges that the bourgeoisie bestows upon its political ideologists. They had no driving reason to oppose the general policies of the Communist International, which coincided with their own immediate needs as recognized leaders of the working class in a bourgeois democracy. Finally, however, it is the general apathy of the workers themselves, their unreadiness to look for their own independent solution of the social question, that explains this state of affairs together with its fascist outcome. A half-century of Marxist reformism under the leadership principle, and its accentuation in Marxism-Leninism, produced a labor movement unable to act upon its own interests and therefore incapable of inspiring the working class as a whole to attempt to prevent fascism and war through a proletarian revolution.

As in 1914, internationalism, and with it Marxism, was again drowned in the surging sea of nationalism and imperialism. Policies found their basis in the exigencies of the shifting imperialist power constellations, which led first to the Hitler-Stalin pact and then to the anti-Hitler alliance between the USSR and the democratic powers. The end of even the purely verbal aspirations of Marxism found a belated symbolization in the liquidation of the Third International. The outcome of the war, preordained by its imperialist character, divided the world into two power blocs, which soon resumed competition for world control. The anti-fascist nature of the war implied the restoration of democratic regimes in the defeated nations and thus the reemergence of political parties, including those with a Marxist connotation. In the East, Russia restored her empire and added to it spheres of interest as so much war booty. The breakdown of colonial rule created the “third world” nations, which adopted either the Russian system or a mixed
economy of the Western type. A form of neocolonialism arose that subjected the “liberated” nations to more indirect but equally effective control by the great powers. But the spread of state-capitalist-oriented nations was commonly seen as the diffusion of Marxism over the globe, and the arrest of this tendency as a struggle against a Marxism that threatened the (undefined) freedoms of the capitalist world. This type of Marxism and anti-Marxism has no connection whatever with the struggle between labor and capital as envisioned by Marx and the early labor movement.

In its current form, Marxism has been more of a regional than an international movement, as may be surmised from its precarious hold in the Anglo-Saxon countries. The postwar revival of Marxist parties affected mainly nations that faced particular economic difficulties, such as France and Italy. The division and occupation of Germany precluded the reorganization of a mass communist party in the Western zone. The socialist parties finally repudiated their own past, still tinged with Marxist ideas, and turned themselves into bourgeois or “people’s” parties defending democratic capitalism. Communist parties do continue to exist throughout the world, legally or illegally, but their chances of affecting political events are more or less nil for the present and the foreseeable future. Marxism, as a revolutionary workers’ movement, finds itself today at its historically lowest ebb.

All the more astonishing is the unprecedented capitalist response to theoretical Marxism. This new interest in Marxism in general, and in “Marxist economics” in particular, pertains almost exclusively to the academic world, which is essentially the world of the middle class. There is an enormous outpouring of Marxian literature; “Marxology” has become a new profession, and there are Marxist branches of “radical” economics, history, philosophy, sociology, psychology, and so forth. All may prove to be no more than an intellectual fad. But even so this phenomenon bears witness to the present twilight state of capitalist society and its loss of confidence in its own future. Whereas in the past the progressive integration of the labor movement into the fabric of capitalism implied the accommodation of socialist theory to the realities of an unfolding capitalism, this process is now seemingly reversed through the many attempts to utilize the findings of Marxism for capitalist purposes. This two-pronged endeavor at reconciliation, at overcoming at least to some extent the antagonism between Marxist and bourgeois theory, reflects a crisis in both Marxism and bourgeois society.

Although Marxism encompasses society in all its aspects, it focuses upon the social relations of production as the foundation of the capitalist totality. In accordance with the materialist conception of history, it concentrates its interests on the economic and therefore the social conditions of capitalist development. Whereas the materialist conception of history has long since been quietly plagiarized by bourgeois social science, until quite recently its application to the capitalist system remained unexplored. It is the development of capitalism itself that has forced bourgeois economic theory to consider the dynamics of the capitalist system and thus to emulate, in some fashion, the Marxian theory of accumulation and its consequences.

Here we must recall that the shift of Marxism from a revolutionary to an evolutionary theory turned — with respect to theory — around the question as to whether or not Marx’s accumulation theory was also a theory of the objective necessity of capitalism’s collapse. The reformist wing of the labor movement asserted that there was no objective reason for the system’s decline and destruction, while the revolutionary minority wing held on to the conviction that capitalism’s immanent contradictions must lead to its inevitable end. Whether this conviction was based on contradictions in the sphere of production or in that of circulation, left-wing Marxism insisted upon the certainty of capitalism’s eventual collapse, expressed by ever more devastating crises,
which would bring forth a subjective readiness on the part of the proletariat to overthrow the system by revolutionary means.

The reformists’ denial of objective limits to capitalism turned their attention from the sphere of production to that of distribution, and so from the social relations of production to market relations, which are the sole concern of bourgeois economic theory. Disturbances of the system were now seen as arising from supply and demand relations, which unnecessarily caused periods of overproduction through a lack of effective demand due to unjustifiably low wages. The economic problem was reduced to the question of a more equitable distribution of the social product, which would overcome the social frictions within the system. For all practical purposes, it was now held, bourgeois economic theory was of greater relevance than Marx’s approach, and therefore Marxism should avail itself of the going market and price theory in order to be able to play a more effective role in the framing of social policies.

It was now said that there were economic laws that operated in all societies and were not subject to Marxian criticism. The critique of political economy had as its object merely the institutional forms under which the eternal economic laws assert themselves. Changing the system would not change the laws of economics. While there were differences between the bourgeois and the Marxian approach to the economy, there were also similarities which both had to recognize. The perpetuation of the capital-labor relation, i.e., the wage system, in the self-styled socialist societies, their accumulation of social capital, and their application of a so-called incentive system that divided the work force into various income categories — all these and more were now held to be unalterable necessities enforced by economic laws. These laws required the application of the analytical tools of bourgeois economics so as to allow for the rational consummation of a planned socialist economy.

This kind of Marxism, “enriched” by bourgeois theory, was soon to find its complement in the attempt to modernize bourgeois economic theory. This theory had been in crisis ever since the Great Depression in the wake of World War I. The theory of market equilibrium could neither explain nor justify the prolonged depression, and thus it lost its ideological value for the bourgeoisie. However, neoclassical theory found a sort of resurrection through its Keynesian modification. Although it had to be admitted that the hitherto assumed equilibrium mechanism of the market and price system was no longer operative, it was now asserted that it could be made to be so with a little governmental help. The disequilibrium of insufficient demand could be straightened out by government-induced production for “public consumption,” not only on the assumption of static conditions but also under conditions of economic growth when balanced by appropriate monetary and fiscal means. The market economy, assisted by government planning, would then overcome capitalism’s susceptibility to crisis and depression and would allow, in principle, for a steady growth of capitalist production.

The appeal to government and its conscious intervention in the economy, as well as the attention paid to the dynamics of the system, diminished the sharp opposition between the ideology of laissez-faire and that of the planned economies. This corresponded to a visible convergence of the two systems, one influencing the other, in a process leading perhaps to a combination of the favorable elements of both in a future synthesis able to overcome the difficulties of capitalist production. In fact, the long economic upswing after World War II seemed to substantiate these expectations. However, despite the continuing availability of governmental interventions, a new crisis has followed this period of capitalist expansion, as it always had in the past. The clever “fine-tuning” of the economy and the “trade-off” between inflation and unemployment did not prevent a new economic decline. The crisis and the means designed to cope with it have proved to be
equally detrimental to capital. The current crisis is thus accompanied by the bankruptcy of neo-Keynesianism, just as the Great Depression spelled the end of neoclassical theory. Apart from the fact that the actual crisis conditions brought the dilemma of bourgeois economic theory to a head, its longstanding impoverishment through its increasing formalization raised many doubts in the heads of academic economists. The current questioning of almost all the assumptions of neoclassical theory and its Keynesian offspring has led some economists — most forcefully represented by the so-called neo-Ricardians — to a half-hearted return to classical economics. Marx himself is looked upon as a Ricardian economist and as such finds increasing favor among bourgeois economists intent on integrating his “pioneer work” into their own specialty, the science of economics.

Marxism, however, signifies neither more nor less than the destruction of capitalism. Even as a scientific discipline it offers nothing to the bourgeoisie. And yet, as an alternative to the discredited bourgeois social theory, it may serve the latter by providing it with some ideas useful for its rejuvenation. After all, one learns from the opposition. Moreover, in its apparently “realized” form in the “socialist countries,” Marxism points to practical solutions that may also be useful in the mixed economies, such as a further increase of stabilizing governmental regulations. An income and wage policy, for instance, comes quite close to the analogous arrangements in centrally controlled economic systems. Finally, in view of the absence of revolutionary movements, the academic type of Marxian inquiry is risk-free, inasmuch as it is restricted to the world of ideas. Strange as it may seem, it is the lack of such movements in a period of social turmoil that turns Marxism into a marketable commodity and a cultural phenomenon attesting to the tolerance and democratic fairness of bourgeois society.

The sudden popularity of Marxian theory nonetheless reflects an ideological as well as an economic crisis of capitalism. Above all it affects those responsible for the manufacture and distribution of ideologies — that is, middle-class intellectuals specializing in social theory. Their class as a whole may feel itself endangered by the course of capitalist development, with its visible social decay, and thus genuinely seek for alternatives to the social dilemma that is also their own. They may do so for motives that, however opportunistic, are necessarily bound up with a critical attitude toward the prevailing system. In this sense, the current “Marxian renaissance” may foreshadow a return of Marxism as a social movement of both theoretical and practical import.

Nonetheless, at present there is little evidence of a revolutionary reaction to the capitalist crisis. If one distinguishes between the “objective left” in society, that is, the proletariat as such, and the organized left, which is not strictly proletarian, then it is only in France and Italy that one can speak of organized forces that could conceivably challenge capitalist rule, provided they had such intentions. But the communist parties and trade unions of these countries have long since transformed themselves into purely reformist parties, at home within the capitalist system and ready to defend it. The very fact of their large working-class following indicates the workers’ own unreadiness, or unwillingness, to overthrow the capitalist system, and indeed their immediate desire to find accommodation within it. Their illusions concerning the reformability of capitalism support the political opportunism of the communist parties.

With the aid of the self-contradictory term “Eurocommunism,” these parties try to differentiate their present attitudes from past policies — that is, to make it clear that their traditional, albeit long forgotten, state-capitalist goal has been definitively given up in favor of the mixed economy and bourgeois democracy. This is the natural counterpart to the integration of the “socialist countries” into the capitalist world market. It is also a quest for the assumption of larger responsibilities within the capitalist countries and their
governments and a promise not to disrupt that limited degree of cooperation reached by the European powers. It does not imply a radical break with the state-capitalist part of the world, but merely the recognition that this part too is presently not interested in further extension of the state-capitalist system by revolutionary means, but rather in its own security in an increasingly unstable world.

While socialist revolutions at this stage of development are more than just doubtful, all working-class activities in defense of the workers’ own interests possess a potentially revolutionary character. In periods of relative economic stability the workers’ struggle itself hastens the accumulation of capital, by forcing the bourgeoisie to adopt more efficient ways to increase the productivity of labor. Wages and profits may, as mentioned, rise together without disturbing the expansion of capital. A depression, however, brings the simultaneous (though unequal) rise of profits and wages to an end. The profitability of capital must be restored before the accumulation process can be resumed. The struggle between labor and capital now involves the system’s very existence, bound up as it is with its continuous expansion. Objectively, ordinary economic struggles for higher wages take on revolutionary implications, and thus political forms, as one class can succeed only at the expense of the other.

Of course, the workers might be prepared to accept, within limits, a decreasing share of the social product, if only to avoid the miseries of drawn-out confrontations with the bourgeoisie and its state. Because of previous experiences, the ruling class expects revolutionary activities and has armed itself accordingly. But the political support of the large labor organizations is equally necessary to prevent large-scale social upheavals. As a prolonged depression threatens the capitalist system, it is essential for the communist parties as well as other reformist organizations to help the bourgeoisie to overcome its crisis conditions. They must try to prevent working-class activities that might delay a capitalist recovery. Their opportunistic policies take on an openly counter-revolutionary character as soon as the system finds itself endangered by working-class demands that cannot be satisfied within a crisis-ridden capitalism.

Although the mixed economies will not transform themselves into state-capitalist systems on their own accord, and though the left-wing parties have, for the time being, discarded their state-capitalist goals, this may not prevent social upheavals on a scale large enough to override the political controls of both the bourgeoisie and their allies in the labor movement. If such a situation should occur, the current identification of socialism with state-capitalism, and a forced readedication of communist parties to the early tactics of Bolshevism, could very well sidetrack any spontaneous rising of the workers into state-capitalist channels. Just as the traditions of Social Democracy in the Central European countries prevented the political revolutions of 1918 from becoming social revolutions, so the traditions of Leninism may prevent the realization of socialism in favor of state capitalism.

The introduction of state capitalism in capitalistically advanced countries as a result of World War II demonstrates that this system is not restricted to capitalistically undeveloped nations but maybe applicable universally. Such a possibility was not envisioned by Marx. For him, capitalism would be replaced by socialism, not by a hybrid system containing elements of both within capitalist relations of production. The end of the competitive market economy is not necessarily the end of capitalist exploitation, which can also be realized within the state-planning system. This is a historically novel situation indicating the possibility of a development characterized generally by state monopoly over the means of production, not as a period of transition to socialism but as a new form of capitalist production.
Revolutionary actions presuppose a general disruption of society that escapes the control of the ruling class. Thus far such actions have occurred only in connection with social catastrophes, such as lost wars and the associated economic dislocations. This does not mean that such situations are an absolute precondition for revolution, but it points to the extent of social disintegration necessary to lead to social upheavals. Revolution must involve the rebellion of a majority of the active population, something that is not brought about by ideological indoctrination but is the result of sheer necessity. The resulting activities produce their own revolutionary consciousness, namely an understanding of what has to be done so as not to be destroyed by the capitalist enemy. But at present, the political and military power of the bourgeoisie is not threatened by internal dissension and the mechanisms for manipulatory economic actions are not as yet exhausted. And despite increasing international competition for the shrinking profits of the world economy, the ruling classes of the various nations will still support one another in the suppression of revolutionary movements.

The enormous difficulties in the way of social revolution and a communist reconstruction of society were frightfully underestimated by the early Marxist movement. Of course, capitalism’s resiliency and adaptability to changing conditions could not be discovered short of trying to put an end to it. It should be clear by now, however, that the forms taken by the class struggle during the rise of capitalism are not adequate for its period of decline, which alone allows for its revolutionary overthrow. The existence of state-capitalist systems also demonstrates that socialism cannot be reached by means deemed sufficient in the past. Yet this proves not the failure of Marxism but merely the illusory character of many of its manifestations, as reflexes of illusions created by the development of capitalism itself.

Now as before, the Marxian analysis of capitalist production and its peculiar and contradictory evolution by way of accumulation is the only theory that has been empirically confirmed by capitalist development. To speak of the latter we must speak in Marxian terms or not at all. This is why Marxism cannot die but will last as long as capitalism exists. Although largely modified, the contradictions of capitalist production persist in the state-capitalist systems. As all economic relations are social relations, the continuing class relations in these systems imply the constancy of the class struggle, even if, at first, only in the one-sided form of authoritarian rule. The unavoidable and growing integration of the world economy affects all nations regardless of their particular socioeconomic structure and tends to internationalize the class struggle and thereby to undermine attempts to find national solutions for social problems. So long, then, as class exploitation prevails, it will bring forth a Marxist opposition, even if all Marxist theory should be suppressed or used as a false ideology in support of an anti-Marxian practice.

History, of course, has to be made by people, by way of the class struggle. The decline of capitalism — made visible on the one hand by the continual concentration of capital and centralization of political power, and on the other hand by the increasing anarchy of the system, despite, and because of, all attempts at more efficient social organization — may well be a long drawn-out affair. It will be so, unless cut short by revolutionary actions on the part of the working class and all those unable to secure their existence within the deteriorating social conditions. But at this point the future of Marxism remains extremely vague. The advantages of the ruling classes and their instruments of repression have to be matched by a power greater than that which the laboring classes have thus far been able to generate. It is not inconceivable that this situation will endure and thus condemn the proletariat to pay ever heavier penalties for its inability to act upon its own class interest. Further, it is not excluded that the perseverance of capitalism will lead to the destruction of society itself. Because
capitalism remains susceptible to catastrophic crises, nations will tend, as they have in the past, to resort to war, to extricate themselves from difficulties at the expense of other capitalist powers. This tendency includes the possibility of nuclear war, and as matters stand today, war seems even more likely than an international socialist revolution. Although the ruling classes are fully aware of the consequences of nuclear warfare, they can only try to prevent it by mutual terror, that is, by the competitive expansion of the nuclear arsenal. As they have only very limited control over their economics, they also have no real control over their political affairs, and whatever intentions they may harbor to avoid mutual destruction do not greatly affect the probability of its occurrence. It is this terrible situation that precludes the confidence of an earlier period in the certainty and success of socialist revolution.

As the future remains open, even if determined by the past and the immediately given conditions, Marxists must proceed on the assumption that the road to socialism is not yet closed and that there is still a chance to overcome capitalism prior to its self-destruction. Socialism now appears not only as the goal of the revolutionary labor movement but as the only alternative to the partial or total destruction of the world. This requires, of course, the emergence of socialist movements that recognize the capitalist relations of production as the source of increasing social miseries and the threatening descent into a state of barbarism. However, after more than a hundred years of socialist agitation, this seems to be a forlorn hope. What one generation learns, another forgets, driven by forces beyond its control and therefore comprehension. The contradictions of capitalism, as a system of private interests determined by social necessities, are reflected not only in the capitalist mind but also in the consciousness of the proletariat. Both classes react to the results of their own activities as if they were due to unalterable natural laws. Subjected to the fetishism of commodity production they perceive the historically limited capitalist mode of production as an everlasting condition to which each and everyone has to adjust. Since this erroneous perception secures the exploitation of labor by capital, it is of course fostered by the capitalist as the ideology of bourgeois society and indoctrinated into the proletariat.

The capitalist conditions of social production force the working class to accept its exploitation as the only way to secure its livelihood. The immediate needs of the worker can only be satisfied by submitting to these conditions and their reflection in the ruling ideology. Generally, he will accept one with the other, as representative of the real world, which cannot be defied except by suicide. An escape from bourgeois ideology will not alter his actual position in society and is at best a luxury within the conditions of his dependence. No matter how much he may emancipate himself ideologically, for all practical purposes he must proceed as if he were still under the sway of bourgeois ideology. His thoughts and actions are of necessity discrepant. He may realize that his individual needs can only be assured by collective class actions, but he will still be forced to attend to his immediate needs as an individual. The twofold nature of capitalism as social production for private gain reappears in the ambiguity of the worker’s position as both an individual and a member of a social class.

It is this situation, rather than some conditioned inability to transcend capitalist ideology, that makes the workers reluctant to express and to act upon their anti-capitalist attitudes, which complement their social position as wage workers. They are fully aware of their class status, even when they ignore or deny it, but they also recognize the enormous powers arrayed against them, which threaten their destruction should they dare to challenge the capitalist class relations. It is for this reason too that they choose a reformist rather than revolutionary mode of action when they attempt to wring concessions from the bourgeoisie. Their lack of revolutionary consciousness expresses no
more than the actual social power relations, which indeed cannot be changed at will. A cautious “realism” — that is, a recognition of the limited range of activities open to them — determines their thoughts and actions and finds its justification in the power of capital.

Unless accompanied by revolutionary action on the part of the working class, Marxism, as the theoretical comprehension of capitalism, remains just that. It is not the theory of an actual social practice, intent and able to change the world, but functions as an ideology in anticipation of such a practice. Its interpretation of reality, however correct, does not affect the immediately given conditions to any important extent. It merely describes the actual conditions in which the proletariat finds itself, leaving their change to the future actions of the workers themselves. But the very conditions in which the workers find themselves subject them to the rule of capital and to an impotent, namely ideological, opposition at best. Their class struggle within ascending capitalism strengthens their adversary and weakens their own oppositional inclinations. Revolutionary Marxism is thus not a theory of class struggle as such, but a theory of class struggle under the specific conditions of capitalism’s decline. It cannot operate effectively under “normal” conditions of capitalist production but has to await their breakdown. Only when the cautious “realism” of the workers turns into unrealism, and reformism into utopianism — that is, when the bourgeoisie is no longer able to maintain itself except through the continuous worsening of the living conditions of the proletariat may spontaneous rebellions issue into revolutionary actions powerful enough to overthrow the capitalist regime.

Until now the history of revolutionary Marxism has been the history of its defeats, which include the apparent successes that culminated in the emergence of state-capitalist systems. It is clear that early Marxism not only underestimated the resiliency of capitalism, but in doing so also overestimated the power of Marxian ideology to affect the consciousness of the proletariat. The process of historical change, even if speeded up by the dynamics of capitalism, is exceedingly slow, particularly when measured against the lifespan of an individual. But the history of failure is also one of illusions shed and experience gained, if not for the individual, at least for the class. There is no reason to assume that the proletariat cannot learn from experience. Quite apart from such considerations, it will at any rate be forced by circumstances to find a way to secure its existence outside of capitalism, when this is no longer possible within it. Although the particularities of such a situation cannot be established in advance, one thing is clear: namely, that the liberation of the working class from capitalist domination can only be achieved through the workers’ own initiative, and that socialism can be realized only through the abolition of class society through the ending of the capitalist relations of production. The realization of this goal will be at once the verification of Marxian theory and the end of Marxism.

**Reform or Revolution**


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1. Introduction

On the basis of its assumptions, Marx’s model of capitalist production could only end in the collapse of the capitalist system. However, this collapse was not conceived of as the automatic outcome of economic processes, independent of human actions, but as the result of the proletarian class struggle:

Along with the constantly diminishing number of magnates of capital grows the mass of misery, oppression, slavery, degradation, exploitation; but with this too grows the revolt of the working class, a class always increasing in numbers, and disciplined, united, organized by the very mechanism of the process of capitalist production itself. The monopoly of capital becomes a fetter upon the mode of production, which has sprung up and flourished along with it, and under it. Centralization of the means of production and socialization of labor at last reach a point where they are incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated. (1)

The history of the labor movement, which from a bourgeois point of view has no connection with the foregoing economic analysis, is from a Marxian point of view of the utmost importance and the very reason for concern with the problems of political economy. This holds with respect to wide-ranging issues of historical materialism, as well as to the narrower question of capitalism’s destiny. For Marx, social history is the history of class struggles, determined by the class-related contradictions characterizing any particular social formation. The general development of the social “forces of production brings forth particular social relations of production, and the combination of these determines the ruling ideology as the consciousness of a given mode of production. Material social forces determine ideational development, a fact that is rather obvious and even trivial after it has been recognized and formulated. Class relations and exploitation are as old as known history. But they have different forms depending on the mode in which surplus labor is extracted by a ruling class. This in turn depends on the state of the productive powers available at any particular time. Because a given mode of production is most advantageous for an established ruling class, it will be defended by this class against any alteration that might diminish its power and its control over the social product. By the same token, however, it will hinder the further development of the social powers of production and set itself in opposition to emerging social needs that require changes in the mode of production, and to innovations arising within the process of production itself. The continuous reproduction process always changes any particular process of production, but to varying degrees. The changes may be so slow as to be almost imperceptible, which accounts for the static conditions that prevailed in some social formations for long periods of time. But even these societies had a history simply through the alterations, however limited, in the production processes.

Radical or revolutionary changes in modes of production presuppose the rise of new classes within the existing social relations, for history, however determined by objective necessities, has to be actualized through people’s subjective determination to alter the existing social relationships. This determination will express itself in a new ideology, but both are the results of the changes that have taken place within the existing social relations of production.

Marx summed up this materialist conception of history, which served as a “leading thread” in his economic studies, as follows:

In the social production which men carry on they enter into definite relations that are indispensable and independent of their will; these relations correspond to a definite stage of development of their material powers of production. The sum total of these
relations of production constitutes the economic structure of society – the real foundation, on which rise legal and political superstructures and to which correspond definite forms of social consciousness. The mode of production in material life determines the general character of the social, political and spiritual processes of life. It is not the consciousness of men that determines their existence, but, on the contrary, their social existence determines their consciousness. At a certain stage of their development, the material forces of production in society come in conflict with the existing relations of production, or – what is but a legal expression of the same thing – with the property relations within which they had been at work before. From forms of development of the forces of production these relations turn into their fetters. Then comes a period of social revolution.

If this situation may be described as one wherein the “economic structure of society” determines its “legal and political superstructure” and its “definite forms of social consciousness,” in order to bring out the point made by historical materialism, this does not imply an actual separation of “structure” and “superstructure” with the latter explained by the former, but merely states the fact that the material production process is consciously undertaken and thus conceptualizes the identity of a given state of the social powers of production with its corresponding social production relations. It is in terms of this two-sided totality, at once material and ideational, that historically evolving social formations are differentiated.

Although it is possible mentally to break up the totality of the social production and reproduction process into its various manifestations in the political, legal, and ideational spheres of social practice, these aspects cannot be concretely isolated and weighted with respect to their importance within the social system as a whole. In other words, it is not possible to say that the political, legal, and ideational activities may, on their own accord, affect the economic processes and codetermine their development, for the superstructure is the expression of the socioeconomic structure. This may be grasped by analogy with the value-price relations in capitalism, where the value relations must express themselves in the different form of price. It is not that the superstructure merely reflects the economic base, but that this base is what it is by virtue of its specific superstructure.

Just as capitalist price relations are both distinguishable and undistinguishable from value relations, so the superstructure in any social formation is also separable and inseparable from the socioeconomic structure. If we speak of the one, we speak of the other, and in either case we speak of no more than the material production processes that allow society to exist. This implies, of course, that a fundamental change of society affects its “structure” and “superstructure” simultaneously, that is, that no socially significant political, legal, or ideational change can take place apart from changes in the relations of production and the state of the productive forces of society, and that basic changes only occur in the latter accompanied by corresponding alterations of the “superstructure.” It is therefore not possible to change a social system from the side of its “superstructure” alone – as for instance, by way of politically induced reforms – for such changes must always stop short at that point where they would jeopardize the existing social production relations. A change of the latter is only possible by way of revolution, which overthrows the “base” together with the “superstructure.”

However, due to the development of the social forces of production, a social formation represents not only itself but also another society in embryonic form. The gestation period of the new society varies in accordance with the degree of change, spontaneous or consciously induced, in the social reproduction process. In societies without such changes, the productive forces and social relations will remain stagnant. Such societies have no history, although they may display class relations of one sort or
another. Historical materialism concerns itself solely with developing societies. But changes in these societies are bound sooner or later to break down the stagnation of more static societies and alter their course.

Although incorporating technical innovations, the social forces of production are not reducible to technology. The transformation of the relatively static feudal-mercantilist economy into the dynamic capitalist system, for instance, was due not to technological changes but to the extension of a given technology over a wider field of application, by way of changes in the relations of production that opened the way for the vast development of the productive forces experienced in the Industrial Revolution.

The precapitalist era was based on agriculture, considered the only source of a surplus product making possible the nonproductive life of the land-owning ruling class. At least part of the total social product was a “gift of nature,” exceeding the results of the applied agricultural labor. This state of affairs found expression in the economic theories of the Physiocrats, who spoke of the “sterility” of all production outside of agriculture. In this theory, in contrast to mercantilist notions, a surplus arose in the sphere of production, not in that of circulation, or the exchange of commodities. Indeed, there was only a minimal exchange between agricultural products and those manufactured in the urban centers. The surplus was extracted from peasant labor, operating under conditions of self-sufficiency, which included the labor-producing agricultural implements; it was thus a clear case of expropriation, not of exchange relations. Whatever manufactures and handicrafts there were implied a technology exclusively and directly devoted to satisfying the needs and habits of the ruling class. There was also exploitation in the cities, in the sense that the city laborers produced not for themselves but for the ruling class, even though part of their products also served their own needs. But both their products and their surplus product were made possible by the agricultural surplus. Whatever technical development there was, was determined not by the accumulation of capital but by the needs and habits of the ruling class. If there was accumulation, it took not the abstract form of exchange value but that of use value.

With the means of production in the hands of the agricultural producers, the latter’s exploitation implied compulsory labor, which was also extended over the infrastructure as forced or corvée labor. Under these conditions, any improvement of the productivity of agricultural labor would merely increase the surplus product falling to the landowning class and its state apparatus. There was, then, no incentive for technical innovation on the part of the peasantry, but rather the desire to work as little as possible in order to reduce the degree of their exploitation. The resulting stagnation of agricultural production set a limit to technological development in general, as it was almost totally dependent on the agricultural surplus. To increase this surplus was the sole concern of both the ruling classes and the urban population, as a precondition for the satisfaction of wants and the betterment of their living standards. This was eventually accomplished through the incorporation of agriculture into the exchange relations within and between the urban centers, brought about through a further division of labor within the existing class relations. In order to make the agricultural surplus grow, it was necessary to deprive the peasant population of control over their means of production and so force them out of their self-sufficiency and into the competitive market economy.

This was a twofold accomplishment, effected from the side of agriculture and from that of the merchant class as mediators of the exchange process. It involved the extension of market relations and commodity production over all of social production and the gradual transformation of labor into wage labor. While the commercialization of agriculture in England and France occasioned the “enclosure” movement, which drove a great deal of the peasantry from the land or transformed them into agricultural wage
laborers, it also extended cottage industry, or the “putting out” system, from a supplementary to a main form of production. Provided by merchants with means of production and raw materials, peasants turned into wage laborers and merchants into capitalist entrepreneurs. Social relations became in increasing measure capital-labor relations and it was this fact that, by its generalization, expressed the growing social powers of production and the emergence of a new class accumulating surplus labor as surplus value and capital.

To cut a long and rather well-known story short, it may be said that with the increasing capitalization of agriculture, the way was open to bringing the whole of social production under the dominance of capital. Occupying a position between the landed aristocracy and the rural and urban proletariat, the middle class widened its field of operation with the extension of wage labor and the competitive pursuit of exchange value as an abstract and apparently limitless form of wealth, bound not to any specific form of property but to all forms in which surplus value materialized itself. New methods of production evolved to increase the profits on invested capital and technical innovations were searched for and introduced, not for the limited purpose of increasing the well-being and the luxuries of the ruling class, but in order to extract more surplus value out of all types of labor. While not in theory, at any rate in practice the capitalists were fully aware of the fact that a man’s labor “may mean either the personal act of working, or the effect which is produced by that act. In the first sense, it must be allowed that a man’s labor is properly his own ... but it does not follow...that the effect of his laboring... must likewise be properly his own.” (3)

With surplus value the goal of production and wage labor the only means of existence for a growing number of people, production accelerated in accordance with increasing exploitation. Of course, this social transformation was accompanied by all sorts of serious dislocations of the economy and its political system, affecting not only the working population but all of society. Industrial capital and its demand for profits grew at a relatively faster pace than capital based on agriculture, and set itself in opposition to the latter. Surplus value in the form of rent, thanks to the monopoly position of landed property, escaped the averaging process of profit rates and lowered the profits of industrial capital. The antagonism between the landed interests and those of the advancing bourgeoisie characterized the early stages of capitalist development and found expression in the aspirations of the bourgeoisie for political power and control of the state. This antagonism resolved itself in the bourgeois revolutions, which in one way or another turned feudal relations into the capitalist relations of production and production itself into the production of capital.

To be sure, this historical process did not manifest its nature as clearly as did its final outcome. Ideologies encompass the past as well as the future and refer not to special but to putative general interests. They can thus be isolated from the specific purposes and concerns they serve under particular conditions and class relations. It is by virtue of this that they are indispensable for the maintenance as well as for the overthrow of given social relations, precisely because they cut across otherwise unbridgeable class differences. While history is being made, the apparently indivisible unity of the mode of production and its political and ideational superstructure is rent apart and seems to reveal competing ideologies with independent powers. But in retrospect, once society has changed, everything comes together again to constitute a particular historical period, characterized by the productive forces released by it, the social production relations associated with them, and the apparently extraeconomic “superstructural” expressions of the material production process.
History is clearly the history of social changes of modes of production and class relations, which have led to capitalist society, the subject matter of Marx’s concerns and those of the class at whose expense it exists. There is therefore no longer any history for the bourgeoisie: the development of any new mode of production would imply its own demise as a ruling class. From the point of view of historical materialism, however, capitalism must be analyzed with respect to its specific class relations and their effect upon the development of capital production. Obviously, the emergence of these class relations allowed for an enormous increase of the social powers of production in the form of the accumulation of capital. If the latter is the life’s blood of capitalist society, it is here also that this system’s historical limitations will be found. If there are none, then of course the bourgeoisie is right and history has come to an end.

Marx’s theory of proletarian revolution is thus an integral part of his theory of capitalist accumulation. As capital expands, so does the working class. But while accumulation assures the rule and comfort of the capitalist class, this is due only to the constant increase in the exploitation of labor power, which may or may not be compensated for by improvements of the workers’ living standards. This depends on changing value relations, on whether or not the lower exchange value of labor power will be the value equivalent of a greater quantity of use values. According to Marx, to recall, the changing value structure of capital in the course of its accumulation diminishes the rate of profit, even with a rising rate of surplus value, because the mass of surplus value is reduced due to the decline of the variable relative to the constant capital, or, what is the same, to the decrease in the number of workers with respect to the total capital amassed. Of course, just as the lower exchange value of labor power may not contradict a rise of wages in use-value terms, so a rise in the organic composition of capital may be compensated for by an increase of productivity, overcoming the decline of surplus value in each commodity by a disproportionally greater quantity of commodities, so as to restore, or even surpass, the customary rate of profit on capital. This depends in turn on the possibility of a sufficiently high rate of accumulation of capital. This makes the rate of profit in Marx’s system indefinite and, aside from the specific assumptions made by Marx in expounding his theory, unpredictable, in a strictly empirical sense.

What will interest us here is not so much the economic development of capital as the expectations based on it with regard to the evolution of a revolutionary consciousness on the part of the working class. Like all true revolutionaries, and notwithstanding his scientific bent and materialistic outlook, Marx was a romantic in his thoughts, feeling, and attitudes. Although convinced that “no social order ever disappears before all the productive forces, for which there is room in it, have been developed; and new higher relations of production never appear before the material conditions of their existence have been matured in the womb of the old society,” he saw in the maturing proletariat the most important productive force straining against the capitalist relations of production. History, in Marx’s view, does nothing, but must be made by people, by way of class struggle. As an ardent student of the French Revolution, and an observer of, as well as participant in, the revolutionary upheavals of 1848 – during which the working class, even within the context of bourgeois aspirations, displayed itself as an independent anti-capitalist force-Marx saw capitalism’s future preordained with the proletarian revolution. It was of course not possible, and from Marx’s point of view also superfluous, to determine in advance when the capitalist relations of production would cease to further the development of the social forces of production and thus release the objective need for social change. All that was necessary for revolution was the presence of a force within the shell of capitalism representing new social relations in conflict with the capitalistically limited forces of production. In a developed capitalism, any prolonged and deep going
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crisis could lead to a revolutionary situation and to the overthrow of capitalism. By breaking the crisis cycle of capital production, the way would then be open for a further unhampered social development. In the early Marxist movement this was seen as a realistic possibility, due to the fact of a growing socialist movement and the spreading recognition that there was an alternative to capitalism.

Objective conditions, changing in the course of capitalist development, would bring forth a subjective readiness on the part of the working class to change the social relations of production. The theory and practice of a growing labor movement was seen as a unitary phenomenon, due to the self-expansion and at the same time the self-limitation of capitalist development. Marx’s Capital employing the methods of scientific analysis, was able to proffer a theory that synthesized the class struggle and the general contradictions of capitalism. The actual class struggle would – in time – turn class consciousness into revolutionary consciousness, and the fight over wages and working conditions would become a struggle for the abolition of the wage system, that is, for the ending of capitalism. Class consciousness was seen by the Marxists as one of the results of capital accumulation, emerging out of the master-slave relation in the direct production process, the disproportional increase of exploitation within the capital-labor exchange relations, the observably increasing misery of growing layers of the unemployed and the unemployable, the general wretchedness experienced during periods of depression, and the insecurity prevailing under all capitalist circumstances. On the positive side, there was the capitalistically enforced concentration of great numbers of workers in all industries, inducing the recognition that the laborer was a member of a social class and thus was able to proceed from individual to collective attempts to improve his working conditions. The results of the workers’ struggles were seen not only in the improvement of their living standards but also in the recognition of their growing strength in the contest between capital and labor, and in the attendant development of their self-confidence both as individuals and as members of a class. It was thought that out of this class itself and its constant confrontation with the bourgeoisie would arise not only a willingness to assert the workers’ temporary interests but also a growing conviction that social production could be carried on outside the capital-labor relation.

These expectations were to be disappointed. Although a growing number of workers became adherents of revolutionary ideas and organized themselves in socialist organizations, a greater number remained immune to socialist ideologies, even though they were prepared to fight for higher wages and better working conditions. The economic struggles found organization in the trade unions; but these organizations did not, as Marx had expected they would, become “schools for socialism,” but remained what they were at their outset, a mere phenomenon of the commodity character of labor power. Their concern was with the price of labor power within the capitalist market relations. What socialist ideas had been associated with trade unionism were gradually jettisoned as an unnecessary ballast, and even an embarrassment, hindering the ascent and endangering the legal status of those organizations.

Marx’s maxim that the consciousness of a time is that of its social and material production relations holds also for the working class. While the class struggle, as seen with socialist eyes, was supposed to change the consciousness of the laborers, and to some extent actually did so, this change was not in the direction of socialism as a practical goal. Although the class struggle implied awareness of the opposed interests of labor and capital, it did not challenge the capital-labor relation itself, but merely the degree of exploitation as measured by the wage-profit ratio. In order to be effective, the class struggle has to be organized, and the gains made in this struggle must be sustained by making the organizations permanent. The greater the number of organized workers
and the need for coordinated actions, the less was their own initiative in determining these activities. The decision-making powers became those of a centralized leadership in a hierarchical bureaucratic organizational structure that came to look upon itself as an instrument to secure its own special interests as a precondition for its activities in behalf of the working class. Of course, it was the workers themselves who built these organizations and delegated to them control over their own activities. The fact that they did not leave these organizations could only mean that their own demands coincided with those brought forward in their name by the leaders occupying the commanding posts in their organizations. Now, it is true that these leaders, in any case those in the socialist parties, professed to consider the fight for capitalistic reforms as a mere means to reach the revolutionary goals and not as an end in itself; but actually, the struggle for reforms was the only one possible, bringing with it types of organization that were only able to function within the given relations of production and were thus bound, by their very growth and successes, to turn into defenders of the capitalist system, as a precondition of their own existence.

They could have no conceivable function in a socialist society, and for that reason did not think in terms of revolutionary change, except rhetorically where this seemed opportune.

The supposed “dialectic” between reform and revolution—the everyday struggle for immediate demands changing into a struggle against the system itself—did not actually lead to a noticeable increase in revolutionary class consciousness, but merely issued into organizational forms of class struggle incapable of making the leap from reform to revolution. To the controlling ideology of bourgeois society was now added the controlling influence of nonrevolutionary organizations over the organized as well as unorganized parts of the working class in a two-sided effort to hold the class struggle within the confines of capitalist society.

Marx’s expectations as to the revolutionary effect of capital accumulation upon the consciousness of the working class turned out to be erroneous, at least in the ascending stage of capitalist development.

2. Capitalism and Socialism

Whereas Marx’s analysis of the social contradictions inherent in capitalism refers to the general trend of capitalistic development, the actual class struggle is a day-to-day affair and necessarily adjusts itself to changing social conditions. These adjustments are bound to find a reflection in Marxian theory. The history of capitalism is thus also the history of Marxism. Although interrupted by periods of crisis and depression, capitalism was able to maintain itself until now by the continuous expansion of capital and its extension into space through an accelerating increase of the productivity of labor. It proved possible not only to regain a temporarily lost profitability but to increase it sufficiently to continue the accumulation process as well as to improve the living standards of the great bulk of the laboring population. The economic class struggle within rising capitalism, far from endangering the latter, provided an additional capitalist incentive for hastening the expansion of capital through the application of technological innovations and the increase of labor efficiency by organizational means. While the organized labor movement grew and the conditions of the working class improved, this fact itself strengthened the capitalist adversary and weakened the oppositional inclinations of the proletariat. But without revolutionary working class actions, Marxism remains just the theoretical comprehension of capitalism. It is thus not the theory of an
actual social practice, able to change the world, but functions as an ideology in anticipation of such a practice. Its interpretation of reality, however correct, does not affect this reality to any important extent. It merely describes the conditions in which the proletariat finds itself, leaving their change to the indeterminate future. The very conditions in which the proletariat finds itself in an ascending capitalism subject it to the rule of capital and to an impotent, merely ideological opposition at best.

The successful expansion of capital and the amelioration of the conditions of the workers led to a spreading doubt regarding the validity of Marx’s abstract theory of capital development. Apart from recurring crisis situations, empirical reality seemed in fact to contradict Marx’s expectations. Even where his theory was upheld, it was no longer associated with a practice ideologically aimed at the overthrow of capitalism. Marxism turned into an evolutionary theory, expressing the wish to transcend the capitalist system by way of constant reforms favoring the working class. Marxian revisionism, in both covert and overt form, led to a kind of synthesis of Marxism and bourgeois ideology, as the theoretical corollary to the increasing practical integration of the labor movement into capitalist society.

As an organized mass movement within ascending capitalism, socialism could be “successful” only as a reformist movement. By adapting itself politically to the framework of bourgeois democracy and economically to that of the labor market, the socialist movement challenged neither the basic social production relations nor the political structures evolved by these relations. As regards its significance, furthermore, Marxism has been more of a regional than an international movement, as may be surmised from its precarious hold in the Anglo-Saxon countries. It was above all a movement of a continental Europe, even though it developed its theory by reflection on capitalistically more advanced England. While in the latter country capitalism was already the dominant mode of production, the bourgeoisie of continental Europe was still struggling to free itself from the remaining shackles of the feudal regime and to create national entities within which capitalist production could progress. The economic and political turmoil accompanying the formation of the various European national states involved the proletariat along with the bourgeoisie and created a political consciousness oriented toward social change. While opposing the entrenched reactionary forces of the past, the rising bourgeoisie also confronted the working class insofar as this class tried to reduce the degree of its exploitation. Despite this early confrontation, the working class was forced to support the aspirations of the bourgeoisie, if only to create the conditions for its own emancipation. From the very beginning of the working-class movement in continental Europe, therefore, there existed simultaneously the need to fight against capitalist exploitation and need to support the development of capitalism as well as the political institutions it created for itself. The common interest of the emerging classes – the bourgeoisie and the proletariat – in overcoming the vested interests of the past was already a form of integration that found its reflection in the strategy and tactics of the labor movement, that is, in its striving for political power within bourgeois democracy and the alleviation of economic conditions of the working class within the confines of political economy. As a political movement, however, Marxism could not dispense with its socialist goal, even though practically it could gain no more for the working class than any of the apolitical movements that arose in the established capitalist nations, such as England and the United States, which restricted themselves to the fight for higher wages and better working conditions without challenging the existing social relations of production.

It was thus historical peculiarities that determined the character of the socialist movements in continental Europe – that is, the partial identity of proletarian and
bourgeois political aspirations within the rising capitalism. Marxian theory implied preparation for a socialist revolution within a general revolutionary process that could as yet only issue into the triumph of the bourgeoisie, the destruction of the semifeudal state, and the dominance of capital production. After these accomplishments, the road would be open for a struggle restricted to the labor-capital antagonism, which would first pose the question of a proletarian revolution.

The way to foster this general development was by partaking in the as yet incomplete bourgeois transformation and by pushing forward the capitalist forces of production, through economic demands that could be met only by an accelerated increase of the productivity of labor and the rapid accumulation of capital. In the Anglo-Saxon countries, however, the special issues that agitated the European labor movement no longer existed, or did not arise at all, as the capitalist mode of production and bourgeois rule constituted the uncontested social reality. Here the conditions that were goals for the European labor movement were already an established fact and reduced the struggle between labor and capital to the economic sphere. Class consciousness found its expression in pure trade unionism; the ongoing monopolization of capital was echoed by the attempt of “monopolization” of labor, as one of the developed forms of general competition in expanding capitalism. This situation foreshadowed the continental labor movement’s further development and with it that of its Marxist, or socialist, wing. The more capitalism came into its own, the more the idea of revolutionary change fell by the wayside. The growing trade unions severed their early close relationship with the socialist parties, and the latter themselves concentrated their efforts on purely parliamentary activities to press for social legislation favorable to the working class, through the extension, not the abolition, of bourgeois democracy. For the time being, and the foreseeable future, as Eduard Bernstein, one of the leading “revisionists” of the German Social Democracy and the Second International, put it, “the movement was everything and the goal nothing.”

However, organized ideologies do not abdicate easily, and this the less so as their proponents defend not only their convictions but also their positions within the organizations that are supposed to realize the ideological goals. The rather quick rise of the socialist movement allowed for an organizational structure increasingly attractive to intellectuals and capable of supporting a bureaucracy whose existence was bound up with the steady growth and permanence of the organization. The hierarchical structure of capitalist society repeated itself in that of the socialist organizations and trade unions as the differentiation between the commanding leadership and the obeying rank and file. And just as the workers accommodated themselves to the general conditions of capitalism, so they accepted the similar structure of the socialist movement as an unavoidable requirement for effective organizational activity.

Although in an entirely different sense from the way the phrase is usually understood, this found a rather apt expression in the interpretation of Social Democracy as “a state within the state.” As in the capitalist world at large, in the Social Democratic movement too there was a right wing, a center, and a left wing, although the struggle between these tendencies remained purely ideological. The actual practice of the movement was reformist, untouched by left-wing rhetoric and indirectly aided by it, as it provided a socialist label for opportunistic activities aimed no longer at the overthrow of capitalism but at organizational growth within the system. Supposedly, bourgeois democracy and capitalism itself would through their own dynamics prepare the social conditions for a qualitative change corresponding to a state of socialism. This comfortable idea was held by all the tendencies within the socialist movement, whether they still believed in revolutionary action to accomplish the transformation of capitalism
into socialism, or assumed the possibility of a peaceful nationalization of the means of production through the winning, with a socialist majority, of control of the state.

In any case, the social transformation was cast into the far-away future and played no part in the everyday activity of the labor movement. Capitalism would have to run its course, not only in the already highly developed capitalist nations but even in those just in the process of evolving the capitalist relations of production. It remained true, of course, that devastating crises interrupted the steady capitalization of the world economy, but like the social miseries accompanying the early stages of capitalist production, its susceptibility to crises and depressions was now also adjudged a mark of its infancy, which would be lost as it matured. With the concentration and centralization of capital by way of competition, competition itself would be progressively eliminated and with it the anarchy of the capitalist market. Centralized control of the economy on a national and eventually an international scale would allow for conscious social regulation of both production and distribution and create the objective conditions for a planned economy no longer subject to regulation by the law of value.

This idea was forcefully expressed by Rudolf Hilferding, whose economic writings were widely regarded as a continuation of Marx’s Capital.¹ Leaning heavily on the work of Michael Tugan-Baranowsky, who deduced from the “equilibrium conditions” of Marx’s reproduction schemata (in the second volume of Capital) the theoretical feasibility of a limitless expansion of capital,² Hilferding saw this possibility still very much impaired by difficulties in the capitalist circulation process which hindered the full realization of surplus value. He perceived the capital concentration process in the course of accumulation as a merging of banking capital with industrial capital to create a form of capital best described as “financial capital.” It implied the progressive cartelization of capital, tending toward a single General Cartel that would gain complete control over the state and the economy. As the progressive elimination of competition meant an increasing disturbance of the objective price relations, this would mean, of course, that the price mechanism of classical theory would cease to be operative and that the law of value would therefore be unable to serve as the regulator of the capitalist economy.

We are here not interested in Hilferding’s rather confused theory of crisis as a problem of the realization of surplus value, due to disproportionalities between the different spheres of production and between production and consumption, because in his view these difficulties do not arrest the trend towards the complete cartelization of the capitalist economy.³ With the coming to pass of the General Cartel, prices would be

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² Studien zur Theorie und Geschichte der Handelskrisen (1901); Theoretische Grundlagen des Marxismus (1905).
³ Actually, Hilferding has no crisis theory; he merely describes the differences in market conditions that distinguish periods of prosperity from those of depression. Insofar as he attempts an explanation, it is clearly self-contradictory. On the one hand, he maintains with Marx that the cause of crisis must be looked for in the sphere of production, in the recurring difficulty of producing the surplus value necessary for a further profitable expansion of capital; on the other hand, he speaks of a lack of coordination between the expanding capital and the growing consumption, which disturbs the supply and demand relations in terms of prices, thereby impairing the realization of the produced surplus value. Besides this particular disproportionality, Hilferding mentions a number of others, such as may arise between fixed and circulating capital; between technical and value relations...
consciously determined so as to assure the system’s viability. They would no longer express value relations but the consciously organized distribution of the social product in terms of products. Under such conditions, money as the universal and most general form of value could be eliminated. The continuing social antagonisms would no longer arise from the system of production, which would be completely socialized, but exclusively from that of distribution, which would retain its class character. In this fashion capitalism would be overcome through its own development; the anarchy of production and that type of capitalism analyzed by Marx in Capital would be ended. The expropriation of capital or, what is the same, the socialization of production, will thus be capitalism’s own accomplishment.

Of course, like Marx’s “logical” end result of the capitalist accumulation process, the concept of the General Cartel merely serves to illustrate the trend of concrete capitalistic development. But while in Marx’s model capitalism finds an inevitable end in decreasing profitability, Hilferding’s General Cartel points to an “economically conceivable” capitalist system able to maintain itself indefinitely through the control of the whole of social production. If capitalism tends toward collapse, this is not for economic reasons but must be seen as a political process, as dependent on the conscious resolve to extend the capitalistically achieved socialization of production into the sphere of distribution. Such a transformation is possible only through a sudden political change that transfers control of production from the hands of the cartelized private capital into

of production; between the functions of money as a hoard and as medium of exchange; between unequal changes in the turnover of the different capital entities, and so forth

Although Hilferding refers to the law of the falling rate of profit in the course of the rising organic composition of capital and for that reason rejects the popular underconsumption theories, he asserts nevertheless that the differences in the organic composition of the diverse capitals display themselves in discrepancies arising between production and consumption in terms of price relations. He forgets that it is the general, or average, rate of profit that regulates the prices of production, regardless of differences in the organic compositions of the individual capitals, and that it is the accumulation process itself that allocates social labor in favor of a more rapid growth of the constant capital. However, searching for the cause of crisis in the circulation process, Hilferding speaks of a difference between market prices and the prices of production. He says, in other words, that some capitalists realize profits beyond that contained in the price of production, while others realize correspondingly less than the profit implied in the price of production, as determined by the organic composition of the total social capital. This implies, of course, an impairment of the function of the average rate of profit as a result of the increasing monopolization of capital, which, however, does not alter the size of the total social profit, or surplus value, with respect to the accumulation requirements of the total social capital on which Marx’s crisis theory is based. Whereas in Marx’s theory the value relations regulate the price relations, in Hilferding’s interpretation the actual price relations disrupt the regulatory force of the value relations, because prices do not register the value requirements for the equilibrium conditions of the expanded reproduction of capital.
those of the state. This transformation thus requires the socialist capture of political power within otherwise unchanged production relations.

Such a development seems conceivable given the constant growth of socialist organization, striving for political power within bourgeois democracy and able to win the allegiance of always larger masses of the electorate, and finally leading to a socialist parliamentary majority and to the control of government. The socialist state would then institute socialism by decree, through the nationalization, or – what is thought to be the same – the socialization of the decisive branches of industry. This would suffice to extend the socialist type of production and distribution gradually to the whole society. Due to capitalism’s specific form as financial capital, Hilferding suggested that it would be enough to nationalize the larger banks to initiate the socialist transformation. With this, the economic dictatorship of capital would be turned into what Hilferding – in deference to Marx and Engels – called the “dictatorship of the proletariat.”

All this would of course depend on the persistence of the political institutions of bourgeois democracy and the labor movement’s fidelity to its socialist ideology. Would the bourgeoisie honor the parliamentary game if it found itself on the losing side? Would the character of the socialist movement remain the same despite its increasing influence and organizational power within the capitalit regime? Even apart from such unasked questions, it is unclear why, if there is no “economically conceivable” end to capitalism, there should arise a political opportunity for its abolition. An economically secure capitalism would guarantee its political security. Moreover, if capitalism socializes the production process on its own, this “socialization” includes the maintenance of the social production relations as class relations, to be carried over into the nationalized form of social production. Indeed, in Hilferding’s exposition, the change from private to governmental control does not affect the relation between wage labor and capital, except insofar as economic control is transferred from the bourgeoisie to the state apparatus. Thus socialism, in his view, means the completion of the centralization process inherent in competitive capital expansion, the transformation of private into “social” capital and its control by the state, and therewith the possibility for centrally planned production, which would be distinguished from organized capitalism mainly by allowing for a more equitable distribution.

The theoretical progress made in the socialist movement since its beginnings within the incomplete bourgeois revolution thus consisted in the assertion that, just as the socialist movement fostered capitalist development, fully developed capitalism and bourgeois democracy were now opening the way to socialism. If the workers, for historical reasons, and however reluctantly, aided the rise of democratic capitalism, this very same capitalism was now preparing with equal reluctance, but unavoidably, the conditions for a socialist transformation. The development of wage labor and capital was thus a reciprocative evolution, in which both workers and capitalists functioned as precursors of socialism through the accumulation of capital. All that was necessary in order to play an active part in this historical process was to increase general awareness of its happening so as to hasten its completion.

For Hilferding capitalism had already reached its highest stage of development. Notwithstanding the imperialist war and the revolutions in its wake, the prevailing “late capitalism” was for him an organized capitalism, no longer determined by “economic laws” but by political considerations. The capitalist principle of competition was making room for the socialist planning principle through state interventions in the economy. The class struggles over wages and working conditions changed into political struggles and the wage itself into a “political wage,” by way of the parliamentary accomplishments of the socialist parties in the field of social legislation, such as arbitration laws, collective
bargaining, unemployment insurance, and so forth, which augmented the “economic wage” and freed it from its value determination. According to Hilferding, the state was not simply, as Marx had called it, the “executive committee of the ruling class,” but reflected, through the medium of political parties, the changing power relations between different classes – all of them sharing in state power. The workers’ class struggle turns into a fight for the determination of social policy and finally for the control of “bourgeois democracy,” or “formal democracy,” because democracy belongs to none but the working class, which first had made it a reality through its struggle against the bourgeoisie. Through democracy the workers will gain the government, the army, the police, and the judiciary, and thus realize their longing for a socialist society.\footnote{In a speech delivered at the Social-Democratic Party Congress in Kiel, 1927. Cf: Protokoll der Verhandlungen des sozialdemokratischen Parteitages 1927 in Kiel (Berlin: 1927), pp. 165-224.}

In view of the actual course of events, Hilferding’s rationalization of the precapitalistic policies of the socialist parties seems to be of no interest at all. The “democratic road to socialism” led direct to the fascist dictatorships and to Hilferding’s own miserable end. However, his concept of socialism as a planned economy under governmental control, one that assumes the functions previously exercised by the centralized but private capital, characterizes almost all of the existing images of a socialist society.

As Marx stopped his analysis short of the expected overthrow the capitalist system and, aside from occasional very general remarks about the basic character of the new society, left the construction of socialism to the future, so Hilferding stopped short at capitalism’s “last stage,” without entering into a more detailed investigation of the problems of the transformation of “organized capitalism” into the socialist organization of society. His party colleague Karl Kautsky, however, as the most eminent of Marxists after Marx and Engels, felt obliged to offer some speculations about the possible postrevolutionary situation.\footnote{Karl Kautsky, Am Tage nach der sozialen Revolution.(Die soziale Revolution, part II) (Berlin, 1902); English translation, “The Day after the Social Revolution,” in The Social Revolution (Chicago: Kerr, 1902).} He too saw the “expropriation of the expropriators” in the completion of society’s democratization, to be accomplished by the working class. The immediate measures to be taken were for him those democratic goals the bourgeoisie itself had failed to bring about – that is, the unrestricted vote, a free press, separation of church and state, disarmament, the replacement of the army by a militia, and progressive taxation. Because class relations had existed for thousands of years and were still deeply ingrained in human consciousness, Kautsky felt that they would not be overcome all at once. Only equality in education would gradually do away with class prejudices. Most of all, however, unemployment would have to be abolished through a system of unemployment insurance that would raise the market value of labor power. Wages would rise and profits diminish or disappear altogether. There would be no need to chase the capitalists away from their leading position in industry, because under the changed conditions the bourgeoisie would most likely prefer to sell their property rights, recognizing that political power in the hands of the working class is incompatible with a capitalist mode of production.

A jest on the part of Marx – to the effect that perhaps the cheapest way to socialism would be the buying-out of the capitalists-Kautsky elevated into a political program. But who would buy the capitalist property? Part of it, Kautsky related, could be bought by the workers themselves, other parts by cooperatives, and the rest by governmental agencies on the local and national level. The big monopolies, however, could be expropriated outright as detrimental to all social classes, including the smaller capitalists. And because
the monopolies constitute such a large part of the economy, their expropriation would enhance the otherwise more gradual transformation of private into public property. It would also allow for a conscious regulation of production and thus end its determination by value relations. Although labor-time calculation would continue to aid the formation of prices, it would no longer rule production and distribution. Money too would lose its commodity and capital character by being reduced to a mere means of circulation. The continued utilization of prices and money would imply, of course, the continuation of the wage system, even though wages would no longer reflect supply and demand in the labor market. There would also be wage differentials, in order to facilitate the allocation of the social labor, which would not, however, prevent a general rise of all wages. Of course, capital would have to be accumulated and compensation would have to be paid for the loss of the property rights of the capitalists. Taxes would have to be raised, for the various and enlarged state functions. For all these reasons, productivity would have to be increased beyond the level achieved in the old capitalism, so as to make a higher living standard possible.

Although preferring compensation for the loss of the capitalists’ property, Kautsky is not sure that this will actually be done, but leaves this issue for the future to decide. He realizes that with compensation, surplus value, once directly extracted by the capitalists, would still fall to them in terms of claims on the government. However, this extra expense would disappear with the accumulation of additional capital, thus ending the continued exploitation. Besides, Kautsky remarks slyly, if capitalist property were to exist only in the form of claims on the new public owners, this unearned income could easily be taxed away. Compensation would after all amount to confiscation, albeit in a less brutal form.

The watchword of socialism is, then: more work and higher productivity. In this respect, according to Kautsky, socialists could learn a lot from the production methods of the large U.S. corporations. What is more, these methods, as yet limited to the gigantic trusts, could be even more effective when extended to the whole of society. The socialist organization of production is thus well prepared by capitalism and need not be newly invented. The only requirement is to change the accidental and anarchic character of production into a consciously regulated production concerned with social needs.

Kautsky’s exceedingly tame vision of the state of the future, its relation to the socialist economy was still considered by right-wing socialists as unwarranted and even dangerous, a threat to the steady progress of the Social Democratic movement envisioned this progress in terms of a pure trade unionism of British and American type, and a pure parliamentarism, which would enable the party to enter into coalitions with bourgeois parties and, sooner or later, perhaps, into government positions. To end, the Marxist ideology would have to be sacrificed in favor such evolutionary principles as those propounded by Eduard Berstein. But Kautsky was the leading Marxist authority and quite unwilling to denounce the Marxist heritage. He was also impressed by the 1905 revolutionary upheavals in Russia and by the mass strikes that occurred around the same time in a number of European countries. A socialist revolution appeared to him, while not an immediate, nevertheless a future possibility. In this spirit, he wrote his most radical work, The Road to Power, against the pure reformism that actuated the socialist parties.⁶

Socialism and its presupposition, political power in the hands of the proletarian state, Kautsky wrote in this work, could not be reached by an imperceptible, gradual, and peaceful transformation of capitalism through social reforms, but only in the manner

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foreseen by Marx. State power must be conquered. On this point there existed an affinity between the ideas of Marx and Engels and those of Blanqui, with the sole difference that while the latter relied on the coup d’etat, executed by a minority, Marx and Engels looked to revolutionary actions by the broad masses of the working class – the only revolutionary force in modern capitalism – to lead to a proletarian state, that is, to the dictatorship of the proletariat.

Kautsky’s insistence upon the revolutionary content of the labor movement led to a division of the socialist party, in a general way, into an “orthodox” and a “revisionist” wing, whereby the first seemingly dominated ideologically while the other determined the actual practice. Of course, this division was not peculiar to German Social Democracy but, via the Second International, played a part in all socialist organizations. In addition, there were other movements opposing Marxist theory and practice, such as the anarcho-communists, the syndicalists, and the apolitical labor movements in the Anglo-Saxon countries. But it was the Marxist movement which the bourgeoisie recognized as the most important threat to its rule, for it had developed an effective counter-ideology able to subvert the capitalist system. In any case, the success of the apparently “Marxist” revolution in Russia in 1917, its repercussions in the Central European nations, and finally, the subsequent division of the world into capitalist and “socialist” countries, led to a situation wherein any kind of social upheaval in any part of the world received and still receives the label “Marxism.”

At this point, however, we are still dealing with the prerevolutionary socialist movement, which found in Hilferding and Kautsky its most exemplary spokesmen. It was their interpretation of Marxism, in the light of changed social conditions, that dominated the socialist ideology. For both, socialism implied the capture of political power through the conquest of the state, either by an evolutionary or a revolutionary process. For both of them, too, capitalism had already prepared the ground for a socialist system of production. All that remained was to remove the value determination of capitalist production, its subjugation to the commodity fetishism of the competitive market, and to organize production and distribution in accordance with the ascertainable needs of society.

It is of course true that Marx and Engels acknowledged the obvious, namely, that the overthrow of capitalism demands the overthrow of its state. For them, the political aspect of the proletarian revolution exhausts itself in overwhelming the capitalist state apparatus with all the means required to this end. The victorious working class would neither institute a new state nor seize control of the existing state, but exercise its dictatorship so as to be able to realize its real goal, the appropriation of the means of production and their irrevocable transformation into social means of production in the most literal sense, that is, under the control of the association of free and equal producers. Although assuming functions previously associated with those of the state, this dictatorship is not to become a new state, but a means to the elimination of all suppressive measures through the ending of class relations. There is no room for a “socialist state” in socialism, even though there is the need for a central direction of the socialized economy, which, however, is itself a part of the organization of associated producers and not an independent entity set against them.

Of course, for reasons not as yet discernible, this might be utopian, as thus would be a socialist society in the Marxian sense. It has to be tried in a revolutionary situation if a serious effort is to be made to reach the classless society. It may be forced the workers by objective conditions, quite aside from whether not they understand all its implications. But it may also fail, if proletariat abdicates its own dictatorship to a separately or new state machine that usurps control over society. It is not possible to foresee under what
particular concrete social conditions the revolutionary process might unfold, and whether or the mere extension and intensification of dictatorial rule will degenerate into a new state assuming independent powers. Whatever the case may be, it is not through the state that socialism can realized, as this would exclude the self-determination of the class, which is the essence of socialism. State rule perpetes the divorce of the workers from the means of production, on which their dependence and exploitation rests, and thus also perpetuates social class relations.

However, it was precisely the attempt to overcome the apparently utopian elements of Marxian doctrine which induced the theoreticians of the Second International to insist upon the state as the instrument for the realization of socialism. Although they were divided on the question of how to achieve control of the state, they were united in their conviction that the organization of the new society is the state’s responsibility. It was their sense of reality that made them question Marx’s abstract concepts of the revolution and the construction of socialism, bringing these ideas down to earth and in closer relation to the concretely given possibilities.

Indeed, the construction of a socialist system is no doubt a most formidable undertaking. Even to think about it is already of a bewildering complexity defying easy or convincing solutions. It certainly seems to be out of reach for the relatively uneducated working class. It would require the greatest expertise in the understanding and management of social phenomena and the most careful approach to all reorganizational problems, if it is not to end in dismal failure. It demands an overall view of social needs, as well as special qualifications for those attending to them, and thus institutions designed to assure the social reproduction process. Such institutions must have enough authority to withstand all irrational objections and thus must have the support of government which, by sanctioning these decisions, makes them its own. Most of all, the even flow of production must not be interfered with and all unnecessary experimentation must be avoided, so that it would be best to continue with proven methods of production and the production relations on which they were based.

In Marxian theory, a period of social revolution ensues when the existing social relations of production become a hindrance to the utilization and further development of the social forces of production. It is by a change of the social relations of production that the hampered social powers of production find their release. Their further expansion might, but need not, require a quantitative increase in the social powers of production. By ending the drive to “accumulate for the sake of accumulation” and with it the various restrictions due to this type of abstract wealth production, the available productive power of social labor is set free in a qualitatively different system of production geared to the rationally considered needs of society.

In capitalism the productive forces of social labor, which appear as the productive power of capital, limit their own expansion through the decrease of surplus value in the course of capital accumulation. The applications of science and technology merely hasten this process and become themselves barriers to the formation of capital. But without this formation, production must decline even with respect to the capitalistically determined social needs, first with respect to the enlarged reproduction of capital, and then also with regard to simple reproduction, which would mean the end of the capitalist system. Concretely, this process takes the form not only of recurrent periods of depressions and along-term trend of economic decline, but also of capitalism’s inability to avail itself even of the productive forces developed during its relentless drive for surplus value. Part of the existing productive forces are such only potentially, as they fail to increase the profitability of capital in sufficient measure, or at all, and for that reason are not employed. In economic terms, constant and variable capital remain idle because, if not
used capitalistically, they cannot be used at all. Their full utilization would require a change in the relations of production which would disencumber social production of its dependence on the creation of surplus value.

Because the capitalistic increase of the social powers of production has the form of the accumulation of capital, science and serve this particular brand of social development and the latter as such. And because science and technology are limitless in every direction, they can change their direction through a change of the social structure, away from its need to accumulate capital, to the real production and consumption requirements of a society not only “socialized” in the limited sense that its development is determined by the interdependence of the separated commodity producers, but in a truly social sense, implying the prevention of special private or class interests from interfering in the consciously recognized needs of society as a whole. Science and technology would move in different directions than those required by society.

Moreover, although an expression of the rapid accumulation capital, its increasing monopolization implies the monopolization of science and technology and their subordination to the specific interests of the centralized capitals. This hinders the increase of productivity in the remaining competitive sectors of the economy and prevents the growth of the social forces of production in capitalistically underdeveloped nations, except insofar as this may suit the special interests of the centralized capitals in the dominating capitalist countries. Finally, the monopolization of the world market plays the bulk of the produced surplus value world-wide into the hands of a diminishing number of internationally operating capitals, at the price of the increasing pauperization of the world’s population. At the same time, the national form of capital production prevents its internationalization for an all-round expansion of the social forces of production, which would require consideration of the real needs of the world population within the framework of a socialized world economy. Unable to proceed in this direction, the increasing productive power of capital turns into a destructive power, which today threatens not only the setbacks of new and worldwide wars, but the destruction of the world itself. Under these conditions the capitalist system has ceased to be a vehicle for the growth of the social forces of production. It merely provides the stage for the change of social relations that is the precondition for the resumption of the civilizing process of social labor.

For the theoreticians of the Second International as well, socialism meant a change of the social relations of production, but they saw this change not in the abolition of wage labor but in the sudden or gradual transformation of private into social capital under the auspices of the state. It is true that they also spoke of the end of wage labor, but this implied no more than the negative act of the state’s expropriation of capital, which would, presumably, automatically change the social status of the laboring class. It did not enter their minds that the workers themselves would have to take possession of the means of production and that they themselves would have to determine the conditions of production, the allocation of social labor, the priorities of production, and the distribution of the social product, through the creation of organizational forms that could assure that decision-making powers would remain in the hands of the actual producers. In the statist conceptions of socialism it is not the working class itself that rearranges society. This is done for it, through substitution for it of a special social group, organized as the state, which imagines that by this token it removes the stigma of exploitation from wage labor.

On the whole, it is of course true that the socialist workers themselves shared this concept with their leaders and assumed that the act of socialization would be a function of government. This turned out to be an illusion, but an illusion that had been systematically indoctrinated into the working class. The indoctrination was successful because the
procedure it predicted appeared logical in view of the centralizing tendencies of capitalist production and the democratic form of bourgeois politics. The great difference between capitalism and socialism was thus perceived as the mere elimination of the private property character of capital, or as the complete monopolization of capital under centralized government control, which would serve no longer the specific interests of the capitalist class but the whole of society. But to that end, the state would have to regulate production and thus the labor process, which, under these conditions, seemed feasible only through the maintenance of wage labor.

However, wage labor is only the other side of the capital-labor relation that characterizes capitalist society and determines its productive powers. The complete monopolization of capital does do away, at least ideally, with competitive market relations and does allow for a measure of conscious control of the economy, and thus impairs or ends the value-determination of social production. This may or may not increase the powers of social labor, but it leaves the capitalist relations of production intact. The socialization of production remains incomplete, as it does not affect the social relations of production. The removal of the fetishism of commodity production through its conscious control also removes the fetishistic character of wage labor but not wage labor itself. It continues to express the lack of social power on the part of the working class and its centralization into the hand of the controlling state. The capital-labor relation has been modified but not abolished; there has been a social revolution but not a working-class revolution.

3. Reform and Revolution

The bourgeois political revolution was the culmination of a drawnout process of social changes in the sphere of production. Where the ascending capitalist class gained complete control of the state, this assured a rapid unfolding of the capital-labor relation. Feudalistic resistance to this transformation varied in different countries. Though capitalism was on the rise generally, its gestation involved both force and compromise, characterized by an overlapping of the new and the old both politically and economically. The ruling classes divided into a reactionary and a progressive wing, the latter striving for political control through a democratic capitalist state. The division between an entrenched autocracy and the liberal bourgeoisie reflected the uneven pace of capitalist development and extended the internal distinctions between reaction and progress to the nations themselves and to their political institutions.

The socialist movement arose in an incompletely bourgeois society in a world of nations still more or less in the thrall of the reactionary forces of the past. This situation led to an expedient but unnatural alliance between bourgeoisie and proletariat. Historically, the opposition of labor and capital had first to appear as an identity of interests, so as to release the forces of production that would turn the proletariat into an independent social class. To partake in the bourgeois revolutions with their own demands did not contradict the postulated “historical goal” of the working class, but was an unavoidable precondition of its future struggle against the bourgeoisie.

Although it has often been asserted that it was fear of the proletariat that induced the bourgeoisie to limit its own struggle against the feudal autocracy, it was rather the recognition of its own as yet restricted power vis-a-vis the reactionary foe that made it draw back from radical measures in favor of its own political aspirations. While the bourgeoisie found support in the laboring population, it was certain that it would find the assistance of the reactionary forces should this prove necessary to destroy the revolutionary initiative of the working class. In any case, time was on the side of the
bourgeoisie, as the feudal layers of society adapted to the capitalization process and integrated themselves into the capitalist mode of production. The integration of the apparently irreconcilable interests of the conservative elements, largely based on agriculture, and the progressive democratic forces, representing industrial capital, finally realized the goals of the failed bourgeois revolutions of 1848, which had gripped almost all the nations of Western Europe. Eighteen forty-eight had raised hopes for an early proletarian revolution, particularly because of the devastating economic crisis conditions that had caused the political ferment in the first place. But the years of depression passed and with them also the social upheavals against everything thought to stand in the way of social change. Capital accumulated no less within countries ruled by politically reactionary regimes than in those where the state favored the liberal bourgeoisie.

The modern nation-state is a creation of capitalism, which demands the transformation of weak into viable states, so as to create the conditions of production that allow for successful competition on the world market. Nationalism was then the predominant concern of the revolutionary bourgeoisie. Capitalist expansion and national unification were seen as complementary processes, although nationalism in its ideological form was held to be a value in its own right. In this form, it took on revolutionary connotations wherever particular nations, such as Ireland and Poland, had come under foreign rule. Because capitalism implied the formation of nations, those who favored the first necessarily favored the second, even if only as another presupposition of a future proletarian revolution which, for its part, was supposed to end the national separations of the world economy. It was in this sense that Marx and Engels advocated the formation of nations powerful enough to assure a rapid capitalistic development.

Of course, it did not really matter whether or not Marx and Engels favored the formation of capitalistically viable nation-states, for their influence upon actual events was less than minimal. All they could do was express their own sentiments and preferences with regard to the various national struggles that accompanied the capitalization of the European continent. In these struggles the workers could as yet provide only cannon fodder for class interests that were not their own, or were so only indirectly, in that a rapid capitalist development promised to improve their conditions within their wage-labor dependency. Only in a historical sense was their participation in the national-revolutionary upheavals of the time, and in the ensuing national wars, justifiable, for at the time, they could serve only the specific class interests of the rising and competing bourgeoisie. However, even though history was made by the bourgeoisie, the fact that the latter’s existence implied the existence and development of the proletariat made it obligatory to view this process also from the position of the working class and to formulate policies that would presumably advance its interests within the capitalistic development.

As the formation of viable national states involved the absorption of less viable national entities, a distinction was made between nations possessing the potential for a vast capitalistic development and others not so endowed. Friedrich Engels, for instance, differentiated between nations destined to affect the course of history and others unable to play an independent role in historical development.¹ In his opinion, nationalism as such was not a revolutionary force, except indirectly in situations where it served a rapid capitalist development. There was no room for small or backward nations within the unfolding capitalist world. National aspirations could thus be either revolutionary or

¹ Engels’s position on this question has been passionately criticized by the Leninist and Ukrainian nationalist Roman Rosdolsky in his book Friedrich Engels und das Problem der “Geschichtslosen Völker” (Frankfurt: Archiv für Sozialgeschichte, Ed. 4, 1964).
reactionary, depending upon their positive or negative impact on the growing social powers of production. Only insofar as national movements supported the general capitalist development could these movements be seen as progressive and so of interest to the working class, for nationalism was only the capitalistically contradictory form of a development preparing the way for the internationalization of capital production and therefore also for proletarian internationalism.

Of course, this general conception had to be spelled out empirically, by taking sides, at least verbally, in the actual national movements and national wars of the nineteenth century. According to the degree of their capitalist development, or the clear need and desire for such nation’s competitive position within the world economy, their defense implied the defense of the nation, if only to safeguard what had already been gained. The more advanced the working class thought itself to be, the more outspoken its identification with the prevailing nationalism. Where the workers did not challenge capitalist social relations at all, as in England and the United States, their acceptance of bourgeois nationalism with its imperialist implications was complete. Where there was at least ideological opposition to the capitalist system, as in the Marxist movement, nationalist sentiments were extolled in a more hypocritical fashion, namely as a means to transform the nation into a socialist nation powerful enough to withstand a possible onslaught of external counterrevolutionary forces. A distinction was now made between nations clearly on the road to socialism, as attested by the increasing power of the socialist organizations and their growing influence upon society at large, and nations still completely under the sway of their traditional ruling classes and trailing behind the general social development along the socialist path.

A particular nation could thus become a kind of “vanguard nation,” destined by its example to lead other nations. This role, played by France in the bourgeois revolution, was now claimed, with respect to the socialist revolution, for Germany, thanks to her quick capitalist development, her geopolitical location, and her labor movement, the pride of the Second International. A defeat of this nation in a capitalist war would set back not only the development of Germany and its labor movement, but along with it the development of socialism as such. It was thus in the name of socialism that Friedrich Engels, for instance, advocated the defense of the German nation against less advanced countries such as Russia, and even against more advanced capitalist nations, such as France, were they to ally themselves with the potential Russian adversary. And it was August Bebel, the popular leader of German Social Democracy, who announced his readiness to fight for the German fatherland should this be necessary to secure its uninterrupted socialist development.

In a world of competing capitalist nations the gains of some nations are the losses of others, even if all of them increase their capital with the enlargement of the world market. The capital concentration process proceeds internationally as well as nationally. As competition leads to monopolization, the theoretically “free world market” becomes a partially controlled market, and the instrumentalities to this end – protectionism, colonialism, militarism, and imperialism – are employed to assure national privileges within the expanding capitalist world economy. Monopolization and imperialism thus provide a degree of conscious interference in the market mechanism, though only for purposes of national aggrandizement. However, as conscious control of the economy is also a goal of socialism, the economic regulation due to the monopolization of capital and its imperialist activities was held by some socialists and social reformers, such as the Fabians of England, to be a progressive step toward the development of a more rational society.
Because a relatively undisturbed growth of labor organizations in ascending capitalism presupposes a rate of capital accumulation allowing at the same time for sufficient profits and for the gradual improvement of the conditions of the laboring classes, the nationally organized labor movement, bent on social reforms or merely on higher wages, cannot help favoring the expansion of the national capital. Whether the fact is acknowledged or not, international capital competition affects the working class as well as capital. Even the socialist wing of the labor movement will not be immune to this external pressure, in order not to lose contact with reality and to maintain its influence upon the working class, regardless of all the ideological lip service paid to proletarian internationalism as the final but distant goal of the socialist movement.

The national division of capitalist production also nationalizes the proletarian class struggle. This is not a mere question of ideology – that is, of the uncritical acceptance of bourgeois nationalism by the working class – but is also a practical need, for it is within the framework of the national economy that the class struggle is fought. With the unity of mankind a distant and perhaps utopian goal, the historically evolving nation-state and its success with respect to the competitive pursuit of capital determine the destiny of its labor movement together with that of the working class as regards the conditions of its existence. Like all ideologies, in order to be effective nationalism too must have some definite contact with real needs and possibilities, not only for the class interests directly associated with it but also for those subjected to their rule.

Once established and systematically perpetuated, the ideology of nationalism, like money, takes on an independent existence and asserts its power without disclosing the specific material class interests that led to its formation in the first place. As it is not the social production process but its fetishistic form of appearance that structures the conscious apprehension of capitalist society, so it is the nationalist ideology, divorced from its underlying class-determined social relations, that appears as a part of the false consciousness dominating the whole of society. Nationalism appears now as a value in itself and as the only form in which some sort of "sociality" can be realized in an otherwise asocial and atomized society. It is an abstract form of sociality in lieu of a real sociality, but it attests to the subjective need of the isolated individual to assert his humanity as a social being. As such, it is the ideological reflex of capitalist society as a system of social production for private gain, based on the exploitation of one class by another. It supplements or replaces religion as the cohesive force of social existence, since no other form of cohesion is possible at this stage of the development of the social forces of production. It is thus a historical phenomenon, which seems to be as “natural” as capitalist production itself and lends to the latter an aura of sociality it does not really possess.

The ambiguities of ideologies, including nationalism, are both their weakness and their strength. To retain its effectiveness over time, ideology must be relentlessly cultivated. The internalization of ideological nationalism cannot be left to the contradictory socialization process itself, but must be systematically propagated to combat any arising doubt as to its validity for society as a whole. But as the means of indoctrination, together with those of production and of direct physical control, are in the hands of the bourgeoisie, the ideas of the ruling class are the socially ruling ideas and in that form answer the subjective need for the individual’s integration into a larger and protective community.

Capital operates internationally but concentrates its profits nationally. Its internationalization appears thus as an imperialistic nationalism aiming at the monopolization of the sources of surplus value. This is at once a political and an economic process, even though the connection between the two is not always clearly
discernible because of the relatively independent existence of nationalist ideology, which hides the specifically capitalistic interests at its base. This camouflage works the better because the whole of known history has been the history of plunder and war of various people engaged in building up, or in destroying, one or another ethnic group, one or another empire. “National” security, or “national” security by way of expansion, appears to be the stuff of history, a never-ending “Darwinian” struggle for existence regardless of the historical specificity of class relations within the “national” entities.

Just as monopolization and competition, or free trade and protectionism, are aspects of one and the same historical development, nationalism and imperialism are also indivisible, although the latter may take on a variety of forms, from direct domination to indirect economic and financial control. Politically, the accumulation of capital appears as the competitive expansion of nations and so as an imperialistic struggle for larger shares of the exploitable resources of the world, whether real or imaginary. This process, implicit in capitalist production, divides the world into more or less successful capitalist nations. The specifically capitalist imperialist imperative, or even the mere opportunity for imperialist expansion, was taken up by some nations sooner than by others, such as England and France in the eighteenth century, and was delayed by nations such as Germany and the United States until the nineteenth century. Some smaller nations were not at all able to enter into imperialist competition and had to fit themselves into a world structure dominated by the great capitalist powers. The changing fortunes of the imperialist nations in their struggle for larger shares of the world’s profits appear economically in the concentration of the world’s growing capital in a diminishing number of nations. This would also result eventually from the expansion of capital without imperialistic interventions on the part of the competing national capitals: it is not competition which determines the course of capitalist development, but capitalist production which determines the course of competition and capitalism’s bloody history.

The object of national rivalries is the amassing of capital, on which all political and military power rests. The ideology of nationalism is based not on the existence of the nation but on the existence of capital and on its self-expansion. In this sense, nationalism mediates the internationalization of capital production without leading to a unified world economy, just as the concentration and monopolization of the national capitals does not eliminate their private property character. Nationally as well as internationally capitalist production creates the world economy via the creation of the world market. At the base of this general competitive process lies an actual, if still abstract, need for a worldwide organization of production and distribution beneficial to all of humanity. This is not only because the earth is far better adapted to such an organization, but also because the social productive forces can be further developed and society freed from want and misery only by a fully international cooperation without regard to particularistic interests. However, the compelling interdependency implied in a progressive social development asserts itself capitalistically in an unending struggle for imperialist control. Imperialism, not nationalism, was the great issue around the turn of the century. German “nationalist” interests were now imperialist interests, competing with the imperialisms of other nations. French “national” interests were those of the French empire, as Britain’s were those of the British empire. Control of the world and the division and re-division of this control between the great imperialist powers, and even between lesser nations, determined “national” policies and culminated in the first worldwide war.

As crisis reveals the fundamental contradictions of capital production, capitalist war reveals the imperialistic nature of nationalism. Imperialism presents itself, however, as a national need to prevent, or to overcome, a crisis situation in a defensive struggle against the imperialistic designs of other nations. Where such nations do not exist
imperialism takes on the guise of a measure to maintain the well-being of the nation and, at the same time, to carry its “civilizing” mission into new territories. It is not too difficult to get the consent of a working class more or less habituated to capitalist conditions, and thus under the sway of nationalism, for any imperialist adventure. The workers’ state of absolute dependency allows them to feel that, for better or worse, their lot is indissolubly connected with that of the nation. Unable as yet and therefore unwilling to fight for any kind of self-determination, they manage to convince themselves that the concerns of their masters are also their own. And this the more so, because it is only in this fashion that they are able to see themselves as full-fledged members of society, gaining as citizens of the state the “dignity” and “appreciation” denied to them as members of the working class.

There is no point in being annoyed by this state of affairs and in dismissing the working class as a stupid class, unable to distinguish its own interests from those of the bourgeoisie. After all, it merely shares the national ideology with the rest of society, which is equally unaware that nationalism, like religion at an earlier time, and like the faith in the beneficence of market relations, is only an ideological expression for the self-expansion of capital, that is, for the helpless subjection of society to “economic laws” that have their source in the exploitative social relations of capitalist production. It is true that the ruling class, at least, benefits from society’s antisocial production process, but it does so just as blindly as the working class accepts its suffering. It is this blindness which accounts for the apparently independent force of ideological nationalism, which is thus able to transcend the social class relations.

The materialist conception of history attempts to explain both the persistence of a given societal form and the reasons for its possible change. Its supporters ought not to be surprised by the resiliency of a given society, as indicated by its continual reproduction and the consequent recreation of its ruling ideology. Changes within the status quo may be for long times almost imperceptible, or unrecognizable as regards their future implications. The presence of class contradictions explains both social stability and instability, depending upon conditions outside the control of either the rulers or the ruled. In distinction to preceding societal forms, however, the capital-labor relation of social production continually accelerates changes in the productive forces, while maintaining the basic social relations of production, and thus allows for the expectation of an early confrontation of the contending social classes. At any rate, this was the conclusion the Marxist movement drew from the increasing polarization of capitalist society and from the internal contradictions of its production process. Class interests would come to supersede bourgeois ideology and thus counterpose the class consciousness of the bourgeoisie with that of the proletariat.

As stated before, these expectations were not unrealistic and were held by the bourgeoisie as well, which reacted to the rise of socialist movements and the increasing militancy of wage struggles with repressive measures that betrayed its fears of the possibility of a new social revolution. Class consciousness seemed indeed to destroy the national consensus and the hold of bourgeois ideology over the working population. Until about 1880 the theory of the impoverishment of the working class in the course of capital accumulation, and the consequent sharpening of the class struggle, found verification in actual social conditions, and accounted for the radicalization of the laboring masses. This same period, however, which resembled a prolonged social crisis situation, also laid the foundation for a new and accelerating phase of capital expansion which lasted, with occasional interruptions, almost to the eve of the first world war. It provided the objective conditions for the legalization of organized labor and its integration into the capitalist system in economic as well as in political terms.
Of course, the acceptance of organized labor and socialist organizations was not a gift freely offered the working class by a more generous bourgeoisie, but was the result of class struggles – albeit of a limited nature – which wrested concessions from the bourgeoisie and its state, improving the material conditions of the workers and elevating their social status within bourgeois democracy. These concessions could not have been made without a rapid increase in the productivity of labor and a consequent quickening of the accumulation process. But they appeared nonetheless as results of the self-exertion of the laboring population, a class rising within the confines of capitalism, which encouraged the growing illusion that the increasing power of organized labor would eventually turn the working class into the socially dominant class, displacing the bourgeoisie. In reality, the improving conditions of the working class implied no more than its increasing exploitation, i.e., the decrease of the value of labor power with respect to the total value of the social product. However, both the capitalists and the workers think in everyday life not about social value relations but in terms of quantities of products at their disposal for purposes of capital expansion or general consumption. That the improvement in the conditions of the working class resulted from the accelerated growth of their productivity did not diminish the importance of the betterment of their living standards and its reflection in their ideological commitments.

Disappointed by the slow development of proletarian class consciousness in the leading capitalist nations and upset by the latter’s ability to weather their crisis situations, and thus to reach always greater heights of self-expansion, the socialists had to admit that Marx’s predictions of the impoverishment of the working class and the development of revolutionary class consciousness, as an outgrowth of its class struggle, seemed unsubstantiated by actual events. Friedrich Engels, for instance, tried to explain this dismal condition with the assertion (later to be parroted by Lenin) of a deliberately fostered “corruption” of the working class on the part of the bourgeoisie, which allowed a growing section of the industrial proletariat to partake to some extent of the spoils of imperialism. In this view, a rising “labor aristocracy” within the international working class weakened the class solidarity necessary for a consistent struggle against the bourgeoisie and carried the bourgeois ideology, and here particularly its nationalist aspect, into the ranks of the proletariat. The decline of revolutionary class consciousness showed itself in the steady growth of an opportunistic reformism based on the acceptance of the capitalist relations of production and bourgeois democracy.

In any case, there was no direct connection between the economic class struggle and the revolutionizing of the workers’ consciousness. The expectation that the recurrent confrontations of labor and capital over profits and wages would lead to the recognition that the wage system must itself be abolished to end the workers’ Sisyphean activities on its behalf was disappointed, due to the simple fact this was not possible at this particular stage of capitalistic development. As long as profits and wages could rise simultaneously – however disproportionately – and the class division of the social product be affected by social legislation, even though this involved economic and political struggles, the character of these struggles was set by the limited demands made by the part of the laboring population still under the sway of bourgeois ideology. Although growing in numbers and in social influence, trade unions and socialist parties remained in a minority position within the population at large and even within the working class as a whole.

Not only were expectations of a possible revolutionary change now relegated to a more remote future, but even the growth of the socialist movement was seen as a long term, prosaic educational effort to win the laboring population to an acceptance of socialist ideology. Notwithstanding the struggles for wages and social reforms, which were themselves conceived of as learning processes, the class struggle was mainly seen as
ideological in nature: in the end people would favor socialism because of its more accurate comprehension of the developing reality. One simply had to wait for the time when objective conditions themselves verified the socialist critique of the capitalist system, thus ending the subjective submission of the proletariat to the ruling ideology.

As an organized ideology, socialism opposed the dominant bourgeois ideology; the class struggle became by and large a struggle of ideas and thus the preserve of the proponents of ideologies. Ideologies competed for the allegiance of the masses, who were seen as recipients, not as producers, of the contesting ideologies. Ideologists found themselves in search of a following, in order to effectuate their goals. The working class – apparently unable to evolve a socialist ideology on its own – was seen as dependent upon the existence of an ideological leadership able to combat the sophistries of the ruling class. Due to the social class structure and the associated division of labor, ideological leadership was destined to be in the hands of educated middle-class elements committed to serve the needs of the workers and the goals of socialism.

However limited they were, the parliamentary successes of the socialist parties, which brought an increasing number of representatives of the working class into capitalism’s political institutions, not only induced a growing number of educated professionals to enter the socialist organizations but also provided the latter with a degree of respectability unknown at an earlier stage of the developing socialist movement. Leaving economic struggles to the trade unions, the spreading of the socialist ideology was now measured by the number of its representatives in parliament and by their ability to present “the case for socialism” to the nation and to initiate and support social legislation for the improvement of the conditions of the laboring class. Political actions were now conceived of as parliamentary activities, made for the workers by their representatives, with the “rank and file” left no other role than that of passive support. In a rather short time, the workers’ submission to their intellectual superiors in the parliaments and the party hierarchy was complete enough to turn this incipient class consciousness into a political consciousness derived from that of their elected leadership.

What was at first a tendency within the socialist movement, namely the substitution for proletarian self-determination of a nonproletarian leadership acting on behalf of the working class, later became the conviction and the practice of all branches of socialism, both reformist and revolutionary. Not only its right-wing revisionists but the so-called centrist Karl Kautsky and the leftist Lenin were convinced that the working class by itself was not able to evolve a revolutionary consciousness, and that this had to be brought to it, from outside, by members of the educated bourgeoisie, who alone had the capacity and opportunity to understand the intricacies of the capitalist system and thus to develop a meaningful counter-ideology to the ruling capitalist ideology and so lead the struggle of the working class. Of course, this elitist idea was itself a product of the rapid rise of the labor movement, which attracted a growing number of middle-class elements into its ranks. Ideologically, at any rate, socialism ceased to be the exclusive concern of an awakening proletariat, but became a social movement with some appeal for members of the middle class.

This class found itself in a process of transformation, caught between the millstones of capital concentration and social polarization. The old middle class lost its property-owning character and became in increasing measure a salaried class in the service of the big bourgeoisie and its state apparatus. It became a managerial class filling the gap that divided the bourgeoisie from the proletariat and, in the various professions, a class serving the personal and cultural needs of the divided society. The mediating functions of the new middle class in support of the existing social production relations was reflected in the socialist movement by the determination of its theory and practice by
its intellectual leadership. Although some workers were able to advance into leading positions within their organizations, the tone of their politics, as suggested by an alleged predominance of theory over practice, was set by the intellectually emancipated leadership stemming from the middle class. This was a question not so much of the relationship between theory and practice as of the relationship between the leaders and the led. Policies were made by an elected leadership and found their parliamentary and extraparliamentary support in the disciplined adherence of the mass of workers to their organizations’ programs and their time-conditioned variations. The division between mental and manual labor, so necessary for the capitalist system, was thus also a characteristic of the labor movement.

The rapid influx of middle-class elements into the leading positions of the socialist movement disturbed even its intellectual founders. Notwithstanding his own reformist inclinations, Friedrich Engels, for instance, was greatly worried about the increasing subjugation of the self-activity of the working class to the political initiative of the well-meaning petite bourgeoisie. His own reformism, as he saw it, was after all a mere strategem, not a matter of principle, whereas the reformism of the petite bourgeoisie tended to eliminate the class struggle altogether in obeisance to the rules” of bourgeois democracy. “Since the foundation of the International,” he wrote to August Bebel, “our war cry has been: the emancipation of the working class can only be the work of the workers themselves. We simply cannot collaborate with people who declare openly that the workers are not sufficiently educated to be able to liberate themselves, and for that reason have to be freed from above by a philanthropic bourgeoisie.”

He suggested throwing these elements out of the socialist organizations so as to safeguard its proletarian character.

The workers themselves, however, were unperturbed if not flattered by the attention given to them by some of the “better kind” of people. In addition, they felt the need for allies in their rather unequal class struggle.

But in any case the revolutionary character of socialism was not lost because of the class-collaborationist ideas evolved by its nonproletarian leadership, but because the “strategy” of reformism, as the only possible practical activity, became the principle of the organizations in their attempts to consolidate and to enlarge their influence within capitalist society. With respect to German Social Democracy, for instance, it had by 1913 a membership of close to a million and was able to muster 4.5 million votes in national elections. It sent 110 members to the Reichstag. The trade unions had a membership of about 2.5 million and their financial assets amounted to 88 million Marks. The Social Democratic Party itself invested 20 million Marks in private industry and in state loans. It employed more than 4,000 professional officials and 11,000 salaried employees, and controlled 94 newspapers and various other publications. To maintain the party and to assure its undisturbed further growth was the first consideration of those who controlled it, an attitude even more pronounced in the purely proletarian trade unions.

There is no point in describing this process in other nations, even though their labor movements varied in one or another respect from that in Germany. Social Democracy and trade unionism advanced – although more often than not at a slower pace than in Germany – in all the developed capitalist nations, thus raising the specter of a socialist movement that might eventually, by reformist or revolutionary means, or both, transform capitalism into a classless, nonexploitative society. Meanwhile, however, this movement was allowed, and indeed compelled by circumstances, to integrate itself as thoroughly as it could into the capitalist fabric as one special interest group among those which together

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constitute the capitalist market economy. The specter of socialism, though used by the bourgeoisie to delimit the political and economic aspirations of the working class, remained a mere apparition, unable to destroy the self-confidence of the ruling classes with regard to either their material or their ideological control of society. Dressed in whatever garb, the organized labor movement remained a small minority within the working classes, thus indicating that a decisive weakening of bourgeois ideology presupposes the actual decay of capitalism. Only when the discrepancy between ideology and reality finds an obvious display in persistently deteriorating economic and social conditions, will the otherwise rather comfortable ideological consensus give way to new ideas corresponding to new necessities.

There is also quite a difference between an ideology based on tradition and on actual circumstances, and one based on nonexisting conditions, with relevance to a future which may or may not be a reasonable expectation. In this respect, socialist ideology is at a disadvantage vis-a-vis the ruling capitalist ideology. A powerful exertion of the latter, for purposes of waging war, or even for internal reasons, will create serious doubts regarding the validity or the effectiveness of the socialist ideology even in some of its more consistent supporters. The emerging feeling of uncertainty mixed with the fear of the unknown, which accounts for the mass hysteria accompanying the outbreak of war, will affect the socialists too and induce them to question their own ideological commitments anew. Their critical attitude towards the ruling ideology, to reiterate, does not free them from acting as if they were under its sway, while their socialist convictions cannot be actualized within the given conditions of their existence. They can be carried away by the apparent euphoria of the agitated masses and drown their own ambiguities in the murky sea of nationalism in a spontaneous reassertion of loyalties latent but not yet lost.

Furthermore, there is the objective fact of the national form of capitalism, and therefore of its labor movement, which cannot be overcome by a mere ideological commitment to internationalism, such as can be gained by a loose consultative body as was the Second International. The various national organizations comprising this institution differed among themselves with regard to their effective powers in their respective countries and thus also with regard to their opportunities to influence national policies. What would happen if the socialist movement of a particular country should succeed in preventing its bourgeoisie from waging war while that of another country did not? Even though “the main enemy resides in one’s own country,” a foreign enemy may nonetheless attack a nation made defenseless by its socialist opposition.

It was the recognition that the road to socialism finds a barrier in unequal capitalist development, which also shows itself in the unequal class consciousness of the laboring population, that induced Marx and Engels to favor one or another country in imperialistic conflicts, siding with those bearing the greatest promise for a socialist future. They could not envision a capitalist development without national wars and they did not hesitate to state their preferences as to their outcome. Pacifism is not a Marxist tradition. It was then not too difficult to rationalize the socialist acceptance of war and even to invoke the names of Marx and Engels in its support.

Notwithstanding the apparently general recognition that in the age of imperialism all wars are wars of conquest, it was still possible for socialists to assert that, from their point of view, they may also be defensive in nature insofar as they prevent the destruction of more progressive nations by socially less-advanced countries, which would be a setback for socialism in general. In fact, this became the flaccid justification for participation in the imperialist war for the majority of socialists in all the warring nations, each national organization defending its own more advanced conditions, against the
backwardness of the enemy country. Supposedly, it was the barbarism of the Russian autocratic adversary that demanded the defense of a cultured nation such as Germany, as it was the barbaric aggressive militarism of the still semifeudal Germany that justified the defense of more democratic nations such as England and France. But such rationalizations merely covered up an actual inability as well as unwillingness to oppose the capitalist war in the only effective way possible, namely by revolutionary actions. The international labor movement was no longer, or not as yet, a revolutionary movement, but one fully satisfied with social reforms and for that reason tolerated by a bourgeoisie still able to grant these concessions without any loss to itself. The antiwar resolutions passed at the International’s congresses meant no more than a whistle in the dark and were composed in such an opaque fashion as to be practically noncommittal.

In 1909, in the first bloom of his socialist conversion, Upton Sinclair wrote a manifesto calling upon socialists and the workers of Europe and the United States to realize the peril of the approaching world war and to pledge themselves to prevent this calamity by the threat of a general strike in all countries. He sent the manifesto to Karl Kautsky for publication in the socialist press. Here is Kautsky’s reply:

Your manifesto against war I have read with great interest and warm sympathy. Nevertheless I am not able to publish it and you will not find anybody in Germany, nor in Austria or Russia, who would dare to publish your appeal. He would be arrested at once and get some years imprisonment for high treason.... By publishing the manifesto we would mislead our own comrades, promise to them more than we can fulfill. Nobody, and not the most revolutionary amongst the socialists in Germany, thinks to oppose war by insurrection and general strike. We are too weak to do that.... I hope, after a war, after the debacle of a government, we may get strength enough to conquer the political power.... That’s not my personal opinion only, in that point the whole party, without any exception, is unanimous.... You may be sure there will never come the day when German socialists will ask their followers to take up arms for the Fatherland. What Bebel announced will never happen, because today there is no foe who threatens the independence of the Fatherland. If there will be war today, it won’t be a war for the defense of the Fatherland, it will be for imperialistic purposes, and such a war will find the whole socialist party of Germany in energetic opposition. That we may promise. But we cannot go so far and promise that this opposition shall take the form of insurrection or general strike, if necessary, nor can we promise that our opposition will in every case be strong enough to prevent war. It would be worse than useless to promise more than we can fulfill.\(^3\)

While Kautsky’s pessimism with respect to the possibility of preventing the approaching war proved to be correct, his optimistic assessment of the antiwar position of the German labor movement turned out to be totally erroneous. Moreover, this was not a German peculiarity but had its equivalent, with some slight modifications, in all the warring nations. There were of course exceptions to the rule, but the actual outbreak of war found the large majorities within organized labor, and within the working class as a whole, not only ready to support the imperialist war but ready to do so enthusiastically, which impelled Kautsky to resign himself to the fact that “the International was an instrument of peace but unworkable in times of war.” As easy as it had been to discuss the prevention of war, so difficult it proved to act when it arrived. The fait accompli of the ruling classes was enough to create conditions that destroyed overnight an international movement that had tried for decades to overcome bourgeois nationalism through the development of proletarian class consciousness and internationalism.

Paraphrasing an old slogan referring to the French nation, Marx once declared that “the proletariat is revolutionary or it is nothing.” In 1914 it was obviously nothing, as it prepared to lay down its life for the imperialist notions of the bourgeoisie. The socialist ideology proved to be only skin-deep, powerless to withstand the concerted onslaught of the accustomed bourgeois ideology, which identifies the national with the general interests. As for the working class as a whole, it put itself at the disposal of the ruling classes for purposes of war, as it accepted its class position in times of peace. The capitalist reality weighed heavier than the socialist ideology, which as yet represented not an actual but only a potential social force. However difficult it is to understand the unifying power of bourgeois ideology and its hold upon the broad masses, this difficulty itself in no way alters the force of the traditional ideology. What was more astonishing was the rapidity with which the socialist movement itself succumbed to the requirements of the imperialist war, and thereby ceased to be a socialist movement. It was as if there had been no socialist movement at all but merely a make-believe movement with no intention to act upon its beliefs.

The collapse of the socialist movement and the Second International has been propagandistically described as a “betrayal” of principles and of the working class. This is of course a recourse to idealism and a denial of the materialist conception of history. Actually, as we observed above, the changes the movement had gone through, within the general capitalist development, had long since relegated all programmatic principles to the purely ideological sphere, where they lost any connection with the opportunistic behavior of the movement. The pragmatic opportunism of the reformist movement no longer possessed principles it could “betray,” but adjusted its activities in conformity with what was possible within the frame of capitalism. No doubt, the antiwar sentiments displayed at international congresses, and in each nation separately, were true convictions and the longing for perpetual peace a genuine desire, already because of widespread fear that war would lead to the destruction of the socialist movement, as the bourgeois state might suppress its internal opposition in order to wage war more effectively. Not to oppose the war seemed to be one way to assure personal and organizational security, but this alone does not explain the eagerness with which the socialist parties and trade unions offered their services to the war effort and its hoped-for victorious end. Behind this lay the fact that these organizations had become quite formidable bureaucratic institutions, with their own vested interests in the capitalist system and the national state. This accomplishment in turn had changed both the lifestyle and the general outlook of those who filled the bureaucratic positions within the labor organizations. If they had once been proletarians conscious of their class interests, they were so no longer but felt themselves to be members of the middle class and changed their mores and habits accordingly. Set apart from the working class proper, and addicted to a comfortable routinism, they were neither willing nor able to lead their following into any serious antiwar activity. Even their harmless exhortations in favor of peace found an abrupt end with the declaration of war.

To be sure, there were minorities within the leadership, the rank and file, and the working class that remained immune to the war hysteria gripping the broad masses, but they found no way to turn their steadfastness into significant actions. With the war a reality, even the more consistent international socialists, such as Keir Hardie of the British Independent Labour Party, found themselves forced to admit “that once the lads had gone forth to fight their country’s battles they must not be disheartened by dissension at home.”4 With socialists and nonsocialists together in the opposing trenches, it seemed

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only reasonable to rally to “the lads” support and to provide them with the essentials for waging war. The war against the foreign foe, in short, required the end of the class struggle at home.

The triumph of the bourgeoisie was absolute as it was general. Of course, that minority that upheld socialist principles began at once, if only clandestinely, to organize opposition to the war and to reconstitute the international socialist movement. But it took years before their efforts found an effective response, first in the working class than then in the population at large.

4. The Limits of Reform

However reformable capitalism may prove to be, it cannot alter its basic wage and profit relations without eliminating itself. The age of reform is an age of spontaneous capital expansion, based on a disproportional but simultaneous increase of both wages and profits. It is an age wherein the concessions made to the working class are more tolerable to the bourgeoisie than the upheavals of the class struggle that would otherwise accompany capitalist development. As a class, the bourgeoisie does not favor minimum wages and intolerable working conditions, even though each capitalist, for whom labor is a cost of production, tries to reduce this expense to the utmost. There can be no doubt that the bourgeoisie prefers a satisfied to a dissatisfied working class and social stability to instability. In fact, it looks upon the general improvement of living standards as its own accomplishment and as the justification for its class rule. To be sure, the relative well-being of the laboring population must not be carried too far, for its absolute dependency on uninterrupted wage labor must be maintained. But within this limit, the bourgeoisie has no subjective inclinations to reduce the workers to the lowest state of existence, even where this might be objectively possible by means of appropriate measures of repression. As the inclinations and actions of the workers are determined by their dependency on wage labor, those of the bourgeoisie are rooted in the necessity to make profit and to accumulate capital, quite apart from their diverse ideological and psychological propensities.

The limited reforms possible within the capitalist system become the customary conditions of existence for those affected by them and cannot easily be undone. With a low rate of accumulation they turn into obstacles to profit production, overcoming which effect requires exceptional increases in the exploitation of labor. On the other hand, times of depression also induce various reform measures, if only to withstand the threat of serious social upheavals. Once installed, these also tend to perpetuate themselves and must be compensated for by a correspondingly greater increase in the productivity of labor. Of course attempts will be made, some of them successfully, to whittle down what has been gained by way of social legislation and better living standards, in order to restore the necessary profitability of capital. Some of these gains will remain, however, through periods of depression as well as prosperity, with the result of a general improvement of the workers' conditions through time.

The hand-to-mouth existence of the workers made it never easy to strike for higher wages and better working conditions. Only the most brutal provocations of their employers would move them to action, as a lesser evil than a state of unmitigated misery. Aware of the workers' dependence on the daily wage, the bourgeoisie answered their rebellions with lockouts, as a most efficient means to enforce the employers' will. Lost profits can be regained, lost wages not. However, the formation of trade unions and the amassing of strike funds changed this situation to some extent in favor of the workers, even though it did not always overcome their conditioned reluctance to resort to the strike
weapon. For the capitalists, too, the readiness to defy their workers’ demands waned with the increasing profit loss on an enlarged but unutilized capital. With a sufficient increase in productivity, concessions made to the workers could prove more profitable than their denial. The gradual elimination of cut-throat competition by way of monopolization and the generally increasing organization of capitalist production also entailed regulation of the labor market. Collective bargaining over wages and working conditions eliminated to some extent the element of spontaneity and uncertainty in the contests between labor and capital. The sporadic self-assertion of the workers made room for a more orderly confrontation and a greater “rationality” in capital-labor relations. The workers' trade union representatives turned into managers of the labor market, in the same sense as that in which their political representatives attended to their farther-reaching social interests in the parliament of bourgeois democracy.

Slowly, but relentlessly, control over working-class organizations escaped the hands of the rank and file and was centralized in those of professional labor leaders, whose power rested on a hierarchically and bureaucratically organized structure, the operation of which, short of the destruction of the organization itself, could no longer be determined by its membership. The workers' acquiescence in this state of affairs required of course that the activities of “their” organizations provide some tangible benefits, which were then associated with the increasing power of the organizations and their particular structural development. The centralized leadership now determined the character of the class struggle as a fight over wages and for limited political goals that had some chance of being realized within the confines of capitalism.

The different developmental stages of capital production in different countries, as well as the divergent rates of expansion of particular industries in each nation, were reflected in the heterogeneity of wage rates and working conditions, which stratified the working class by fostering specific group interests to the neglect of proletarian class interests. The latter were supposedly to be taken care of by way of socialist politics, and where such politics were not as yet a practical possibility – either because the bourgeoisie had already preempted the whole sphere of politics through its complete control of the state machinery, as in the Anglo-Saxon countries, or because autocratic regimes precluded any participation in the political field, as in the Eastern capitalistically undeveloped nations – there was only the economic struggle. This, while uniting some layers of the working class, divided the class itself, which tended to frustrate the development of proletarian class consciousness.

The breaking up of the potential unity of the working class by way of wage differentials, nationally as well as internationally, was not the result of a conscious application of the ages-old principle of divide and rule to secure the reign of the bourgeois minority, but the outcome of the supply and demand relations of the labor market, as determined by the course of social production as the accumulation of capital. Occupations privileged by this trend tried to maintain their prerogatives through their monopolization, by restricting the labor supply in particular trades not only to the detriment of their capitalistic adversaries but also to that of the great mass of unskilled labor operating under more competitive conditions. Trade unions, once considered instruments for a developing class consciousness, turned out to be organizations concerned with no more than their special interests defined by the capitalist division of labor and its effects upon the labor market. In time, of course, trade organizations were superseded by industrial unions, incorporating a number of trades and uniting skilled with unskilled labor, but only to reproduce the strictly economic aspirations of the union membership on an enlarged organizational base. In addition to wage differentials, which are a general feature of the system, wage discrimination was (and is) widely cultivated by
individual firms and industries in the attempt to break the homogeneity of their labor force and to impair their ability for concerted action. Discrimination may be based on sex, race, or nationality, in accordance with the peculiarities of a given labor market. Persistent prejudices associated with the ruling ideology are utilized to weaken workers' solidarity and with it their bargaining power. In principle, it is of course immaterial to the capitalists to what particular race or nationality its labor force belongs, so long as their skill and propensity to work does not fall below the average, but in practice a mixed labor force with unequal, or even with equal, wage scales engenders or accentuates already existing racial or national antagonisms and impairs the growth of class consciousness. For instance, by reserving the better paid or less obnoxious jobs for a favored race or nationality, one group of workers is pitted against another to the detriment of both. Like job competition in general, discrimination lowers the general wage rate and increases the profitability of capital. Its use is as old as capitalism itself; the history of labor is also the history of competition and discrimination within the working class, dividing the Irish from the British workers, the Algerian, from the French, the black from the white, new immigrants from early settlers, and so on, almost universally.

While this is a consequence of the prevalence of bourgeois nationalism and racism in response to the imperialistic imperative, it affects the working class not only ideologically but also through their competition on the labor market. It strengthens the divisive as against the unifying elements of the class struggle and offsets the revolutionary implications of proletarian class consciousness. At any rate, it carries the social stratification of capitalism into the working class. Its economic struggles and organizations are designed to serve particular groups of workers, without regard to general class interests, and the confrontations between labor and capital remain necessarily within the frame of market and price relations.

Far-reaching wage differentials allow for different living standards, and it is by the latter, not by the labor done, that workers prefer to assess their status within capitalist society. If they can afford to live like the petite bourgeoisie, or come close to doing so, they tend to feel more akin to this class than to the working class proper. Whereas the working class as a whole can only escape its class position through the elimination of all classes, individual workers will try to break away from their own class to enter another, or to adopt the lifestyle of the middle class. An expanding capitalism offers some upward social mobility, just as it submerges individuals of the dominating or the middle class into the proletariat. But such individual movements do not affect the social class structure; they merely allow for the illusion of an equality of opportunity, which can serve as an argument against criticism of the unchangeable class structure of capitalist production.

In prosperous times, and because of the increase in families with more than one wage earner, better paid workers can save some of their income and thus draw interest as well as receive wages from their work. This gives rise to the delusion of a gradual breakdown of the class-determined distribution of the national income, as workers partake in it not only as wage earners but also as recipients of interest out of surplus value, or even as stockholders in the form of dividends. Whatever this may mean in terms of class consciousness for those thus favored, it is quite meaningless from a social point of view, as it does not affect the basic relationship between value and surplus value, wages and profits. It merely means that some workers realize an increase of their income out of the profit and interest produced by the working class as a whole. While this may influence the distribution of income among the workers, accentuating the already existing wage differentials, it does not affect in any way the social division of wages and profits represented by the rate of exploitation and the accumulation of capital. The rate of profit remains the same, whatever part of the mass of profit may reach some workers through
their savings. The number of shares held by workers is not known, but judging by the number of shareholders in any particular country and by prevailing average wage rates, it could only be a negligible one. Interest on savings, as part of profit, is of course compensated for by the fact that while some workers save, others borrow. Interest thus increases but also reduces wages. With the great increase of consumer credit, it is most likely that, on balance, the interest received by some workers is more than equaled by the interest paid by others.

As their class is not homogeneous as regards income, but only with respect to its position in the social production relations, wage workers are apt to pay more attention to their immediate economic needs and opportunities than to the production relations themselves, which, in any case, appear to be unshakeable in a capitalism on the ascendant. Their economic interests involve, of course, not only the privileges enjoyed by special layers of the working class but also the general need of the great mass of workers to maintain, or to raise, their living standards. Higher wages and better working conditions presuppose increased exploitation, or the reduction of the value of labor power, thus assuring the continuous reproduction of the class struggle within the accumulation process. It is the objective possibility of the latter which nullifies the workers' economic struggle as a medium for the development of revolutionary class consciousness. There is no evidence that the last hundred years of labor strife have led to the revolutionizing of the working class in the sense of a growing willingness to do away with the capitalist system. The strike patterns in all capitalist nations vary with the business cycle, which is to say that the number of strikes, and the number of workers involved in them, decline in periods of depression and increase with every upward trend of economic activity. It is the accumulation of capital, not the lack of it, that determines the workers' militancy with regard to their wage struggles and their organizations.

Obviously, a serious downward trend of the economy, which reduces the total number of workers, also reduces the working time lost through strikes and lockouts, not only because of the smaller number of workers employed but also because of their greater reluctance to go on strike despite deteriorating working conditions. Likewise, trade or industrial unions decline not only because of the rising unemployment but also because they are less able, or not able at all, to provide the workers with sufficient benefits to warrant their existence. In times of depression no less than those of prosperity, the continuing confrontations of labor and capital have led not to a political radicalization of the working class, but to an intensified insistence upon better accommodations within the capitalist system. The unemployed have demanded their "right to work," not the abolition of wage labor, while those still employed have been willing to accept some sacrifices to halt the capitalist decline. The rhetoric of the existing, or newly founded, labor organizations no doubt has become more threatening, but their concrete demands, whether realizable or not, have been for a better functioning capitalism, not its abolition.

Every strike, moreover, is either a localized affair with a limited number of workers engaged in it, or an industry-wide struggle involving large numbers of workers spread over various localities. In either case, it concerns only the time-conditioned special interests of small sections of the working class and seldom affects society as a whole to any important extent. Every strike must end in the defeat of one or the other side, or in a compromise suitable to the opponents. In every case it must leave the capitalist enterprises profitable enough to produce and to expand. Strikes leading to bankruptcies of capitalist firms would also defeat the goals of the workers, which presuppose the continued existence of their employers. The strike weapon as such is a reformist weapon; it could only become a revolutionary instrument through its generalization and extension over the whole society. It was for this reason that revolutionary syndicalism advocated
the General Strike as the lever to overthrow capitalist society, and it is for the same reason that the reformist labor movement opposes the General Strike, save as an extraordinary and controlled political weapon to safeguard its own existence. Perhaps the only fully successful nationwide general strike was that called by the German government itself in order to defeat the reactionary Kapp Putsch of 1920.

Unless a mass strike turns into civil war and a contest for political power, sooner or later it is bound to come to an end whether or not the workers win their demands. It was of course expected that the critical situations brought about by such strikes, and the reactions to them on the part of capital and its state, would lead to a growing recognition of the unbridgeable antagonism of labor and capital and thus make the workers increasingly more susceptible to the idea of socialism. This was not an unreasonable assumption but it failed to be substantiated by the actual course of events. No doubt the turmoil of a strike itself brings with it a sharpened awareness of the full meaning of class society and its exploitative nature, but this, by itself, does not change reality. The exceptional situation degenerates again into the routinism of every life and its immediate necessities. What class consciousness awakened turns once more into apathy and submission to things as they are.

The class struggle involves the bourgeoisie no less than the workers, and it will not do to consider exclusively the latter with regard to the evolution of their consciousness. The ruling bourgeois ideology will be reformulated and greatly modified in order to counteract noticeable changes in working-class attitudes and aspirations. The early open contempt of the bourgeoisie for the laboring population makes way for an apparent concern for their well-being and an appreciation for their contributions to the “quality of social life.” Minor concessions are made before they are forced upon the bourgeoisie by independent working-class actions. Collaboration is made to appear beneficial to all social classes, and the road to harmonious social relations. The class struggle itself is turned to capitalist account, through the reforms thrust upon the ruling class and the resulting expectations of a possible internal transformation of capitalist society.

The most important of all the reforms of capitalism was of course the rise of the labor movement itself. The continuous extension of the franchise until it covered the whole adult population, and the legalization and protection of trade unionism, integrated the labor movement into the market structure and the political institutions of bourgeois society. The movement was now part and parcel of the system, as long as the latter lasted, at any rate, and it seemed to last just because it was able to mitigate its class contradictions by way of reforms. On the other hand, these reforms presupposed stable

1 In his book In Place of Fear (New York, 1952, pp. 2-23), Aneurin Bevan relates that in 1919 – with the British trade unions threatening a nationwide strike – the then Prime Minister David Lloyd George told the labor leaders that they must be aware of the full consequences of such an action, for “if a force arises in the State which is stronger than the State itself, then it must be ready to take on the functions of the State, or withdraw and accept the authority of the State.” From that moment on, one of the labor leaders said, “we were beaten and we knew we were.” After this, Bevan continues, “the General Strike of 1926 was really an anticlimax. The leaders in 1926 ... had never worked out the revolutionary implications of direct action on such a scale. Nor were they anxious to do so. ... It was not so much the coercive power of the State that restrained the full use of the workers’ industrial power. ... The workers and their leaders paused even when their coercive power was greater than that of the State. ... The opportunity for power is not enough when the will to seize it is absent, and that will is attendant upon the traditional attitude of the people toward the political institutions that form part of their historical heritage.” This may be so, but actually, in this particular case, it was not the attitude of the workers with regard to their historical heritage, but merely their submission to their own organizations and their leaderships that allowed the latter to call off the General Strike, out of fear that it might lead to revolutionary upheavals because of the government's apparently intractable determination to break the strike by force.
economic conditions and an orderly development, to be achieved through increasing organization, of which the reforms themselves were an integral part. This possibility had of course been denied by Marxian theory; the justification of a consistent reformist policy thus required abandonment of this theory. The revisionists in the labor movement were able to convince themselves that, contrary to Marx, the capitalist economy had no inherent tendency toward collapse, while those who upheld the Marxian theory insisted upon the system’s objective limitations. But as regards the immediately given situation, the latter too had no choice but to struggle for economic and political reforms. They differed from the revisionists in their assumption that, due to the objective limits of capitalism, the fight for reforms will have different meanings at different times. On this view, it was possible to wage the class struggle in both the parliaments and in the streets, not only through political parties and trade unions, but with the unorganized workers as well. The legal foothold gained within bourgeois democracy was to be secured by the direct actions of the masses in their wage struggles, and the parliamentary activities were supposed to support these efforts. While this would have no revolutionary implications in periods of prosperity, it would be otherwise in crisis situations, particularly in a capitalism on the decline. As capitalism finds a barrier in itself, the fight for reforms would turn into revolutionary struggles as soon as the bourgeoisie was no longer able to make concessions to the working class.

Just as the capitalists are (with some exceptions) not economists but business people, the workers also are not concerned with economic theory. Quite aside from the question as to whether or not capitalism is destined to collapse, they must attend to their immediate needs by way of wage struggles, either to defend or to improve their living standards. If they are convinced of the decline and fall of capitalism, it is because they already adhere to the socialist ideology, even though they might not be able to prove their point “scientifically.” It is hard, indeed, to imagine that an a social system such as capitalism could last for very long, unless, of course, one were totally indifferent to the chaotic conditions of capital production and to its total corruption. However, such indifference is only another name for bourgeois individualism, which is not only an ideology but also a condition of the market relations as social relations. But even under its spell the workers’ indifference does not spare them the class struggle, although it is at times only one-sidedly waged through the violent repression of all independent working class actions.

Thus far, reformism has nowhere led to an evolutionary transformation of capitalism into a more palatable social system, nor to revolutions and socialism. It may, on the other hand, require political revolutions in order to achieve some social reforms. Recent history provides numerous examples of political revolutions which exhausted themselves in the overthrow of a nation’s despised governmental structure, without affecting its social production relations. Such revolutionary upheavals, insofar as they are not mere revolutions, which exchange one dictatorial regime with an aim at institutional changes and, by implication, economic reforms. Political revolutions are here a precondition for any kind reformist activity and not an outcome of the latter. They are not socialist revolutions, in the Marxian sense, even if they are preminantly initiated and carried through by the working classes, but reformist activities by more direct political means.

The possibility of revolutionary change cannot be questioned, for there have been political revolutions that altered social production relations and displaced the rule of one class by that of another. Bourgeois revolutions secured the triumph of the middle class and the capitalist mode of production. A proletarian revolution—that is, a revolution to end all class relations in the social production process—has not as yet taken place, although
attempts in this direction have been made within and outside the framework of bourgeois politics. Whereas social reform is a substitute for social revolution and the latter may dissipate into mere capitalist reforms, or nothing at all, a proletarian revolution can only win or lose. It cannot be based on any kind of class compromise, as it is its function to eliminate all social class relations. It will thus find all classes outside the proletarian class arrayed against itself and no allies in its attempts to realize its socialist goals. It is this special character of proletarian revolution that accounts for the exceptional difficulties in its way.

5. Lenin’s Revolution

Those in the socialist movement who were thinking in terms of a proletarian revolution were obliged to take all these facts into consideration. In their view, the revolution would not result from a gradual growth of proletarian class consciousness, finding its expression in the increasing might of working class organization and the eventual “legal” usurpation of the bourgeois state machinery, but would be the result of the self-destruction of the capitalist system, leaving the working class no other choice than the revolutionary solution of its own problems through a change of the social structure. And because this choice was restricted to the working class, in opposition to all other class interests, it had to lead to the dictatorship of the proletariat as the precondition for its realization.

In other words, the change in working-class ideology, being by and large a reflection of bourgeois ideology, would be the result of capitalism’s decay and collapse. The dissipation of bourgeois self-confidence and class consciousness through the uncontrollable decomposition of its economic base, and therewith its political power, would also break its ideological hold over the working population. However, this was not a question of merely waiting for the expected economic and political catastrophe of bourgeois society; it involved preparation for such an eventuality through the organization of that part of the proletariat already possessed of revolutionary consciousness. The larger this organization, the less difficult it would be to instill its own ideas into the minds of the rebellious masses to aid their reactions to the disintegrating capitalism. Waiting did not imply passivity, but the legal or illegal forging of ideological and practical instruments of revolution.

The objective conditions for a proletarian revolution were to found in devastating economic crisis conditions from which the bourgeoisie would be unable to extricate itself in time to allay their social consequences. As the social upheavals would be of a violent nature, it would be necessary to arm the proletariat for the destruction of the bourgeois state machinery. The problem was how to get the arms required to this end. But as a severe international crisis would most likely lead to imperialistic wars, or the latter issue into economic crisis conditions, which could not be dealt with in the usual “normal” ways, it was conceivable that an aroused and armed working class might turn its weapons against the bourgeoisie. Even short of war, it was not entirely precluded that a part of the armed forces of the bourgeoisie would side with the rebellious workers if they displayed enough energy to initiate civil war. And because imperialism was itself a sign of the deepening contradictions of capital production, its wars could be regarded as gigantic crisis conditions and as so many attempts at their solution by political means. In any case, what revolutions have taken place – the Paris Commune and the revolutions of the twentieth century in Russia and Central Europe – grew not out of purely economic crises but out of war and defeat and the general miseries associated with them.
We may recall here Karl Kautsky’s answer to Upton Sinclair, referred to earlier, which expressed the rather vague hope that “after the war, after the debacle of a government, we may get strength enough to conquer the political power.” At that time, as the official defender of Marxian orthodoxy, Kautsky still spoke of the conquest of power by revolutionary means and of the dictatorship of the proletariat. While a proletarian revolution, as a consequence of the sharpening of the existing class contradictions, was for Kautsky not a determinable occurrence, a revolution growing out of war and defeat seemed to him a certainty, even though its success remained questionable.¹ Kautsky’s most faithful disciple, Lenin² – at the same time, and with the experience of the Russian Revolution of 1905 behind him – likewise associated war with revolution. In a letter to Maxim Gorky in 1913, he pointed out that “a war between Austria and Russia would be a very useful thing for the revolutions throughout Eastern Europe, but it is not very probable that Franz-Josef and Nicky will give us this pleasure.”³ Soon thereafter identifying the “age of imperialism” as “capitalism’s last stage of development” and as “the eve of the proletarian revolution,” Lenin saw the first world war as the beginning of an international revolution and consistently called not for the restoration of the capitalist peace but for turning the imperialist war into civil war.

If somewhat belatedly, Franz-Josef, Nicky, and all the other potentates of Europe finally provided the revolutionaries and all their other subjects with the pleasures of war. The pleasure did not last long, due to the war’s destructiveness with respect to human lives and capitalist property. But once it started the bourgeoisie could not conceive of an end to it except in terms of positive results, that is, victory, expropriation, and annexation. Like business in general, the war had to be profitable and to that end concentrate more capital into fewer hands on an international scale. However, the expectation that the war would turn into revolution, at least in the defeated nations, also had to wait some time for its realization. As envisioned by Lenin and other revolutionaries, this happened first in Russia, because it was the “weakest link in the chain of imperialist powers.” And it happened not because it provided the Russian revolutionaries with objective conditions to be utilized to win the workers to their side, but because of the population’s own war-weariness and the breakdown of both the war machinery and the economy on which it depended.

Unlike its aftermath in October 1917, Russia’s February Revolution of the same year was a truly spontaneous event, even though it was preceded by a series of increasingly more ominous social and political conflicts involving all social classes and the autocratic government.⁴ The military defeats and a relentless deterioration of economic conditions led to lock-outs, strikes, hunger riots, and mutinies in the army, culminating in enormous mass demonstrations, confrontations with the authorities, and finally in the fraternization of decisive groups of the military with the rebellious masses. There were of course also politically organized forces at work, attempting to inject their definitely demarcated goals into the disaffected masses and to give them a socialist

² The individuals referred to here represent not only themselves but currents within the labor movement, in which they played outstanding roles through their contributions to the movement’s theory and practice.
⁴ The literature and documentation of the Russian revolution is so immense that hardly anything can or need be added to it apart from the work of professional historians, especially as this upheaval has been treated from every conceivable point of view, pro and contra, as well as with respect to its impact upon the world at large and the development of capitalism. We will therefore deal only with aspects of this revolution relevant to understanding its effect upon the labor movement in general and the theory and practice of Marxism in particular.
direction, but at that time they were too small and ineffective to make much of a difference. On the contrary, instead of leading the upheaval, they were led by it, and adapted themselves to its elemental force.

The Russian revolution could not be a socialist revolution, something that, in a sentence, implies the abolition of wage labor and the socialization of all the means of production. Such a revolution presupposes a developed capitalism and the existence of a proletariat able to determine the social production process. Such conditions did not exist in Russia except in the first stages of their development. But they appeared to exist in Western Europe, which, consequently, was that part of the world in which a socialist revolution could conceivably take place. A Russian revolution could lead only to the overthrow of tsardom and the institution of bourgeois rule. On the other hand, a socialist revolution in Western Europe would most likely preclude the continued existence of a bourgeois Russia, just as it had not been possible to preserve Russian serfdom within a bourgeois Europe. The relationship between the expected socialist revolution in the West and a possible revolution in Russia had already agitated Marx and Engels, both coming to the time-conditioned and speculative conclusion that a revolution in Russia, if it spilled over into Western Europe, might lead to conditions that could prevent the rise of a full-fledged Russian capitalism. In that case, the still existing communal form of agricultural production, the mir, might prove an asset for the socialization of the Russian economy. However, the assertion of this faint possibility was more a concession to the Russian Populists (Narodniks), who were at that time the only revolutionary force in Russia, than a real conviction and it was therefore allowed to be forgotten.

With the rise of a Social Democratic movement and the formation of trade unions in Russia, the Populists’ idea of a people’s revolution based on the peasantry made way for the Marxist conception of revolution by the industrial proletariat. This meant, of course, the revolution’s postponement, as it presupposed the further unfolding of the capitalist system of production. The approaching social revolution was thus almost generally anticipated as a bourgeois revolution, to be supported by the socialist movement and the industrialist proletariat. And it could be supported best by making demands of a more radical nature than those the liberal bourgeoisie was able to formulate, or even think of. The workers were to lead this revolution, even though it could reach no more than a capitalistic bourgeois democracy, that is, conditions such as prevailed in the West.

This seemed to be all the more necessary because the liberal bourgeoisie was itself very weak and, as Alexander Herzen remarked, preferred, “against its own convictions, to walk on a leash, if only the mob is not released from it.” Quite apart from the question as to whether or not it was capable of initiating a bourgeois revolution, it was not willing to do so, out of fear of the blind rage of the peasant masses, which might destroy not only the autocratic regime but the bourgeoisie as well. It seemed so much better to gain political power gradually through the social transformation induced by capitalist development under the auspices of a strong state such as was provided for by a modified tsarist regime.

Capital accumulation itself would slowly change the nature of the regime and force it to adapt itself to the requirements of modern society. While it was clear that it was the Revolution of 1905 which had led to the first, though meager, reforms of tsarism, such as the establishment of the Duma, this revolution, released by the industrial working class,

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also had opened the Pandora’s box of the capital-labor relation and revealed the threat of an anti-bourgeois revolution.

For the Social Democrats, the development of capitalism in Russia, whatever its course, would at the same time, through its creation of an industrial proletariat, be a development toward socialism. And because capitalist development accelerated rather rapidly at the turn of the century, involving both the capitalization of agriculture and the formation of a proprietary peasantry, the expected revolutionary changes were no longer thought of as based on the liberation of the peasantry and the preservation and utilization of the remaining communal forms of agricultural production, but as based on the extension of capitalist market relations and their political reflections in bourgeois democracy. With this, Marxism came to look toward a socialist revolution in the wake of a successful bourgeois revolution.

For all practical purposes, however, Western socialism had already jettisoned its Marxian heritage. In the revisionist-reformist point of view, the extension of bourgeois democracy eliminated not only the possibility but also the need for a socialist revolution to be replaced by evolutionary changes in the capitalist class and exploitation relations. But if socialist revolution had already become an anachronism in the Western world, there was no point in expecting its arrival in Russia. And as the steady capitalization of the Russian economy promised a reluctant but nonetheless necessary democratization of its political structure, there was, perhaps, not even room for a bourgeois revolution in the Western sense of term. Marxist revisionism was adapted to Russian conditions, the one hand in the “legal Marxism” of the liberal bourgeoisie for whom it merely implied the capitalization of Russia and its integration into the world market, together with all the paraphernalia of bourgeois democracy, such as political parties and trade unions – and, on the other hand in the reformist Social Democratic conviction that the impending revolution in Russia could issue into a bourgeois state, which would first provide the basis for a vast socialist movement striving to transform the capitalist into a socialist society through a constant struggle for social reforms.

In the latter view, meaningful reforms in Russia presupposed a political revolution, and this revolution would, by force of circumstances, have a bourgeois character. This view was shared by the left wing of Russian Social Democracy, as represented since 1903 by its Bolshevik faction, but with the difference that this wing believed that such a revolution would have to be brought about by a political party based on the working class and the poor peasantry, for the liberal bourgeoisie itself, even apart from the question of its practical capabilities, was only too ready to stop short at some compromise with the tsarist regime. The impending revolution would be a worker-peasant revolution, or perhaps even a purely working-class revolution, even though it could accomplish no more within the Russian context than the creation of a modern state and the full release of the capitalist forces of production.

But, the left argued, even such a revolution might conceivably induce a revolution in Western Europe and through its internationalization alter the character of the Russian revolution. After all, such a possibility had entered the minds of Marx and Engels and still had an ideological basis in the West, thanks to the defense of “Marxian orthodoxy” by Karl Kautsky and his followers. This concept of “orthodoxy” was therefore based on a false apprehension of the nature of Western socialism, which mistook its ideology for reality, and on an incomprehension of the transformation this movement had undergone around the turn of the century. These illusions were lost at one stroke with the war of 1914, which revealed that not even Kautsky himself cared much for “Marxian orthodoxy,” for which he had been the symbol within the Second International. The “trustee of revolutionary Marxism” overnight became the “renegade” Kautsky for the
Bolsheviks in general and for his most devoted pupil, Lenin, in particular. Prior to this revelation, the Russian socialists had paid far more attention to the conditions of the tsarist regime than to the actual state of international socialism. The latter, at least in an ideological sense, seemed to foreordain the course of the impending Russian revolution, just as Western capitalism prefigured the development of Russian capitalism. “Marxian orthodoxy,” as Kautsky interpreted it, in opposition to the pure reformism of the revisionists, provided the ideology of Bolshevism, in opposition to the Menshevik, or reformist, wing of Russian Social Democracy. Whereas the latter did not expect more from the hoped-for Russian revolution than the undiluted rule of the bourgeoisie, the Bolsheviks envisioned the transcendence of this revolution through its internationalization, culminating in the rule of the proletariat. Of course, this was not a certainty, which may explain the ambiguities on the part of the Bolshevik Party as regards the character of the Russian revolution. While admitting its bourgeois nature, they employed at the same time a terminology referring to a socialist revolution, as if these could be one and the same thing.

These ambiguities had their origin in the prevailing Russian conditions, which seemed to rule out either a consistently bourgeois or a proletarian revolution, because of the unresolved quasi-feudal agricultural system and its dependence on the autocratic state. Any revolution must involve the great mass of the population; in this case that meant the peasantry, which, however, could not be expected to subordinate its own interests to those of the bourgeoisie or the industrial proletariat. These three classes would have to partake in the revolution, but could do so only with different ideas and different goals, which could hardly be brought under one hat. While their combined efforts were needed to end the tsarist regime, this could only lead to a reassertion of their particular class interests in the post-revolutionary situation. One class would have to dominate to hold the class-divided society together. Logically, and to judge by historical precedent, the bourgeoisie would have to be the ruling class.

However, as soon as the revolution was seen in an international context, the "historical precedents" and the "logical" rule of ascendance were no longer convincing. While two different social revolutions cannot occur together in a particular nation, they occur simultaneously in an international setting, which may change the international class structure in such a way as to lead to dominance of the proletariat over the whole of the revolutionary process, just as the diversity of the developmental stages of the national entities does not prevent capitalism’s over-all rule the world economy. In view of this possibility, it made some sense to change the “rule” of historical ascendance and to try to base the Russian revolution on the political dominance of the working class, especially since the Russian bourgeoisie was itself an ineffective minority. The peasantry would have to be “neutral” in one way or another, no matter which class, the bourgeoisie or the proletariat, should come in possession of the Russian state.

A social revolution cannot be organized, as it depends on conditions which escape conscious control. It can only be awaited, as the result of an observable intensification of the class contradictions existing within the given social relations of production. What can be organized in advance is the leadership required to give the expected revolution a definite direction and a particular goal. Any political party that thinks in terms of revolution concerns itself not with its preparation but with the organization of its leadership, the only thing that is organizable. This involves, of course, a continuous assessment and reassessment of the changing political and economic conditions, so as to make its control of the awaited revolution as effective as possible. Propaganda and agitation serve the formation of organizations aspiring to revolutionary leadership, but
once these organizations exist, they see themselves as the irreplaceable presupposition of a successful revolution.

But how to lead a revolution that lacked any sort of homogeneity of interests within its revolutionary forces, as exemplified by the variety of organizations opposed to the social status quo? The situation in Russia at large, with its different specific class interests, was repeated within the revolutionary camp. All its organizations – the right and the left wing of the Social Revolutionaries, the reformists and the revolutionaries of Russian Social Democracy, and the various ideological groupings between these major organizations – had their own ideas with respect to procedures and the desired outcome of the revolutionary process, thus precluding a unified revolutionary policy. Just as one class had to dominate the revolution itself, so one of the competing revolutionary organizations had to strive for supremacy if it was to realize its own program.

As Lenin and the Bolsheviks had opted for the industrial proletariat as the leading element of the revolution, it followed that the party of the proletariat, that is, the Bolshevik Party, must strive to monopolize political power, if only to safeguard the proletarian character of the revolution. Quite apart from Lenin's assumption that the working class is unable to evolve a political revolutionary consciousness on its own accord, the fact was that the minority position of this class, together with the existence and aspirations of other classes and their organizations, precluded a democratic revolutionary development with an outcome favorable to the working class and socialism. Only a dictatorship, as Lenin saw it, could maintain the proletarian impetus of the revolution and create preconditions for a socialist development in conjunction with the expected socialist revolutions in the developed nations of the West. However, the very existence of the tsarist regime demonstrated that it was possible to hold political power in spite of the existence of the most varied political and economic interests that in one way or another opposed the anachronistic autocratic government. If a backward and decaying political regime had been able to keep itself in power, this should be even more possible for a dictatorial regime geared to a progressive social development in harmony with the global course of evolution. Russia, Lenin once said, "was accustomed to being ruled by 150,000 land owners. Why can 240,000 Bolsheviks not take over the task?" In any case, establishing such a dictatorship would mean having at least a foot in the door leading to world revolution.

Already before the Menshevik-Bolshevik split of Russian Social Democracy in 1903, Lenin had shifted the question of the Russian revolution away from purely

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6 The Social-Revolutionary Party represented the interests of the peasantry in the Russian revolution. It was organized in 1905 through the unification of a number of Populist groups. Its program demanded a federated republic based on a general franchise, and stressed the "socialization" of all land, that is, its ownership and control by democratically organized communities on the basis of equal holdings and the abolition of hired labor. Although it included workers and intellectuals, the party did not concern itself with the nationalization of industry, on the assumption that the abolition of landownership would by itself prevent the further development of the capitalist relations of production. However, its left wing, the "Maximalists," advocated the inclusion in its program of the socialization of industry under the aegis of a Workers' Republic. It also differentiated itself from the pro-war right wing of the party by its internationalist stand on the war issue. Forming a political bloc with the Mensheviks, the Social-Revolutionaries dominated the Petrograd Soviet; by themselves they controlled the Soviet of Peasant Deputies. In the election for the All-Russian Constituent Assembly, in November 1917, they received 17 million out of 41,700,000 votes, and the party's chairman, V. M. Chernov, was elected President of the Assembly. Prior to this, the party was represented in the Provisional Government formed at the time of the February Revolution. Its left wing supported the Bolsheviks and took part in the first Bolshevik government, as well as in the dispersal of the Constituent Assembly.

theoretical considerations toward its practical problems, that is, the organization of its leadership. In his book What Is to Be Done? however, he presented his concern with organization as a theoretical problem, for, in his view, “there can be no revolutionary movement without a revolutionary theory.” By this he did not mean that men conceptualize their activities, but referred to the social division of labor, as a division between mental and manual work, as it prevails in capitalist society. Like all theory, the theory of socialism, according to Lenin, “grew out of the philosophical, historical and economic theories that were elaborated by the educated representatives of propertied classes, the intellectuals.”

Due to its subordinate position in society, the working class may spontaneously evolve a trade-union consciousness, but not a revolutionary theory able to lead to a change of society. The revolutionary theory is not an outgrowth of the social production relations, but a result of science and philosophy and their practitioners’ own dissatisfaction with these relations and the privileges bound up with them. It is, then, the conscience, the moral scruples, the idealistic disposition, the knowledge of the intellectuals that provide the proletariat the revolutionary consciousness it is unable to develop by itself. Thus the unhappiness of the intellectuals with the realities of capitalist society yields the revolutionary theory on which all revolutionary practice is based.

Lenin did not, as is often assumed, derive this strange inversion of Marxian theory from the peculiar conditions prevailing in Russia, but from a general principle, as is obvious in his application of this analysis to Western socialism. Here too, in Lenin’s view, the labor movement restricted itself to purely reformist forms of class struggle because their intellectual leaders had “betrayed” their comrades and the ideas of revolution by leaving the path of revolutionary Marxism. Although the revolutionary intelligentsia is a necessary presupposition of any revolutionary activity, apparently it can lose its revolutionary inclinations and cease being the ferment of revolutionary theory. To avoid such “betrayals,” it would be necessary to forge a type of revolutionary organization that allowed only the most steadfast revolutionaries into its ranks. In Lenin’s view, this was made possible through the creation of the “professional revolutionary,” whose whole existence depends on his revolutionary activity – in other words, someone like himself, who knows of no distinction between his individual and his organizational life and whose sole function is the promotion of revolution. It is true that Lenin also pointed to the requirement of illegality within the Russian setting, but as an additional argument, not as the basic rationale for his organizational concept. For him, the organizations of revolutionists are not identical with working-class organizations but are necessarily separated from the latter precisely because of their professional character. The effectiveness of such an organization, representing the “vanguard” of the revolution, depends on centralized leadership, endorsed by all its members, thus combining intraparty democracy with centralization, or, in brief, embodying to the principle of “democratic centralism.” What all this amounted to was the formation of a party operating as a kind of state machinery, long before the question of the actual capture of state power arose. The party was to be built up as a counter-state to the existing state, ready to displace the latter at the first opportunity. The construction of this type of party was thus the practical preparation for its assumption of the power of the state. Here theory and practice fell together.

Because of the apparent remoteness of the Russian, or any other, revolution, Lenin’s concept of the party-state was not grasped in its full meaning by the Social Democratic movement, but only as a rather queer idea of the relationship between

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8 What is to Be Done? (New York, 1929), written in February 1902.
9 Ibid., p. 33.
spontaneity and organization, party and class, democratic and centralized leadership, and was largely adjudged as an aberration from a truly Marxian position. Western Social Democracy was itself highly centralized, as are all organizations in the capitalist system. Lenin’s quest for an even more stringent centralization could hardly be understood, except as an argument for authoritarian control and one-man rule. Everyone knew from his own experience that “democratic centralism” is a contradiction in terms, as it is a practical impossibility to reach a real consensus in a centralized organization wherein the power of persuasion is also vested in the organized leadership. It made in particular no sense from Lenin’s own point of view, which denied the “plain and simple” worker the ability to form his own revolutionary opinions and thus condemned him in advance to accept whatever the educated leadership proposed. Moreover, the many thousands of paid organizers and functionaries in the socialist parties and trade unions could see not much difference between themselves and the “professional revolutionaries” of Lenin’s organization. The organization was also their livelihood, but it did not follow that this determined their revolutionary or anti-revolutionary attitudes. In the face of this opposition, from the right as well as the left wing of international socialism, Lenin and the Bolsheviks did not over stress their organizational principles but followed them nonetheless in the building up of the Bolshevik faction of Russian Social Democracy – a process that also assured Lenin’s unique position within this organization. The pyramidal structure of organizations is not simply the way they are formed but also a means to their control. The higher one climbs up the organizational ladder, the greater the influence he can exert and the more difficult it becomes to be replaced by those occupying the lower rungs. This is not automatically so, but is deliberately built into the organization, so as to assure its control by those who are near, or have reached, its top. Although not totally foolproof the system works well, for which the whole of capitalism bears witness as well as its manifold separate organizations which include those of the labor movement. Control of the organization once gained, this domination is rarely, if ever, relinquished through pressures from below. Unless the organization is destroyed, in most cases, only death can part it from its established leadership. According to Lenin, this is as it should be, for if the leadership is the correct one, it would be silly to replace it a new and untried one. Observe, he wrote, how in Germany this vast crowd of millions values its “dozen” tried political leaders, how firmly it clings to them. Members of the hostile parties in parliament often tease the socialists by exclaiming:

"Fine democrats you are indeed! Your movement is a working-class movement only in name; as a matter of fact it is the same clique of leaders that is always in evidence, Bebel and Liebknecht, year in year out, and that goes on for decades. Your deputies are supposed to be elected from among the workers, but they are more permanent than the officials appointed by the Emperor.

"But the Germans only smile with contempt at these demagogic attempts to set the “crowd” against the ‘leaders,’ to arouse turbid and vain instincts in the former, and to rob the movement of its solidity and stability by undermining the confidence of the masses in the ‘dozen of wise men.’ The political ideas of the Germans have already developed sufficiently, and they have acquired enough political experience to enable them to understand that without the ‘dozen’ of tried and talented leaders, professionally trained, schooled by long experience and working in perfect harmony, no class in modern society is capable of conducting a determined struggle. ... Our (Russian) wise-acres, however, at the very moment when Russian Social Democracy is passing through a crisis entirely due to our lack of a sufficient number of trained, developed and experienced leaders to guide
It would of course be unfair to point to Lenin’s early and rather silly ruminations on the question of organization, as presented in *What Is to Be Done?* were it not for the fact that they continued to motivate him throughout his life and guided the activities of the Bolshevik Party. On this point, which formed the starting point of the Leninist type of organization, and which occasioned the split within Russian Social Democracy, Lenin never wavered, bringing it to its full realization in the strictly centralized structure of his party and the latter’s dictatorship over the working class in the name of socialism. However strange these ruminations may have sounded in the ears of socialists, for whom the labor movement implied the self-determination of the working class, they were at the same time devoid of all originality, as they merely copied the prevalent political procedures within the capitalist system and tried to utilize them for its overthrow. What Lenin proposed appeared to him to be a realistic approach to the practical needs of the revolution, the effectiveness of which could be questioned only by those who merely talked about revolution but did nothing to bring it about. As the bourgeois ideology had to be countered by a socialist ideology, so the centralism of bourgeois political rule had to be combated by the centralized determination of the revolutionary party. Although within the general setting of the capital-labor relations, the revolutionary struggle which could yield practical results was, according to Lenin, mainly a fight between the existing state machinery and the party determined to destroy it. The latter was thus the precondition for the anticipated new state and the guarantee that the revolution would not dissipate into formless upheavals but would issue into the dictatorship of the party as a presupposition for the dictatorship of the proletariat. The means and methods of this struggle were determined by the previous structure of bourgeois society itself, but could be turned against it, if used intelligently by a truly revolutionary party and a truly revolutionary leadership, such as Lenin and the Bolsheviks endeavored to construct.

There was of course a wide gap between the Bolsheviks’ intentions and their actual achievements. If statistics can be trusted, around 1905 there were about 8,400 organized Bolsheviks and most probably the same number of Mensheviks. By 1906, membership had grown to 13,000 for the Bolsheviks and 18,000 for the Mensheviks – “one may fairly safely conclude that both factions comprised about 40,000 members in 1907. [Thus] one ought not to view Russian Social Democracy as something centered on the cafes of Geneva and composed of an ‘elite mostly in exile’”. But it is still astonishing that this small number, spread over of Russia, should be considered the “vanguard” of the revolution. Of course, a rapid growth in numbers could be expected with increasing industrialization, capitalization, and radicalization but even so this growth was limited by the general backwardness of Russian society.

As to the social composition of Russian Social Democracy, it could be considered a working-class movement, even if top-heavy with elements from the middle class. But Lenin’s concern was not with what he called the “plain and simple” workers, but with the “wise men,” designated to lead those workers away from the reformist into the revolutionary path of activity. Apart from the impossibility of transforming all party members into “professional revolutionaries,” which would release them from their working-class status, and which was anyway precluded for financial reasons, the principle

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10 Ibid., pp. 1134.
11 David Lane, *The Roots of Russian Communism* (State College, Pa.: Pennsylvania State University Press, 1969), pp. 12-15. This is an extensive analysis – with respect to the country as a whole and to specific districts – of the social composition, structure, membership, and political activity of Russian social democratic groups from 1889 to 1907.
of centralization itself excluded more than concentration upon the leadership. Lenin trusted in the rise of revolutionary situations, brought about through society’s contradictory development, but he mistrusted the idea that the objective conditions would also bring forth a subjective readiness for revolutionary change. By and large, the working class was for him a part of the objective conditions, not of the subjective requirements of the revolution. However necessary the aroused masses were, their want of proper knowledge and ideological consistency could easily lead to a failure to recognize their “historic mission,” or to the submission to and betrayal by misleaders of the working class, who either consciously or unconsciously put themselves at the service of the bourgeoisie.

In the prerevolutionary phase of Bolshevism, Lenin’s organizational concepts must have had a rather comical tinge, because of the enormous distance the party would still have to travel to reach its revolutionary goal. Although actually it functioned not much differently from any other socialist organization, it presented itself from its very beginning as the party that would actually lead the revolution, because it was the only one in possession of the theory that assured its success. This claim already implied a relentless struggle against all other organizations and the demand for sole control of the revolution. The party’s authoritarianism can thus not be blamed on unexpected difficulties that arose during the revolution, for it constituted the principle of Bolshevism from the day of its initiation.

At the top of the organizational ladder there is only room for one. But this may have only ornamental meaning and need not imply an ultimate center of decision-making power. In noticeable contrast to other socialist organizations of the time, the Bolshevik Party was from the very outset under Lenin’s complete and undivided control. It was not thinkable under any other leadership. Most theoreticians leave the practical execution of their ideas to others, but in Lenin the theoretical and the practical were combined in his own person. He watched over both with equal fervor, as if incapable of delegating any degree of responsibility to other people. There was of course dissension in the party, but it was always resolved to Lenin’s satisfaction. An alternative solution could only split the party, as Lenin seemed to be unable to admit to errors detected by others than himself. He was capable of self-criticism and sudden reversals but not of accepting corrections by other people. But even so, A. N. Potresov,

who had known Lenin since 1894, and organized and edited Iskra together with him, but later on, during the first and second revolutions, came to detest him, and was thrown into prison under Lenin’s dictatorship, was impartial enough to write the following words about him ... :

"No one could sweep people away so much by his plans, impress them by his strength of will, and win them over by his personality as this man, who at first sight seemed so unprepossessing and crude, and, on the face of it, had none of the things that make for personal charm.” Neither Plekhanov nor Martov, nor anyone else had the secret of that hypnotic influence on or rather ascendancy over people, which Lenin radiated. Only Lenin was followed unquestionably as the indisputable leader, as it was only Lenin who was that rare phenomenon, particularly in Russia – a man of iron will and indomitable energy, capable of instilling fanatical faith in the movement and the cause, and possessed of equal faith in himself”\(12\)

There are such men, fortunately not always at the head of a movement. The competitive aggressive character of Lenin cannot be denied; it comes to the fore not only

\(12\) As quoted by N. Valentinov in his book Encounters With Lenin (1968) p. 42. See also A. Balabanoff, My Life As a Rebel (1968), and other memoirs.
in his total rule over his own organization, but in all his writings, which – no matter what
the subject matter – were always of a polemical nature, designed to destroy real or
imaginary enemies of the revolution. Most probably he suffered from some form of
paranoia, for his self-confidence was as excessive as his fear of political rivals. But this is
neither here nor there, as it is quite possible to share his attitudes and convictions without
being obsessed by them to the same degree. The world is swarming with “charismatic”
people, sane or insane who would like to head a social movement and to symbolize it in
their own person. But each movement can have only one supreme leader, who must claw
his way to the top and must command the necessary qualifications. Thus men with
dispositions totally different from those characteristic of Lenin, such as Trotsky or Stalin,
Hitler or Mussolini, may do as well in reaching and holding supreme power and in
winning the admiration of the multitude as well as that of their underlings.

There must of course also be people who accept their subordination willingly and
are ready to “follow the line” drawn by leadership. But in a party that expects to become
the ruling party, even subordination may appear as a good thing, to assure concerted
actions leading to the desired goal. After all, this is how business is done and is the
principle upon which state power rests, a situation to which most people have been
habituated and which they regard as unavoidable. Just as the world of business
competition leads to monopolization, the struggle for political leadership engenders a
political monopoly, which must then be defended through the exclusion of any further
opposition. In other words, political monopoly must be organized, and thus while the
struggle for power may issue into one-man rule, the latter must be retained by ending all
serious contention within the organization. In this respect, the Leninist organization was a
full success, for it was able to reach a consensus of its membership despite its high
centralization dominated by a singular will. More than that, the situation was idealized by
a ritual adulation of Lenin that was both earnestly felt and deliberately fostered as an
expedient way to maintain internal cohesion. What seemed abnormal for a socialist
movement became the norm, foreshadowing the future terror of Stalin’s “personality
cult,” and was adopted by all the Marxist-Leninist organizations formed after the
Bolshevik Revolution.

It is the Bolshevik type of organization that explains Lenin’s extraordinary
personal role in the determination of Bolshevik policy after the February Revolution of
1917. Lenin’s uncontested leadership implied of course political paralysis on the part of
those Bolsheviks accustomed to follow the cherished “old man’s” advice and bound to it
by party discipline. There can be little doubt that there would not have been the coup d’
etat of October without Lenin’s determination to grasp political power, which, he
thought, was there for the asking, and in which he was proven right. The events of
October must be credited to Lenin’s leadership, although executed by Trotsky, the party,
and its many sympathizers. After that, as the saying goes, nothing succeeds like success.

The will to assume political power by revolutionary means may always be present
but has to await a historical opportunity to be exercised. What makes a revolutionary is of
course his impatience with the slow course of social development and his desire to hasten
its pace. He will therefore often endow his anticipations in regard to the existing social
conflicts with a greater revolutionary potentiality than they actually possess. Although
Lenin and his colleagues did not object to the policies adopted by Western socialism,
which, for the time being, consisted in the utilization of bourgeois democracy and the
labor market for purposes of fostering proletarian class consciousness and building up an
independent labor movement, they saw this as a time-conditioned endeavor which did not
exhaust the possibilities for working-class action. Although vaguely, Lenin recognized
after the experience of 1905 that just as it seemed not impossible to take power in the
context of a bourgeois revolution, and in conjunction with a Western revolution to annul the bourgeois character of such a revolution, so it would also be possible to set aside the traditional activities of Western socialism and to replace bourgeois democracy with a socialist dictatorship, which would turn the nominal into a real democracy. This view was also shared, with greater consistency, by people outside the Bolshevik Party, such as for instance, A. I. Helphand (Parvus) and L. Trotsky in their concept of the “permanent revolution.”

As pointed out before, Russian Social Democracy around 1905 was too small an organized force to have more than a marginal effect upon the social upheavals of that year. There were about 3 million industrial workers, more than 2 million of whom participated in a wave of strikes which soon took on a political character as they took place within general crisis conditions aggravated by the Russian defeat in the Russo-Japanese war. Although the revolution involved nonproletarian layers of the population, as well as segments of the peasantry, the army, and the navy, it found in the striking workers in the big cities, particularly St. Petersburg and Moscow, its most decisive element. The strikes were spontaneous in the sense that they were not called by political organizations or trade unions but in the main were launched by workers who had no choice but to look upon their workplace as the springboard of their actions and the center of organizational efforts. The local coordination of the activities demanded representation through city-wide soviets, workers’ councils or workers’ deputies, to formulate policies and to negotiate with the authorities. Of all the soviets formed in Russia during the revolutionary events, the St. Petersburg Soviet, which lasted from October to December 1905, was perhaps the most representative. It found its first historian in Leon Trotsky – himself one of the leading members – who saw the soviets

“as a response to an objective need – a need born of the course of events. It was an organization which was authoritative and yet had no tradition, which could immediately involve a scattered mass of hundreds of thousands of people while having virtually no organizational machinery; which united the revolutionary currents within the proletariat; which was capable of initiative and spontaneous self-control – and most important of all, which could be brought out from underground within twenty-four hours.”

The soviets attracted the most articulate and therefore, generally, the most politically alert of the laboring population, and they found support in the socialist organizations and incipient trade unions. The city-wide soviets comprised delegates of various factories, forming a kind of “workers’ parliament” with an elected executive committee. The delegates could at any time be recalled. The soviets were impartial with respect to socialist organizations, allowing them to send delegates who could advise but had no voting rights. The difference between these traditional organizations and the soviets was summed up in Trotsky’s remark, that while the socialist parties were organizations within the proletariat, and their immediate aim was to achieve influence over the masses, the soviet was, from the start, “the organization of the proletariat, and its aim was the struggle for revolutionary power.”

For Lenin, the soviets of 1905 were "organs of direct mass struggle". They originated as organs of the strike struggle. By force of circumstances they very quickly became the organs of the general revolutionary struggle against the government.... It was not some theory, not appeals on the part of someone, or tactics invented by someone, not party doctrine, but the force of circumstances that led these nonparty mass organs to

15 Trotsky, 1905, p. 251.
realize the need for an uprising and transformed them into organs of an uprising.”  

Lenin saw the soviets as “the embryos of a provisional government” because “power would inevitably have passed to them had the uprising been victorious,” and spoke of the need to shift the center of attention “to studying these embryonic organs of a new government that history has brought into being, to studying the conditions for their work and their success.” But he still insisted on the undivided revolutionary leadership of the Social Democratic Party. The soviets were for Lenin “not an organ of proletarian self-government, nor an organ of self-government at all, but a fighting organization for the achievement of definite aims.” Although the party “has never renounced its intention of using nonparty organizations, such as the soviets,” he said, “it should do so in order to strengthen its own influence in the working class and to increase its own power.”

From this position Lenin never deviated even when he proclaimed the slogan “All power to the soviets” in order to break up the dual power of the soviets and the liberal Provisional Government established by the February Revolution of 1917. The soviets were, in Lenin’s view, to be induced to eliminate the provisional government, but only to form a new government, based on the soviets instead of on the contemplated Constituent Assembly. This would exclude the nonworking population from direct or indirect participation in state activities and thus realize the dictatorship of the proletariat. The new government would be subject to the control of the soviets, not to that of any particular party. But at the same time, while asking for a soviet government, Lenin was still thinking in terms of a Bolshevik government, with or without the consent of the soviets. At the First Congress of Soviets on June 3, 1917, Tseretelli, a Menshevik Minister in the Provisional Government, made the remark that in Russia at that time there existed not one political party that would say, give us the power into our hands. “I answer there is,” Lenin retorted. “No party can decline to do that, and our party does not decline. It is ready at any minute to take the whole power.”

At this time the situation was still in flux; the war was continuing despite the progressive dissolution of the army; counter-revolutionary plots were being hatched; the economy was disintegrating with increasing speed; and the Bolshevik faction in the soviets was still a small minority, unable to turn the situation to its own account. It was not possible to tell, from the existing political constellation, which way the wheel would turn. Would the coalition of the soviets with the Provisional Government last until the calling of the Constituent Assembly – to which all parties had committed themselves – and lead to the formation of a bourgeois government and the completion of the bourgeois revolution? Or would a change in the external situation, or in the composition of the soviets, end the coalition and issue into a renewal of the civil war? Or would the provisional government, with the aid of loyal parts of the army, subdue the soviets to its own will through some form of dictatorship? The many parties operating within the soviets and their widely diverging political and economic programs, as well as frictions within the government itself, made for a chaotic political situation in which everything and nothing seemed possible. Under these conditions, the Bolsheviks could come to

17 Ibid., pp. 128-9.
power either by gaining the majority in the soviets and then trying to dislodge the Provisional Government, or by risking a military uprising with their own limited forces, without counting on the soviets’ support. Either way was feasible and the best solution would be to prepare for both. This involved a certain ambivalence toward the soviets, which Lenin thus at times found indispensable and at other times saw as a hindrance to the execution of a second revolution. But no matter what role the soviets would come to play, it was power for the party that determined Lenin’s policy, as may easily be surmised from all the subsequent developments. This was of course only consistent with both his general philosophy and his conception of the party as the determining element of the socialist revolution.

Because in February 1917 soldiers went over to the revolution, the first soviets were composed of soldiers’ and workers’ councils with the former in the great majority. The Petrograd Soviet in the second part of March 1917, for instance, had 3,000 delegates, 2,000 of whom were soldiers. The influence of the revolutionary intelligentsia was far greater in 1917 than in 1905, as may be seen from the fact that of the 42 members of the Petrograd Soviet’s Executive Committee only seven were factory workers. Mensheviks and Social Revolutionaries were at first predominant. The Bolshevik fraction in the Petrograd Soviet consisted of 40 out of the 3,000 delegates. By September 1917, however, the Bolsheviks had gained the majority. Their growing strength within the revolutionary development was due to their own unconditional adaptation to the real goals of the rebellious masses. Apart from the latter’s narrower demands for the relief of immediate miseries, their wider demands embraced the ending of the war and the expropriation and distribution of the landed estates. The February Revolution was at once a bourgeois, a proletarian, and a peasant revolution, but it was its peasant aspect that assured its success. Of Russia’s 174 million population only 24 million lived in cities, and it was the terrible plight of the peasantry that allied it to the industrial proletariat. Although the Provisional Government was ready to institute a series of agricultural reforms, it was not willing to assent to the expropriation of the big landowners without compensation, for this would violate the principle of private property on which the rule of the bourgeoisie is based. Neither was it willing to sue for peace, for it still hoped for an allied victory and participation in the spoils of war. The Bolsheviks, however, were for the immediate ending of the war and for the distribution of land to the peasantry. Because the majority of the soldiers came from the peasantry, the soldiers’ councils no less than the workers’ councils shifted their allegiance from the bourgeoisie and social reformist parties to the Bolsheviks.

It was not the Marxist agrarian program that attracted the peasants but that of the Social Revolutionaries, which demanded the nationalization of all land under the control of democratically organized village communes on the basis of equal land holdings. From a Marxian point of view such a program was utopian. Marxism favors large-scale production that does away with individual peasant farming. Because it envisioned socialism as the successor to capitalism, and because in its view capitalism itself is doing away with small-scale peasant farming, it expected that the peasant question would largely be solved within capitalism so as not to constitute a major problem for socialism. Lenin’s early opposition to Narodnism and its Social Revolutionary heirs was based on the belief that an equal distribution of land to the peasants was not only highly unrealistic but in contradiction to a socialist mode of production. He also favored the breaking up of the semifeudal estates but only to hasten the development of capitalistic agriculture, which would restore the concentration of landownership under progressive conditions. At any rate, this was a problem of the future, of further capitalistic development. The peasantry, Lenin said, "can free itself from the yoke of capital by associating with the
working-class movement, by helping the workers in their struggle for the socialist system, for transforming the land, as well as the other means of production (factories, works machines, etc) into social property. Trying to save the peasantry by protecting small-scale farming and small holding from the onslaught of capitalism would be a useless retarding of social development.\textsuperscript{21} 

Apart from all programs, however, soon after the February Revolution, the peasants began to expropriate and divide the land on their own accord. Until then, the Provisional Government had paid little attention to the peasant question. It only began to consider it seriously in the face of upheavals in the countryside. But even so, it only brought forth vague suggestions regarding the expropriation and distribution of the land, the enactment of which into law was left to the forthcoming Constituent Assembly. Because Mensheviks and Social Revolutionaries were now represented the Provisional Government, the latter’s ambiguous attitude and inactivity regarding the land problem cost these parties the active support of the peasants. “We were victorious in Russia, and with such ease,” Lenin pointed out at a later date, because we prepared our revolution during the imperialist war....Ten million workers and peasants in Russia were armed, and our slogan was an immediate peace at all costs. We were victorious because the vast masses of the peasants were revolutionarily disposed against the land-owners. The Social Revolutionaries... demanded revolutionary methods,...but lacked the courage to act in a revolutionary way. We were victorious... not only because the undisputed majority of the working class was on our side... but also because half the army, immediately after our seizure of power, and nine-tenths of the peasants, in the course of some weeks, came over to our side; we were victorious because we adopted the agrarian programme of the Social Revolutionaries instead of our own.\textsuperscript{22} 

In the quest for state power, it was clear to Lenin that it was absolutely essential to win the peasants’ support, even if only their passive support. The Marxist agrarian program had been developed in opposition to that of the Social Revolutionaries, but at a time when the practical questions of the revolution were not yet acute. Under Russian conditions this program was totally unrealistic. All abstract considerations of the agrarian problem became meaningless when the peasants simply seized what was seizable. It was not because “the Bolsheviks availed themselves of the agrarian program of the Social Revolutionaries that they were victorious,” but because they merely sanctioned what was taking place anyway. It is true, of course, that in this way they won the “good will” of the peasants and thus had an easier time of gaining and holding state power. But Lenin’s presentation makes it appear as if a timely opportunistic move, a part of a general strategy, led to the Bolsheviks’ triumph, thus justifying opportunism as a weapon of revolution. The acquiescence in the peasants’ seizure of land, though recognized as a violation of Marxian principles, was nonetheless seen as a clever ruse to help the “Marxist” revolution along. Although relentlessly denouncing the opportunism of their political adversaries, Lenin and the Bolsheviks prided themselves on their general willingness to resort to all kinds of temporary concessions and compromises, sacrificing their own principles to gain a greater advantage in the long run.

Although Lenin was the deadly enemy of the bourgeois revolution, his politics were those of the bourgeois mind; that is, he saw the struggle between classes and nations as dependent upon the strategies and tactics of political leaders and statesmen, who


\textsuperscript{22} “Speech in Defense of the Tactics of the Communist International” at the Third Congress of the Communist International (July 1921), Against Dogmatism and Sectarianism in the Working-Class Movement (Moscow, 1965), pp. 179-81.
determine the movements of the populations. It was a question of outmaneuvering and outwitting one’s adversaries, a game to be won by those most adept in the manipulation of events. Politics and revolution were an “art,” which would give the palm of victory to the most versatile and most knowledgeable of the competing contestants – not an “art” in contrast to the rigidities of science, or the dullness of the commonplace, but as a matching of talents that would bring the best man to the top. To be sure, the game had to be played under the varying handicaps set by the prevailing objective social conditions, but even so, within these conditions it was still a question of “who was going to destroy whom” in the struggle for political power. It was this that Lenin meant by the preponderance of theory over practice, or that of the leaders over the more or less uneducated masses, who could only react blindly to situations beyond their comprehension.

Not denying the objective limitations set for the history-making social process by class relations and the level of economic development, Lenin succeeded in convincing himself that though history is made by men, it is actually made by only a few of them, who by identifying themselves with particular class interests, alter the course of events through their powers of persuasion and their exceptional abilities. But every bourgeois knows that sheer arbitrariness is an impossibility, even though he may insist upon the history-making capacity of individuals and credit historical developments to the existence of great men. He overlooks the fact that the great man is such only because the apex of the pyramidal social structure demands his existence, no matter what his particular qualifications (although competition may on occasion bring some outstanding personality to the top of the pyramid). In a class-ridden society the role of the great man is not only filled automatically, it must be insisted upon to keep the social fabric together. No class society can exist without its great men, for this is only the other side of the same coin. By the same token, however, the great men are limited in their reach by the general socioeconomic conditions which they come to symbolize. Their interference in events is circumscribed by what is historically possible. But what is historically possible is not determined by what may be politically possible, but by the actual level of the social forces of production and the social relations associated with them.

It was political events that favored the Bolsheviks. At the First All-Russian Soviet Congress, in June 1917, the Bolsheviks controlled 13 percent of the 790 delegates; at the second congress, in October 1917, they controlled 51 percent of the 675 delegates. However, though the Bolsheviks had the majority in the soviets of Petrograd and Moscow as early as September 1917, Lenin would have been ready to take power even if it had been otherwise. “It would be naive,” he wrote, “to wait for a ‘formal’ majority for the Bolsheviks. No revolution ever waits for that.” Despite opposition within his own party, he demanded an armed insurrection prior to the convocation of the Second All-Russian Congress of Soviets. A fait accompli would make it easier to get the congress’s support for the elimination of the Provisional Government. To that end, the Petrograd Soviet organized a military-revolutionary committee under the leadership of Trotsky, which went into action on the twenty-fifth of October. Within a few hours of the coup d’état, Lenin was able to claim victory for the workers’ and peasants’ revolution, and, later in the day, to win the approval of the All-Russian Congress of Soviets. This was the easier because the right Social Revolutionaries and the Mensheviks had left the congress in protest against the coup d’etat. On the following day the first Workers’ and Peasants’ Government was formed.

Lenin’s timing of the insurrection proved to be correct. It found the Provisional Government defenseless and assured an almost bloodless transfer of power to the Soviet government. Supposedly, it also changed the hitherto bourgeois into a proletarian revolution, even though this was brought about not by a spontaneous rising of the working class but by a conspiratorially organized military force of armed Bolshevik workers and military detachments siding with the Bolsheviks. Although a party affair, it undoubtedly coincided with the real demands of the workers, as expressed in the shift of political allegiances within the soviets and in the general attitude of the working population. Lenin had actually succeeded in making the proletarian revolution for the workers, thus substantiating his own revolutionary concepts. However, when he demanded the preparation for the insurrection, he did not speak of the exercise of state power by the soviets but of that by the party. With the majority of the soviet deputies being Bolshevik, or supporting the Bolsheviks, he took for granted that the new government would be a Bolshevik government. And that was the case of course, even though some left Social Revolutionaries and left Socialists obtained positions in the new government.

At first, however, the Bolsheviks proceeded rather cautiously, emphasizing the democratic nature of their new regime and their willingness to accept the decisions of the popular masses even if not in agreement with them. They did not at once repudiate the election of the Constituent Assembly, which, as it turned out, gave a large majority to the Social Revolutionaries and put the Bolsheviks in the minority. But despite their election success, due to their traditional empathy with the peasants, the Social Revolutionaries were not a unified party, particularly with regard to the question of the continuation of war. The left Social Revolutionaries were in closer accord with the Bolsheviks than with the right wing of their own party. While the elections for the Constituent Assembly were being held, an All-Russian Congress of Peasant Deputies was also in progress. The congress split the Social Revolutionaries and the left wing entered a coalition with the Bolsheviks. The election results had made clear that the Constituent Assembly would destroy the Bolshevik Party’s political dominance and the accomplishments of the revolution as well. With the consent of the Social Revolutionaries and some left Socialists, the Bolsheviks simply drove the assembly away.

The will of the majority of the population, workers and peasants, to reach for peace, land, bread, and liberty, found a complete counterpart in the political program of the Bolshevik Party. The early bourgeois democratic aspiration for a Constituent Assembly had lost its apparent importance, not only for the Bolsheviks but for the broad masses as well. Not only in Russia but internationally revolutionaries hailed soviet rule as an accomplishment of historical significance. Even such a skeptical socialist as Luxemburg stated that by seizing power, the Bolsheviks had “for the first time proclaimed the final aim of socialism as the direct program of practical policies.” They had done so by “solving the famous problem of winning a majority of the people” by revolutionary tactics that led to a majority, instead of waiting for latter to evolve a revolutionary tactic. In her view, at least far as the urban masses were concerned, Lenin’s party had grasped their true interests by playing all power into the hands of soviets.

From his own point of view, however, Lenin equated soviet power with the power of the Bolshevik Party; he saw in the latter’s monopoly of the state the realization of the rule of the soviets. After all, there was only the choice between a capitalist government

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25 Ibid.
and a workers’ and peasants’ government able to prevent the return of the bourgeois rule. But to continue Bolshevik domination of the government and its state apparatus, the workers and peasants would have to continue to elect Bolsheviks to the soviets. For that there was no guarantee. Just as the Mensheviks and Social Revolutionaries, once in the majority, now found themselves in a minority position, so things could change again for the Bolsheviks. It was thus necessary to prevent a reemergence of the soviets, which might favor a return to bourgeois political institutions. Left to themselves, the soviets were quite capable of abdicating their power position for the promises of the liberal bourgeoisie and their social reformist allies. To secure the socialist character of the revolution demanded, then, the suppression of all anti-Bolshevik forces within and outside the soviet system. In a short time the soviet regime became the dictatorship of the Bolshevik Party. The emasculated soviets were retained, though only formally, to hide this fact.

Quite apart from the tactical participation in the elections to the Constituent Assembly, and the occasional lip service paid to this bourgeois institution, Lenin had already, in the so-called “April Theses” proposed to his organization after his return to Russia, argued that a parliamentary republic was unnecessary because of the existence of the soviets, which in his view would allow for a type of state such as had been brought about by the Paris Commune. In accordance with this idea, he did not think that socialism was the immediate task, but that the “transition to the control of production and the distribution of products by the soviet of workers’ deputies” sufficed to serve the immediate needs of the revolution. What was of foremost importance was the nature of the state, of political power, from which everything else would flow in the direction of socialism. “All power to the soviets,” did not include possession of the means of production, or the abolition of wage labor. The workers were not expected to administer but merely to oversee the industrial enterprises. The first decree of Workers’ Control extended it

over the production, storing, buying and selling of raw materials and finished goods as well as over the finances of the enterprises. The workers exercise this control through their elected organizations, such as factory and shop committees, soviet elders, etc. The office employees and the technical personnel are also to have representation in these committees. ... The organs of workers’ control have the right to supervise production. Commercial secrets are abolished. The owners have to show to the organs of workers’ control all their books and statements for the current year and for the past year.”

However, capitalist production and workers’ control are incompatible and this makeshift affair, whereby the Bolsheviks hoped to retain the aid of the capitalist organizers of production and yet satisfy the yearnings of the workers to take possession of industry, could not last for long. “We did not decree socialism all at once throughout the whole of industry,” Lenin explained a year later,

because socialism can take shape and become finally established only when the working class has learned to run the economy. ... That is why we introduced workers’ control, knowing that it was a contradictory and partial measure. But we consider it most important and valuable that the workers have themselves tackled the job, that from workers’ control, which in the principal industries was bound to be chaotic, amateurish

and partial, we have passed to workers’ administration of industry on a nation-wide scale.”27

The change from “control” to “administration” turned out entail the abolition of both. To be sure, just as the emasculation the soviets took some time, for it required the formation and consolidation of the Bolshevik state apparatus, so the workers influence in factories and workshops was only gradually eliminated through such methods as shifting the controlling rights from the factory committees to the trade unions and then transforming the latter into agencies of the state. In fact, workers’ control by factory councils or shop stewards preceded the governmental decree. These committees arose spontaneously during the Revolution, as the only possible form of workers’ representation due to the destruction of the trade unions during the war. The latter had been, of course, the counterpart of Russian Social Democracy and were a stronghold of its Menshevik wing. They rapidly revived after the February Revolution but found now strong opposition in the factory committees, which held the unions to be superfluous under the changed conditions. Generally the factory councils sided with the Bolsheviks and considered themselves a more adequate form of organization, not only in the fight for immediate demands, for workers’ control, but also as newly founded system for the administration of production in the enterprise and in the economy as a whole.

With the overthrow of the Provisional Government, and even before serious attempts were made to integrate the factory councils into a centralized network so as to secure both the existence of the national economy and the undivided control of production and distribution by the producers themselves, which would practically mean the abolition of wage labor. But even as a mere tendency, and a rather weak one, considering the Russian conditions, this project was at once outlawed by the Bolshevik regime under the subterfuge that it would impair economic revival and reduce the productivity of labor. Although the factory committees had been one of the conditions of the Bolshevik assumption of power, their contemplated self-determination now endangered and contradicted the dictatorial rule of the Bolshevik government. With the Mensheviks’ loss of power went also their control of the trade unions, which were taken over by the Bolsheviks. The factory councils were induced to subordinate themselves to the trade unions, in fact, to turn themselves into a trade-union instrument for the assertion of the latter’s will in the factories. The trade unions, with their bureaucratic centralization, were less susceptible to independent actions and could more easily be integrated into the emerging Bolshevik state. And, as it was pointed out at the time, “the objective course of the revolution demanded the transition to government control and regulation of industry.”28

In this way, workers’ control reversed itself, becoming control over the workers and their production. The basic need was for greater production and, because mere exhortation could not induce the workers to exploit themselves more than had been customary, the Bolshevik state extended itself into the economic sphere, insisting all the while that economic control by the state actually meant control by the proletariat. This did not hinder Lenin from declaring that it was absolutely essential that the technical and organizational direction of production must be the exclusive right of the state-appointed managers and directors, for

27 Questions of the Socialist Organization of the Economy (Moscow: p. 173).
28 A. M. Pankratova, Fabrikritte in Russland (Frankfurt: Fischer, 1976), p. 232. This important book, first published in Moscow in 1923, offers a comprehensive description – albeit from a Bolshevik point of view – of the rise, activities, and aspirations of the Russian factory councils, their relations to the trade unions, and their elimination by the Bolshevik state.
the foundation of socialism calls for absolute and strict unity of will which directs the joint labors of hundreds, thousands, and tens of thousands of people ... How can strict unity of will be assured? By thousands subordinating their wills to the will of one. Given ideal class-consciousness and discipline on the part of those taking part in the common work, this subordination would be quite like the mild leadership of a conductor of an orchestra. It may assume the sharp form of dictatorship if ideal discipline and class consciousness are lacking. But be that as it may, unquestioning subordination to a single will is absolutely necessary for the success of processes organized on the pattern of large-scale industry.29

If this statement is taken seriously, class consciousness must have been totally lacking in Russia, for control of production, and of social life in general, took on dictatorial forms exceeding anything experienced in capitalist nations and excluding any measure of self-determination on the part of the workers down to the present day.

6. The Idea of the Commune

The workers’ failure to maintain control over their own destiny was due mainly to Russia’s general objective unreadiness for a socialist development, but also to the fact that neither the soviets, nor the socialist parties, knew how to go about organizing a socialist society. There was no historical precedent and Marxist theory had not seriously concerned itself with the problem of the socialist reconstruction of society. However, past revolutionary occurrences had some relevance, particularly as regards Russia, because of her general backwardness. Following Marx and Engels, Russian Marxists were apt to point to the Paris Commune as an example of a working-class revolution under similarly unfavorable conditions. Trotsky wrote, for instance, that

it is not excluded that in a backward country with a lesser degree of capitalist development, the proletariat should sooner reach political supremacy than in a highly developed capitalist state. Thus, in middle-class Paris, the proletariat consciously took into its hands the administration of public affairs in 1871. True it is that the reign of the proletariat lasted only for two months; it is remarkable, however, that in the far more advanced centers of England and the United States, the proletariat never was in power even for the duration of one day.¹

Lenin, too, found in the Paris Commune a justification for his own attitude with respect to the Russian Revolution and the Soviet dictatorship. Quoting Marx, he cited as the great lesson of the Paris Commune that the bourgeois state cannot simply be taken over by the proletariat but must be destroyed and replaced by a proletarian state, or semi-state, which would begin to wither away as soon as majority rule had replaced the minority rule of bourgeois society. “Overthrow the capitalists,” he wrote, “crush with the iron hand of the armed workers the resistance of these exploiters, break the bureaucratic machine of the modern state – and you have before you a mechanism of the highest technical equipment, freed of ‘parasites’, capable of being set in motion by the united workers themselves who hire their own technicians, managers, bookkeepers, and pay them all, as, indeed, every ‘state’ official, with the usual workers’ wages. Here is a concrete, practical task, immediately realizable in relation to all trusts, a task that frees the workers of exploitation and makes use of the experiences (especially in the realm of the construction of the state) which the Commune began to reveal in practice.”²

The practice of the proletarian state as revealed by the Commune was a rather limited one, however, not so much “consciously” introduced, as Trotsky asserted, as spontaneously released by the particular conditions of the Franco-Prussian war, the siege of Paris, and the great patriotism of the Parisian population. But whatever the circumstances, the incorporation of the workers into the National Guard, which they came to dominate, gave them the weapons to express their opposition to the newly established bourgeois government that was trying to come to terms with the Prussian invaders. Their great suffering during the siege of Paris had not diminished the proletariat’s patriotic ardor but merely intensified their hatred for the bourgeoisie, which was willing to accept the consequences of the defeat in order to secure its own rule through the disarming of the working class. In view of the increasingly revolutionary situation in Paris, the bourgeois government established itself in Versailles, preparing for the reconquest of the capital. The Paris municipal elections of March 26, 1871, gave the republican left opposition a majority of four to one and led to the proclamation of the Commune de Paris. The

² Lenin, State and Revolution (New York: International 1932), p. 44.
Commune shared the rule of the city with the Central Committee of the National Guard, responsible for its defense.

Although the Communal Revolution saw itself as inaugurating a “new political era” and as marking the “end of the old governmental and clerical world, of militarism, of monopolism, of privileges to which the proletariat owes its servitude, the Nation its miseries and disasters,” the force of circumstances, as well as the variety of opinions which agitated the Communards, precluded a far-reaching or consistent socialist program. There were, however, the decrees that abolished the Army in favor of the National Guard, the limitation of government salaries to the equivalent of workers’ wages, the expropriation of Church property, the elimination of fines imposed upon workers by their employers, the abolition of nightwork in bakeries, the nationalization of workshops abandoned by their bourgeois owners, and so forth. But these measures did not as yet point to a radical social transformation. In the Executive Council of the Commune, moreover, workers were still in a minority. Of its 90 members, only 21 belonged to the working class, while the rest were middle-class people such as small tradesmen, clerks, journalists, writers, painters, and intellectuals. Only a few of the leading members of the Commune were adherents of the First International. The majority was divided between Proudhonists, Blanquists, and Jacobins of various descriptions, who were interested mainly in political liberties and the preservation of small property owners in a decentralized society. The Commune was thus open to different interpretations by a variety of interests operating within it.

All the shortcomings of the Commune, particularly in the light of Marx’s own position, could not erase the fact that it was basically an anti-bourgeois government, one in which some workers actually exercised governmental functions and expressed their willingness to dominate society. This intrinsic fact weighed far heavier in Marx’s estimation of the Commune than all its other aspects, which ran counter to his own concept of socialism.

The Commune was not initiated by the International and had no socialist character in the Marxian sense. That Marx nonetheless identified himself and the International with the Commune was seen by his political adversaries as an opportunist attempt to annex the glory of the Commune to Marxism. There is no need to question Marx’s motivations in making the cause of the Commune his own. The very passions released by the Paris Commune among the workers as well as the bourgeoisie indicate that the social class division can come to overrule and dominate the ideological and even material differentiations within each separate class. It was not the particular program adopted by the Commune that mattered – whether it was of a centralist or a federalist nature, whether it actually or only potentially implied the expropriation of the bourgeoisie—but the fact alone that segments of the working class had momentarily freed themselves from bourgeois rule, had arms at their disposal, and occupied the institutions of government. In the brutal answer of the bourgeoisie to this rather feeble first attempt at self-government on the part of the Parisian workers, all class-conscious workers recognized the ferocity and irreconcilability of the class enemy, not only in Paris but throughout the world.

4 According to Bakunin, for instance, the impression made by the Commune was so powerful that “even Marxists, whose ideas were overturned by the uprising, saw themselves forced to lift their hats before it. Not only that, in contradiction to all logic and their own true feelings, they adopted the program of the Commune as their own. It was a comical but unavoidable travesty, for otherwise they would have lost all their followers due to the mighty passion the revolution aroused all over the world.” Quoted by F. Brubacher, Marx und Bakunin (Munich: Die Aktion, 1922), pp. 101-102.
Instinctively as well as consciously, they stood at the side of the French workers, quite independently of all the theoretical and practical issues which otherwise divided the working-class movement. For this reason Marx described the Commune as “essentially a working-class government” and as “the political form, at last discovered, under which to achieve the economic emancipation of labor,” for, as he argued, “the political rule of the producer cannot coexist with the perpetuation of his social slavery. The Commune was therefore to serve as the lever for uprooting the economic foundations upon which rests the existence of classes, and therefore of class rule.”

The destruction of the bourgeois state and the capture of political power made sense only on the assumption that it would be used to eliminate the capital-labor relation as well. One cannot have a workers’ state in a capitalist society. Marx seemed convinced that, had the Commune survived, its own necessities would have forced it to shed its many inadequacies. “The multiplicity of interpretations to which the Commune has been subjected, and the multiplicity of interests which construed it in their favor,” he wrote, “show that it was a thoroughly expansive political form, while all previous forms of government had been emphatically repressive.” The fall of the Commune precluded further speculation about its expansive quality and the direction it would take. But Marx saw no need to emphasize his own differences with the Commune, instead stressing those of its aspects that could serve the future struggles of the proletariat.

For this purpose, Marx simply side-stepped the problem of federalism and centralism, which, among others, divided the Marxists from the Proudhonists whose ideas dominated the Commune. He described the latter and its autonomy as instrumental in breaking the bourgeois state and realizing the producers’ self-government. The Paris Commune, he wrote, was to serve as a model to all the great industrial centers in France. The communal regime once established in Paris and the secondary centers, the old centralized government would in the provinces, too, have to give way to the self-government of the producers. In a rough sketch of national organization which the Commune had no time to develop it states clearly that the commune was to be the political form of even the smallest country hamlet, and that in the rural districts the standing army was to be replaced by a national militia, with an extremely short term of service. The rural communes of every district were to administer their common affairs by an assembly of delegates in the central town, and these district assemblies were again to send deputies to the National Delegation in Paris, each delegate to be at any time revocable and bound by the instructions of his constituents. The few but important functions which still would remain for a central government were not to be suppressed, as has been intentionally misstated, but were to be discharged by communal and, therefore, strictly responsible agents. The unity of the nation was not to be broken, but, on the contrary, to be organized by the Communal Constitution, and to become a reality by the destruction of the State power which claimed to be the embodiment of that unity independent of, and superior to, the nation itself, from which it was but a parasitic excrescence.

By merely relating the theoretically contemplated national federation of the autonomous communes, Marx gave the impression of general agreement with the plan and its workability. But the whole of Marx’s work speaks against this conclusion, for he had never been able to envision the return of political forms which had already been superseded by more advanced ones. He thus found it necessary to state that it is generally

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6 Ibid.
the fate of completely new historical creations to be mistaken for the counterpart of older and even defunct forms of social life, to which they may bear a certain likeness. Thus, this new Commune, which breaks the modern State power, has been mistaken for a reproduction of the medieval communes, which first preceded, and afterwards became the substratum of, that very State power. The communal constitution has been mistaken for an attempt to break up into a federation of small states, as dreamt of by Montesquieu and the Girondins, that unity of great nations which, if originally brought about by political force, has now become a powerful coefficient of social production. The antagonism of the Commune against the State power has been mistaken for an exaggerated form of the ancient struggle against overcentralization.  

Marx’s opinion, then, the federal character of the Communal Constitution was not in opposition to a centralized social organization but merely realized the centralist requirements in ways different from those of the capitalist state, in ways that assured the self-rule of the producers. In short, as Lenin later insisted, Marx considered “the possibility of voluntary centralization, of a voluntary union of the communes into a nation, a voluntary fusion of the proletarian communes in the process of destroying bourgeois supremacy and the bourgeois state machinery.” However, the truth of the matter seems to be that on this point Marx did not strive for great precision in the formulation of his ideas. Written in great haste and in commemoration of the defeated Commune, his address on the civil war was not really designed as a lesson on and solution to the problems of the proletarian revolution and the formation of a socialist society, especially as before, during, and after the Commune, Marx did not believe in the possibility of its success, which alone would have lent some reality to the problems posed in his address ten years after the Commune he described it as an “uprising of a single city under very special conditions, with a population which neither was nor could be socialist.”

Though the struggle had been hopeless, it was still instructive by pointing to the necessity of a proletarian dictatorship to break the power of the bourgeois state. But this did not make the Commune, as Lenin claimed, a model for the construction of the communist state. It is not a communist state, at any rate, that the proletariat has to build, but a communist society. Its real goal is not another state, whether federalist or centralist, democratic or dictatorial, but a classless society and abolition of the state.

The labor movement is no less prone to mythologize its own history than is the bourgeoisie. Historic events appear different from what they actually were and their descriptions are directed more to the emotional receptivity of people than to their need for accuracy. The class struggle, like any other, precludes objectivity. Marx and Engels were not above myth-making, even if covered up by a great amount of sophistry. When Lenin conceived of the Russian revolution as an emulation of the Paris Commune, he was appealing to a mythological Commune, not to its actual character. The Commune was of so great an interest to Lenin not because of what it actually implied, but because of what had been said about it by Marx and Engels. Representing a wing within the Marxist movement, he felt the need to justify his own position in terms of Marxian ideology. While hiding in Finland he wrote his pamphlet State and Revolution on a problem he had pondered many years before but which now, after the February Revolution, seemed to him no longer merely of theoretical but also of practical importance. Despite his great respect for theory, Lenin was preeminently a practical politician. While there could be no

8 Ibid., p. 211.
9 Lenin, State and Revolution, p. 46.
practice without theory, only that theory out of many was acceptable which suited his particular practice – that is, the capture of political power under the given conditions. At the same time – as an excuse as well as a support – the acceptance of a theory must be based on authority; even an Emperor is there by the grace of God. For Lenin, the unquestioned authorities were Marx and Engels. In this respect he was fortunate because both were dead and unable to talk back, and also because during their lives they had commented on a great number of historical events, and had suggested measures to deal with them, in accordance with their own time-conditioned apprehension of these events. A dogmatic acceptance of Marxism will thus allow the faithful Marxist to find support for his own convictions by merely picking one or another statement out of the founding fathers’ wide-ranging, though often erroneous, pronouncements on issues that, due to changed economic and political conditions, have long lost their meaning. Although Lenin wrote a great deal, he did not contribute, and had no intention to contribute, to the main body of Marxian doctrine – not because of a lack of ability to do so, but because, for him, Marx and Engels (and even Kautsky, up to 1914) had said all that needed to be said for the comprehension of history, capitalism, and the proletarian revolution.

Although there is really nothing positive to be learned from the Paris Commune except the obvious – that the proletariat can not utilize but must overthrow the capitalist state – what attracted Lenin to Marx’s comments on the Commune was the statement that “the political rule of the producers is incompatible with the eternalization of their social servitude”; that is, that this political rule, if maintainable, will lead to a socialist society. For Lenin, this political rule was of course embodied in the new state, emerging out of the revolution, which would then serve as the vehicle of the socialization process. Perhaps, carried away by his own revolutionary ardor – and quite in contrast to his own doctrine, which denied the proletariat the independent capacity to make a revolution, not to speak of building socialism – Lenin affirmed in State and Revolution the proletariat’s ability to construct a really democratic society and to manage its own production under an egalitarian system of distribution. “Capitalist culture,” he wrote now, has created large-scale production, factories, the postal services, telephones, etc., and on this basis the great majority of functions of the “old state power” has become simplified and can be reduced to such simple operations of registration, filing and checking, that they will be quite within the reach of every literate person, and it will be possible to perform them for “workingmen’s wages,” which circumstances can (and must) strip those functions of every shadow of privilege, of every appearance of "official grandeur." All officials, without exception, elected and subject to recall at any time, their salaries reduced to "workingmen’s wages" – these simple and self-evident democratic measures, while completely uniting the interests of the workers and the majority of the peasants, at the same time serve as a bridge leading from capitalism to socialism.”

But, as we have seen before, in Lenin’s view “workers’ management” finds its actual realization through the political and economic power of the state. It is the latter that manages the relations of production and distribution; only this state is now equated with the working class itself. It is necessary, Lenin wrote, to organize the whole national economy like the postal system, in such a way that the technicians, managers, bookkeepers as well as all officials, should receive no higher wages than “workingmen’s wages”; all under the control and leadership of the armed proletariat – this is our immediate aim. This is the kind of state and economic basis we need. All citizens are transformed into hired employees of the state, which is made up of

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11 State and Revolution, pp. 38-40.
armed workers. ... The whole society becomes one office and one factory with equal pay and equal work.”

Of course, Lenin was too well versed in Marxian theory to leave the matter at this point. He knew that socialism excludes state rule, and he even quoted Engels’s remark that “the first act in which the state really comes forward as the representative of society as a whole – the seizure of the means of production in the name of society – is at the same time its last independent act as a state.” It should follow that the socialist organization of production is a function not of the state, but of social institutions that progressively eliminate the functions of the state, finally to end them altogether. But Lenin saw the “withering away” of the state in a quite different light. “From the moment,” he wrote, “when all members of society, or even only the overwhelming majority, have learned to govern the state themselves, have taken this business into their own hands, have established control over the insignificant minority of capitalists, over the gentry with capitalistic leanings, and the workers thoroughly demoralized by capitalism-from this moment the need for government begins to disappear.” Instead of dissolving the state, i.e., the “dictatorship of the proletariat,” within the socialization process, it is the proletarian state itself, in Lenin’s view, that actualizes the socialization process. The state has to govern in order for the great majority to learn how to govern the state.

Behind this reasoning, if such it is, hides Lenin’s recognition of the objective difficulties in the way of the socialist reconstruction of Russian society. All that could be accomplished was the capture of state power and the state’s intervention in the economy. Lenin was convinced that Russia’s “modernization” could be more effectively realized through the agency of the state than by private-enterprise initiative, and he seems to have convinced himself of the possibility of imbuing the workers with the same idea, so that they might identify themselves with the Bolshevik state as the latter identified itself with the proletariat. However, when Lenin was writing State and Revolution, the Bolshevik state was only a mere possibility that might or might not become a reality. The existing Provisional Government had first to be overthrown, and the workers had to be encouraged to undertake this task, or at least not to interfere with those who would. They had to be convinced that there was no need to leave the organization of society to the bourgeoisie, but that they were quite capable, by themselves, of handling the matter. The very language of State and Revolution, as well as the rather primitive suggestions on how to go about building the new society, indicate that this pamphlet was not conceived as a serious discussion of the relations between the state and revolution, but as a propaganda instrument to induce Lenin’s followers and the workers generally to make an end of the existing state. As such it came too late to affect the seizure of power, though it could still serve as a “Marxist” justification for the Bolshevik initiative.

Everything Lenin wrote prior to State and Revolution, and every step taken after the seizure of power, turns the apparent radicalism displayed in this pamphlet into a mere opportunistic move to support the immediate aim of gaining power for the Bolshevik Party. It is quite possible that Lenin’s identification with the proletariat was subjectively honest, in that he actually believed that the latter must come to see in his conception of the revolutionary process their own true interests and their real convictions.

On the other hand, the ambiguities within his revolutionary proposals indicate that, while trusting his own revolutionary principles, Lenin did not trust those of the working class, which would first have to be educated to continue to do for themselves what,
meanwhile, would be done for them by the Bolshevik state. What he allows the workers with his left hand, he takes away again with his right. It was then not a momentary emotional aberration on the part of Lenin that induced him to grant so much revolutionary self-determination to the workers, but a pragmatic move in the manipulation of the revolution in accordance with his own party concept of the socialist state.

7. State and Counter-Revolution

Lenin’s state was to be a Bolshevik state supported by workers and peasants. As the privileged classes could not be expected to support it, it was necessary to disfranchise them and thus end bourgeois democracy. Once in power, the Bolsheviks restricted political freedoms – freedom of speech, press, assembly, and association, and the right to vote and to be elected to the soviets – to the laboring population, that is, to all people “who have acquired the means of living through labor that is productive and useful to society, that is, the laborers and employees of all classes who are employed in industry, trade, agriculture, etc., and to peasants and Cossack agricultural laborers who employ no help for purposes of making profits.” However, the peasants could not be integrated into the envisioned “one great factory,” which transformed “all citizens into the hired employees of the state,” for they had made their revolution for “private property,” for land of their own, disregarding the fact that nominally all land belonged to the nation as a whole. The concessions made to the peasants were the price the Bolsheviks had to pay for their support. “The Russian peasantry,” wrote Trotsky, “will be interested in upholding proletarian rule at least in the first, most difficult, period, no less than were the French peasants interested in upholding the military role of Napoleon Bonaparte, who by force guaranteed to the new owners the integrity of their land shares.”

But the peasants’ political support of the Bolsheviks was one thing and their economic interests another. Disorganization through war and civil war reduced industrial and agricultural production. The large landed estates had been broken up to provide millions of agricultural laborers with small holdings. Subsistence farming largely displaced commercial farming. But even the market-oriented peasantry refused to turn its surpluses over to the state, as the latter had little or nothing to offer in return. The internal policies of the Bolshevik state were mainly determined by its relation to the peasantry, which did not fit into the evolving state-capitalist economy. To placate the peasants was possible only at the expense of the proletariat, and to favor the latter, only at the expense of the peasantry. To stay in power, the Bolsheviks were constantly forced to alter their positions regarding either one or the other class. Ultimately, in order to make themselves independent of both, they resorted to terroristic measures which subjected the whole of the population to their dictatorial rule.

The Bolshevik dilemma with regard to the peasants was quite generally recognized. Despite her sympathies for the Bolshevik Revolution, Rosa Luxemburg, for example, could not desist from criticizing their agricultural policies as detrimental to the quest for socialism. Property rights, in her view, must be turned over to the nation, or the state, for only then is it possible to organize agricultural production on a socialistic basis. The Bolshevik slogan “immediate seizure and distribution of the land to the peasants” was not a socialist measure but one that, by creating a new form of private property, cut off the way to such measures. The Leninist agrarian reform, she wrote, “has created a new and powerful layer of popular enemies of socialism in the countryside, enemies whose

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1 Constitution of the Russian Socialist Federated Soviet Republic (1918), Article 4, Chapter XIII.
2 Trotsky, Our Revolution, p. 98.
resistance will be much more dangerous and stubborn than that of the noble large landowners."3 This criticism, however, did no more than restate the unavoidable dilemma. While she favored the taking of power by the Bolsheviks, Luxemburg recoiled before the conditions under which alone this was possible. Lenin, however, expected the peasants’ continuing support not only because the Bolsheviks had ratified their seizure of land, but also because the Soviet state intended to be a “cheap government,” in order to ease the peasants’ tax burden.

It is partly with this “cheap government” in mind that Lenin spoke so repetitiously of the necessity of “workingmen’s wages” for all the administrative and technical functionaries. “Cheap government” was to cement together the “workers’ and peasants’ alliance.” During the first period of Bolshevik rule, moreover, the egalitarian principles enunciated in State and Revolution became largely a reality, due to the difficulties in the way of providing the urban population with the bare necessities of life. The government saw itself forced to take from the peasantry all their surplus grain, and often more than that, in the form of “loans,” or in exchange for valueless paper money. Their violent reactions induced the Bolsheviks to replace the system of confiscation with a tax in kind, which failed to still the peasants’ opposition. Finally, in 1921 the government was forced into a New Economic Policy (NEP), involving a partial return to capitalist market relations and an attempt to attract capital from abroad.

The invitation to invest in Russian industry was largely ignored by Western capitalism. The problem remained how to capitalize the country without ending up with a private-enterprise system – the logical outcome of a development of peasant farming under free market relations. The New Economic Policy could be regarded either as a mere interval in the “socialization process” or as a more permanent policy entailing the risk that the newly generating private capitalist forces would overtake the state-controlled sector of the economy and even destroy it. In such an eventuality, the Bolshevik intervention would have been in vain – a mere incident in a bourgeois revolution. Lenin felt sure, however, that a partial return to market relations could be politically mastered, i.e., that the Bolshevik Party could hold state power and secure enough economic weight by maintaining control of key positions, such as large-scale industry, banking, and foreign trade, thus neutralizing the emerging private property relations in agriculture, small-scale industry, and the retail trade. In time, the real social power would shift from the peasantry to state-controlled industry by virtue of the latter’s growth.

In the end, however, the problems of the “mixed economy” of the NEP period were resolved by the forced collectivization of agriculture, the centrally planned economy, and the terroristic regime of Stalinism. The fears of Rosa Luxemburg with respect to Bolshevik peasant policy proved to be unwarranted. However, the destruction of peasant property by way of collectivization did not lead to socialism but merely secured the continuance of state capitalism. By itself, the collectivized form of agriculture has no socialist character. It is merely the transformation of small-scale into large-scale agricultural production by political means in distinction to the concentration and centralization process brought about, though imperfectly, in the capitalist market economy. Collectivization was to make possible a more effective extraction of surplus labor from the peasant population. It required a “revolution from above,” a veritable war between the government and the peasantry,4 wherein the government falsely claimed to

3 Luxemburg, The Russian Revolution, p. 46.
4 Lord Moran reports the following dialogue between Churchill and Stalin in Moscow in 1942: Churchill: “When I raised the question of the collective farms and the struggle with the kulaks, Stalin became very serious. I asked him if it was as bad as the war. ‘Oh, yes,’ he answered, ‘Worse. Much worse. It went on for years. Most of them were liquidated by the peasants, who
act on behalf of and to be aided by the poor peasants, in wiping out the kulaks, or rich peasants, who were blocking the road to socialism.

Unless for higher wages, implying better living standards, wage workers see no point in exerting themselves beyond that unavoidable measure demanded by their bosses. Supervision, too, demands incentives. The new controllers of labor showed little interest in the improvement of production at “workingmen’s wages.” The negative incentive, implied in the need for employment in order to live at all, was not enough to spur the supervisory and technical personnel to greater efforts. It was therefore soon supplemented with the positive incentives of wage and salary differentials between and within the various occupations and professions, and with special privileges for particularly effective performances. These differentials were progressively increased until they came to resemble those prevalent in private-enterprise economies.

But to return to the Bolshevik government: Elected by the soviets, it was in theory subordinated to, and subject to recall by, the All-Russian Congress of Soviets, and merely empowered to carry on within the framework of its directives. In practice, it played an independent role in coping with the changing political and economic needs and the everyday business of government. The Congress of Soviets was not a permanent body, but met at intervals of shorter or longer duration, delegating legislative and executive powers to the organs of the state. With the “carrying of the class struggle into the rural districts,” i.e., with the state-organized expropriatory expeditions in the countryside and the installation of Bolshevik “committees of the poor” in the villages, the “workers’ and peasants’ alliance” that had brought the Bolsheviks to power promised to deteriorate and to endanger the Bolshevik majority in the congress as well as its partnership with the left Social Revolutionaries. To be sure, the Bolshevik government, controlling the state apparatus, could have ignored the congress, or driven it away, as it had driven away the Constituent Assembly. But the Bolsheviks preferred to work within the framework of the soviet system, and to work toward a Congress of Soviets obedient to the party. To this end, it was necessary to control the elections of deputies to the soviets and to outlaw other political parties, most of all the traditional party of peasants, the Social Revolutionaries.

As the Mensheviks and the right Social Revolutionaries had withdrawn from the congress and opposed the government elected by it, they could easily be disfranchised, and were outlawed by order of the Central Committee of the Congress of Soviets in June 1918. The occasion to put an end to the left Social Revolutionaries arose soon, not only because of the widespread peasant discontent but also because of political differences, among which was the Social Revolutionaries’ rejection of the Brest-Litovsk Peace Treaty. After the signing of the treaty, the left Social Revolutionaries withdrew from the Central Committee. The Fifth Congress of Soviets, in July 1918, expelled the left Social Revolutionaries. Both the Central Committee and the Council of People’s Commissars were now exclusively in Bolshevik hands. The latter secured their majority in the soviets not only because their popularity was still in the ascendancy, but also because they had learned how to make it increasingly more difficult for non-Bolsheviks to enter the soviets. In time, the All-Russian Congress of Soviets became a manipulated body, automatically ratifying the actions of the government. The abdication of soviet power in favor of governmental rule, which Lenin had denounced with the slogan “All power to the soviets,” was now for the first time actually realized in the Bolshevik one-party government.

hated them. Ten millions of them. But we had to do it to mechanize agriculture. In the end, production from the land was doubled. What is a generation?” Stalin demanded as he paced up and down the length of the table.” C. Moran, Churchill: The Struggle for Survival, 1940-1965 (Boston: Houghton, 1966), p. 70.
With the soviets no longer thought of as the organizational instrument for a socialist production system, they became a kind of substitute parliament. The soviet state, it was proclaimed programmatically,

“while affording the toiling masses incomparably greater opportunities than those enjoyed under bourgeois democracy and parliamentary government, to elect and recall deputies in the manner easiest and most accessible to the workers and peasants... at the same time abolishes the negative aspects of parliamentary government, especially the separation of the legislature and the executive, the isolation of the representative institutions from the masses.... The Soviet government draws the state apparatus closer to the masses by the fact that the electoral constituency and the basic unit for the state is no longer a territorial district, but an industrial unit (workshop, factory).”

The soviet system was seen by the Bolsheviks as a “transmission belt” connecting the state authorities at the top with the broad masses at the bottom. Orders issuing from above would be carried out below, and complaints and suggestions from the workers would reach the government through their deputies to the Congress of Soviets. Meanwhile, Bolshevik party cells and Bolshevik domination of the trade unions assured a more direct control within the enterprises and provided a link between the cadres in the factories and the governmental institutions. If so inclined, of course, the workers could assume that there was a connection between them and the government through the soviets, and that the latter could, via the electoral system, actually determine government policy and even change governments. This illusory assumption pervades more or less all electoral systems and could also be held for that of the soviets. By shifting the electoral constituency from the territorial district to the place of production, the Bolsheviks did deprive the nonworking layers of society of partaking in the parliamentary game, without, however, changing the game itself. In the name of revolutionary necessity, the government made itself increasingly more independent of the soviets in order to achieve that centralization of power needed for the domination of society by a single political party. Even with Bolshevik domination of the soviets, general control was to be administered by the party and there, according to Trotsky,

the last word belongs to the Central Committee.... This affords extreme economy of time and energy, and in the most difficult and complicated circumstances gives a guarantee for the necessary unity of action. Such a regime is possible only in the presence of the unquestioned authority of the party, and the faultlessness of its discipline. ... The exclusive role of the Communist Party under the conditions of a victorious revolution is quite comprehensible.... The revolutionary supremacy of the proletariat presupposes within the proletariat itself the political supremacy of the party, with a clear programme of action. ... We have more than once been accused of having substituted for the dictatorship of the Soviets the dictatorship of our party. Yet it can be said with complete justice that the dictatorship of the Soviets became possible only by means of the dictatorship of the party. It is thanks to the clarity of its theoretical vision and its strong revolutionary organization that the party has afforded to the Soviets the possibility of becoming transformed from shapeless parliaments of labor into the apparatus of the supremacy of labor. In this “substitution” of the power of the party for the power of the working class there is nothing accidental, and in reality there is no substitution at all. The Communists express the fundamental interests of the working class. It is quite natural

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5 Lenin, Program of the CPSU (B), adopted 22 March 1919 at the Eighth Congress of the Party.
6 Stalin’s Constitution of 1936 reestablished the universal right to vote, but combined it with a number of controls that preclude the election to state institutions of anyone not favored by the Communist Party, thus demonstrating that universal franchise and dictatorship can exist simultaneously.
that, in the period in which history brings up those interests,..., the Communists have become the recognized representatives of the working class as a whole.\textsuperscript{7}

Whereas with regard to the soviets of 1905, Trotsky recognized that their "substance was their efforts to become organs of public authority," now, after the Bolshevik victory, it was no longer the soviets but the party and, more precisely, its central committee, that had to exercise all public authority.\textsuperscript{8} The Bolsheviks, or at any rate their foremost spokesmen, Lenin and Trotsky, had no confidence whatever in the soviets, those "shapeless parliaments of labor," which, in their view, owed their very existence to the Bolshevik Party. Because there would be no soviet system at all without the party, to speak of a soviet dictatorship was to speak of the party dictatorship – the one implying the other. Actually, of course, it had been the other way around, for without the revolution made by the soviets the Bolshevik Party could never have seized power and Lenin would still have been in Switzerland. Yet to hold this power, the party now had to separate itself from the soviets and to control the latter instead of being controlled by them.

Notwithstanding the demagoguery displayed in \textit{State and Revolution}, Lenin’s and Trotsky’s attitude regarding the capacities and incapacities of the working class were not at all surprising, for they were largely shared by the leading “elites” of all socialist movements and served, in fact, to justify their existence and privileges. The social and technical division of labor within the capitalist system did indeed deprive the proletariat of any control, and therewith understanding, of the complex production and distribution process that assures the reproduction of the social system. Although a socialist system of production will have a division of labor different from that prevalent in capitalism, the new arrangements involved will only be established in time and in connection with a total reorientation of the production process and its direction toward goals different from those characteristic of capitalism. It is therefore only to be expected that the production process will be disrupted in any revolutionary situation, especially when the productive apparatus is already in a state of decay, as was the case in the Russia of 1917. It is then also not surprising that workers should have put their hopes in the new government to accomplish for them what seemed extremely difficult for them to do.

The identification of soviets and party was clearly shared by the workers and the Bolsheviks, for otherwise the early dominance of the latter within the soviets would not be comprehensible. It was even strong enough to allow the Bolsheviks to monopolize the soviets by underhanded methods that kept non-Bolsheviks out of them. For the broad urban masses the Bolsheviks were indeed their party, which proved its revolutionary character precisely by its support of the soviets and by its insistence upon the dictatorship of the proletariat. There can also be no doubt that the Bolsheviks, who were, after all,

\textsuperscript{7} Trotsky, Dictatorship vs. Democracy (New York, 1922), pp. 107-9.
\textsuperscript{8} Trotsky, undoubtedly as outstanding a revolutionary politician as Lenin, is nonetheless of no interest with respect to the Bolshevik Revolution, either as a theoretician or as a practical actor, because of his total submission to Lenin, which allowed him to play a great role in the seizure of power and the construction of the Bolshevik state. Prior to his unconditional deference to Lenin, Trotsky opposed both the Mensheviks and the Bolsheviks, the first because of their passive acceptance of the expected Russian Revolution as a bourgeois revolution in the traditional sense, and the second because of Lenin’s insistence on a “peasant-worker alliance,” which in Trotsky’s view could not lead to a socialist revolution. According to Trotsky, moreover, the socialist revolution, dominated by the industrial proletariat, cannot be contemplated at all within the framework of a national revolution, but must from the start be approached as an international revolution, uniting the Russian revolution with revolutions in Western Europe, that is, as a “permanent revolution” under the hegemony of the working class. Changing over to Lenin’s ideas and their apparent validity in the context of the Russian situation, Trotsky became the prisoner of a dogmatized Leninism and thus unable to evolve a Marxist critique of the Bolshevik Revolution.
convinced socialists, were deadly serious in their devotion to the workers’ cause – so much, indeed, that they were ready to defend it even against the workers should they fail to recognize its necessary requirements.

According to the Bolsheviks, these necessary requirements, i.e., “work, discipline, order,” could not be left to the self-enforcement of the soviets. The state, the Bolshevik Party in this case, would regulate all important economic matters by government ordinances having the force of law. The construction of the state served no other purpose than that of safeguarding the revolution and the construction of socialism. They spread this illusion among the workers with such great conviction because it was their own, for they were convinced that socialism could be instituted through state control and the selfless idealism of a revolutionary elite. They must have felt terribly disappointed when the workers did not properly respond to the urgency of the call for “work, discipline, and order” and to their revolutionary rhetoric. If the workers could not recognize their own interests, this recognition would have to be forced upon them, if necessary by terroristic means. The chance for socialism should not be lost by default. Sure only of their own revolutionary vocation, they insisted upon their exclusive right to determine the ways and means to the socialist reconstruction of society.

However, this exclusive right demanded unshared absolute power. The first thing to be organized, apart from party and soviets, was then the Cheka, the political police, to fight the counterrevolution in all its manifestations and all attempts to unseat the Bolshevik government. Revolutionary tribunals assisted the work of the Cheka. Concentration camps were installed for the enemies of the regime. A Red Army, under Trotsky’s command, took the place of the “armed proletariat.” An effective army, obedient only to the government, could not be run by “soldiers’ councils,” which were thus at once eliminated. The army was to fight both external and internal foes and was led and organized by “specialists,” by tsarist officers, that is, who had made their peace with the Bolshevik government. Because the army emerged victorious out of war and civil war, which lasted from 1918 to 1920, the Bolshevik government’s prestige was enormously enhanced and assured the consolidation of its authoritarian rule.

Far from endangering the Bolshevik regime, war and civil war against foreign intervention and the White counter-revolution strengthened it. It united all who were bound to suffer by a return of the old authorities. Regardless of their attitude toward the Bolsheviks and their policies, the peasants were now defending their newly won land, the Mensheviks and Social Revolutionaries their very lives. The Bolsheviks, at first rent by internal dissension, united in the face of the common enemy and, if only for the duration of the civil war, gladly accepted the aid of the harassed but still existing Mensheviks, Social Revolutionaries, and even Anarchists as that of a “loyal opposition.” Finally, the interventionist character of the civil war gave the Bolshevik resistance the euphoria of nationalism as the government rallied the population to its side with the slogan “the fatherland is in danger.” In this connection it must be pointed out that Lenin’s and so the Bolsheviks’ nationalism and internationalism were of a peculiar kind, in that they could be used alternatively to advance the fortunes of the Russian revolution and those of the Bolshevik Party. In Trotsky’s words, “Lenin’s internationalism needs no recommendation. But at the same time Lenin himself is profoundly national. Lenin personifies the Russian proletariat, a young class, which politically is scarcely older than Lenin himself, but a class which is profoundly national, for recapitulated in it is the entire past development of Russia, in it lies Russia’s entire future, with it the Russian nation
rises and falls.”\(^9\) Perhaps, being so profoundly national, mere introspection may have led Lenin to appreciate the national needs and cultural peculiarities of oppressed peoples sufficiently to induce him to advocate their national liberation and self-determination, up to the point of secession, as one aspect of his anti-imperialism and as an application of the democratic principle to the question of nationalities. Since Marx and Engels had favored the liberation of Poland and home rule for Ireland, he found himself here in the best of company. But Lenin was a practical politician first of all, even though he could fulfill this role only at this late hour. As a practical politician he had realized that the many suppressed nationalities within the Russian Empire presented a constant threat to the tsarist regime, which could be utilized for its overthrow. To be sure, Lenin was also an internationalist and saw the socialist revolution as a world revolution. Still, this revolution had to begin somewhere and in the context of the Russian multinational state, the demand for national self-determination promised the winning of “allies” in the struggle against tsardom. This strategy was supported by the hope that, once free, the different nationalities would elect to remain within the Russian Commonwealth, either out of self-interest or through the urgings of their own socialist organizations, should they succeed in gaining governmental power. Analogous to the “voluntary union of communes into a nation,” which Marx had seen as a possible outcome of the Paris Commune, national self-determination could lead to a unified socialist Russian Federation of Nations more cohesive than the old imperial regime.

Until the Russian Revolution, however, the problem of national self-determination remained purely academic. Even after the revolution, the granting of self-determination to the various nationalities within the Russian Empire was rather meaningless, for most of the territories involved were occupied by foreign powers. Self-determination had meanwhile become a policy instrument of the Entente powers, in order to hasten the break-up of the Austro-Hungarian Empire and an imperialistic redrawing of the map of Europe in accordance with the desires of the victor nations. But “even at the risk of playing into bourgeois hands, Lenin nevertheless continued to promote unqualified self-determination, precisely because he was convinced that the war would compel both the Dual Monarchy and the Russian Empire to surrender to the force of nationalism.”\(^10\) By sponsoring self-determination and thereby making the proletariat a supporter of nationalism, Lenin, as Rosa Luxemburg pointed out, was merely aiding the bourgeoisie to turn the principle of self-determination into an instrument of counter-revolution. Although this was actually the case, the Bolshevik regime continued to press for national self-determination by now projecting it to the international scene, in order to weaken other imperialist powers, in particular England, in an attempt to foster colonial revolutions against Western capitalism, which threatened to destroy the Bolshevik state.

Though Rosa Luxemburg’s prediction, that the granting of self-determination to the various nationalities in Russia would merely surround the Bolshevik state with a cordon of reactionary counterrevolutionary countries, turned out to be correct, this was so only for the short run. Rosa Luxemburg failed to see that it was less the principle of self-determination that dictated Bolshevik policy than the force of circumstances over which they had no control. At the first opportunity they began whittling away at the self-determination of nations, finally to end up by incorporating all the lost independent nations in a restored Russian Empire and, in addition, forging for themselves spheres of interest in extra-Russian territories. On the strength of her own theory of imperialism,

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Rosa Luxemburg should have realized that Lenin’s theory could not be applied in a world of competing imperialist powers, and would not need to be applied, should capitalism be brought down by an international revolution.

The civil war in Russia was waged mainly to arrest the centrifugal forces of nationalism, released by war and revolution, which threatened the integrity of Russia. Not only at her western borders, in Finland, Poland, and the Baltic nations, but also to the south, in Georgia, as well as in the eastern provinces of Asiatic Russia, new independent states established themselves outside of Bolshevik control. The February Revolution had broken the barriers that had held back the nationalist or regionalist movements in the non-Russian parts of the Empire. “When the Bolsheviks overthrew the Provisional Government in Petrograd and Moscow, nationalist or regionalist governments took over in the non-Great Russian areas of European Russia and in Siberia and Central Asia. The governing institutions of the Moslem peoples of the Transvolga (Tatars, Bashkirs), of Central Asia and Transcaspia (Kirghiz, Kazakhs, Uzbeks, Turkomans), and of Transcaucasia (Georgians, Armenians, Azerbaidzhanis, Tartars) favored autonomy in a Russian federation and opposed the Bolsheviks.”

These peoples had to be reconquered in the ensuing civil war.

The nationalist aspect of the civil war was used for revolutionary and counter-revolutionary purposes. The White counter-revolution began its anti-Bolshevik struggle soon after the overthrow of the Provisional Government. Volunteer armies were formed to fight the Bolsheviks and were financed and equipped by the Entente powers in an effort to bring Russia back into the war against Germany. British, French, Japanese, and American troops landed in Murmansk, Archangel, and Vladivostok. The Czech Legion entered the conflict against the Bolsheviks. In these struggles, territories changed hands frequently but the counter-revolutionary forces, though aided by the Allied powers, proved no match for the newly organized Red Army. The foreign intervention continued even after the armistice between the Allied powers and Germany, and, with the consent of the Allies, the Germans fought in support of the counter-revolution in the Baltic nations, which led to the destruction of the revolutionary forces in these countries and the Soviet government’s recognition of their independence. Poland regained its independence as an anti-Bolshevik state. However, the counter-revolutionary forces were highly scattered and disorganized. The Allied powers could not agree among themselves on the extent of their intervention and on the specific goals to be reached. Neither did they trust the willingness of their own troops to continue the war in Russia, nor in the acquiescence of their own population in a prolonged and large-scale war for the overthrow of the Bolshevik regime. The decisive military defeat of the various White armies induced the Allied powers to withdraw their troops in the autumn of 1918, thus opening the occupied parts of Russia to the Red Army. The French and British troops withdrew from the Ukraine and the Caucasus in the spring of 1919. American pressure led to the evacuation of the Japanese in 1922. But the Bolsheviks had definitely won the civil war by 1920. While the revolution had been a national affair, the counter-revolution had been truly international. But even so, it failed to dislodge the Bolshevik regime.

Lenin and Trotsky, not to speak of Marx and Engels, had been convinced that without a proletarian revolution in the West, a Russian revolution could not lead to socialism. Without direct political aid from the European proletariat, Trotsky said more than once, the working class of Russia would not be able to turn its temporary supremacy into a permanent socialist dictatorship. The reasons for this he saw not only in the

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opposition on the part of the world reaction, but also in Russia’s internal conditions, as
the Russian working class, left to its own resources, would necessarily be crushed the
moment it lost the support of the peasantry, a most likely occurrence should the
revolution remain isolated. Lenin, too, set his hopes on a westward spreading of the
revolution, which might otherwise be crushed by the capitalist powers. But he did not
share Trotsky’s view that an isolated Russia would succumb to its own internal
contradictions. In an article written in 1915, concerned with the advisability of including
in the socialist program the demand for a United States of Europe, he pointed out, first,
that socialism is a question of world revolution and not one restricted to Europe and
second, that such a slogan

may be wrongly interpreted to mean that the victory of socialism in a single
country is impossible, and it may also create misconceptions as to the relations of such a
country to the others. Uneven economic and political development is an absolute law of
capitalism. Hence, the victory of socialism is possible first in several or even in one
capitalist country alone. After expropriating the capitalists and organizing their own
socialist production, the victorious proletariat of that country will arise against the rest of
the world – the capitalist world – attracting to its cause the oppressed classes of other
countries, stirring uprisings in those countries against the capitalists, and in case of need
using even armed force against the exploiting classes and their states.12

Obviously, Lenin was convinced – and all his decisions after the seizure of power
attest to this – that even an isolated revolutionary Russia would be able to maintain itself
unless directly overthrown by the capitalist powers. Eventually, of course, the struggle
between socialism and capitalism would resume, but perhaps under conditions more
favorable for the international working class. For the time being, however, it was
essential to stay in power no matter what the future might hold in store.

The world revolution did not materialize, and the nation-state remained the field of
operation for economic development as well as for the class struggle. After 1920 the
Bolsheviks no longer expected an early resumption of the world revolutionary process
and settled down for the consolidation of their own regime. The exigencies and privations
of the civil war years are usually held responsible for the Bolshevik dictatorship and its
particular harshness. While this is true, it is no less true that the civil war and its
victorious outcome facilitated and assured the success of the dictatorship. The party
dictatorship was not only the inevitable result of an emergency situation, but was already
implied in the conception of “proletarian rule” as the rule of the Bolshevik Party. The end
of the civil war led not to a relaxation of the dictatorship but to its intensification; it was
now, after the crushing of the counter-revolution, directed exclusively against the “loyal
opposition” and the working class itself. Already at the Eighth Congress of the Bolshevik
Party, in March 1919, the demand was made to end the toleration of opposition parties.
But it was not until the summer of 1921 that the Bolshevik government finally decided to
destroy all independent political organizations and the oppositional groups within its own
ranks as well.

In the spring of 1920 it seemed clear that the military balance in the civil war
favored the Bolsheviks. This situation led to a resurgence of the opposition to the regime
and to the draconian measures it had used during the war. Peasant unrest became so
strong as to force the government to discontinue its expropriatory excursions into the
countryside and to disband the “committees of the poor peasants.” The workers objected
to the famine conditions prevailing in the cities and to the relentless drive for more

12 “On the Slogan for a United States of Europe” (1915), in Collected Works, Vol 21(Moscow:
production through a wave of strikes and demonstrations that culminated in the Kronstadt uprising. As the expectations of the workers had once been based on the existence of the Bolshevik government, it was now this government that had to take the blame for all their miseries and disappointments. This government had become a repressive dictatorship and could no longer be influenced by democratic means via the soviet system. To free the soviets from their party yoke and turn them once again into instruments of proletarian self-rule required now a “third revolution.” The Kronstadt rebellion was not directed against the soviet system but intended to restore it to its original form. The call for “free soviets” implied soviets freed from the one-party rule of Bolshevism; consequently, it implied political liberty for all proletarian and peasant organizations and tendencies that took part in the Russian Revolution.13

It was no accident that the widespread opposition to Bolshevik rule found its most outspoken expression at Kronstadt. It was here that the soviets had become the sole public authority long before this became a temporary reality in Petrograd, Moscow, and the nation as a whole. Already in May 1917 the Bolsheviks and left Social Revolutionaries held the majority in the Kronstadt Soviet and declared their independence vis-à-vis the Provisional Government. Although the latter succeeded in extracting some kind of formal recognition from the Kronstadt Soviet, the latter nonetheless remained the only public authority within its territory and thus helped to prepare the way for the Bolshevik seizure of power. It was the radical commitment to the soviet system, as the best form of proletarian democracy, that now set the Kronstadt workers and soldiers against the Bolshevik dictatorship in an attempt to regain their self-determination.

It could not be helped, of course, that the Kronstadt mutiny was lauded by all opponents of Bolshevism and thus also by reactionaries and bourgeois liberals, who in this way provided the Bolsheviks with a lame excuse for their vicious reaction to the rebellion. But this unsolicited opportunistic verbal “support” cannot alter the fact that the goal of the rebellion was the restoration of that soviet system which the Bolsheviks themselves had seen fit to propagandize in 1917. The Bolsheviks knew quite well that

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13 This found its expression in the program adopted by the sailors, soldiers, and workers of Kronstadt: 1) Immediate new elections to the soviets. The present soviets no longer express the wishes of the workers and peasants. The new elections should be by secret ballot, and should be preceded by free electoral propaganda. 2) Freedom of speech and of the press for workers and peasants, for the Anarchists, and for the left socialist parties. 3) The right of assembly, and freedom of trade union and peasant organizations. 4) The organization, at the latest on 10th March 1921, of a conference of non-party workers, soldiers and sailors of Petrograd, Kronstadt and the Petrograd district. 5) The liberation of all political prisoners of the socialist parties, and of all imprisoned workers, peasants, soldiers and sailors belonging to working class and peasant organizations. 6) The election of a commission to look into the dossiers of all those detained in prisons and concentration camps. 7) The abolition of all political sections in the armed forces. No political party should have privileges for the propagation of its ideas, or receive State subsidies to this end. In the place of the political sections, various cultural groups should be set up, deriving resources from the State. 8) The immediate abolition of the militia detachments set up between towns and countryside. 9) The equalization of rations for all workers, except those engaged in dangerous or unhealthy jobs. 10) The abolition of party combat detachments in all military groups. The abolition of party guards in factories and enterprises. If guards are required, they should be nominated, taking into account the views of the workers. 11) The granting to the peasants of freedom of action on their own soil and the right to own cattle, provided they look after them themselves and do not employ hired labor. 12) We request that all military units and officer trainee groups associate themselves with this resolution. 13) We demand the press give proper publicity to this resolution. 14) We demand that handicraft production be authorized provided it does not utilize wage labor. Quoted by Ida Mett, The Kronstadt Commune (London: Solidarity, 1967), pp. 6-7. For a detailed history of the Kronstadt rebellion, see Paul Avrich, Kronstadt, 1921 (Princeton: Princeton University Press, 1970).
Kronstadt was not the work of “White generals,” but they could not admit that, from the point of view of soviet power, they had themselves become a counter-revolutionary force in the very process of strengthening and defending their government. Therefore, they had not only to drown in blood this last attempt at a revival of the soviet system, but had to slander it as the work of the “White counter-revolution.” Actually, even though the Mensheviks and Social Revolutionaries lent their “moral” support to the rebellion, the workers and sailors engaged in it had no intentions of resurrecting the Constituent Assembly, which they regarded as a stillborn affair of the irrevocable past. The time, they said, “has come to overthrow the commissarocracy. ... Kronstadt has raised the banner of the uprising for a Third Revolution of the toilers. ... The autocracy has fallen. The Constituent Assembly has departed to the region of the damned. The commissarocracy is crumbling.” The “third revolution” was to fulfill the broken promises of the preceding one.

With the Kronstadt rebellion the disaffection of workers and peasants had spread to the armed forces, and this combination made it particularly dangerous to the Bolshevik regime. But the rebellion held no realizable promise, not because it was crushed by the Bolsheviks but because, had it succeeded, it would not have been able to sustain and extend a libertarian socialism based on soviet rule. It was indeed condemned to be what it has been called: the Kronstadt Commune. Like its Paris counterpart, it remained isolated despite the general discontent, and its political objectives could not be reached under the prevailing Russian conditions. Yet it was able to hasten Lenin’s “strategic retreat” to the New Economic Policy, which relaxed the Bolshevik economic dictatorship while simultaneously tightening its political authoritarian rule.

The workers’ dissatisfaction with Lenin’s dictatorship found some repercussion in his own party. Oppositional groups criticized not only specific party decisions, such as state control of trade unions, but also the general trend of Bolshevik policy. On the question of “one-man management,” for instance, it was said that this was a matter not of a tactical problem but of two “historically irreconcilable points of view,” for “one-man management is a product of the individualistic conception of the bourgeois class ... This idea finds its reflection in all spheres of human endeavor – beginning with the appointment of a sovereign for the state and ending with a sovereign director in the factory. This is the supreme wisdom of bourgeois thought. The bourgeoisie do not believe in the power of a collective body. They like only to whip the masses into an obedient flock, and drive them wherever their unrestricted will desires. The basis of the controversy (in the Bolshevik Party) is mainly this: whether we shall realize communism through the workers or over their heads by the hand of the Soviet officials. And let us ponder whether it is possible to attain and build a communist economy by the hands and creative abilities of the scions from the other class, who are imbued with their routine of the past? If we begin to think as Marxians, as men of science, we shall answer categorically and explicitly – no. The administrative economic body in the labor republic during the present transitory period must be a body directly elected by the producers themselves. All the rest of the administrative economic Soviet institutions shall serve only as executive center of the economic policy of that all-important economic body of the labor republic. All else is goose stepping that manifests distrust toward all creative abilities of workers, distrust which is not compatible with the professed ideals of our party... There can be no self-activity without freedom of thought and opinion, for self-activity manifests itself not only in initiative, action, and work, but in independent

14 Izvestiia. Journal of Kronstadt’s Temporary Revolutionary Committee, 12 March 1921; quoted in The Truth about Kronstadt (Prague, 1921).
thought as well. We are afraid of action, we have ceased to rely on the masses, hence we have bureaucracy with us. In order to do away with the bureaucracy that is finding its shelter in the Soviet institutions, we must first of all get rid of all bureaucracy in the party itself.\footnote{A. Kollontai The Workers’ Opposition (1921).}

Apparently, these oppositionists did not understand their own party or, in view of its actual practice, diverged from its principles as outlined by Lenin since 1903. Perhaps they had taken State and Revolution at face value, not noticing its ambivalence, and felt now betrayed, as Lenin’s policy revealed the sheer demagoguery of its revolutionary declarations. It should have been evident from Lenin’s concept of the party and its role in the revolutionary process that, once in power, this party could only function in a dictatorial way. Quite apart from the specific Russian conditions, the idea of the party as the consciousness of the socialist revolution clearly relegated all decision making power to the Bolshevik state apparatus.

True to his own principles, Lenin put a quick end to the oppositionists by ordaining all factions to disband under threat of expulsion. With two resolutions, passed by the Tenth Congress of the Russian Communist Party, March 1921, “On Party Unity” and “On the Syndicalist and Anarchist Deviation in our Party,” Lenin succeeded in completing what had hitherto only approximately been accomplished, namely, an end to all factionalism within the party and the securing of complete control over it through the Central Committee, which, in addition, was itself reorganized in such a fashion as to get rid of any opposition that might arise within the party leadership. With this was laid a groundwork on which nothing else could be built but the emerging omnipotence of the rising bureaucracy of party and state and the infinite power of the supreme leader presiding over both. The one-man rule of the party, which had been an informal fact due to the overriding “moral” authority of Lenin, turned into the unassailable fact of personal rule by whoever should manage to put himself at the top of the party hierarchy.

The bourgeois character of Bolshevik rule, as noted by its internal opposition, reflected the objectively nonsocialist nature of the Russian Revolution. It was a sort of “bourgeois revolution” without the bourgeoisie, as it was a proletarian revolution without a sufficiently large proletariat, a revolution in which the historical functions of the Western bourgeoisie were taken up by an apparently anti-bourgeois party by means of its assumption of political power. Under these conditions, the revolutionary content of Western Marxism was not applicable, not even in a modified form. Whatever one may think of Marx’s declaration concerning the Paris Commune – that the “political rule of the proletariat is incompatible with the externalization of their social servitude” (a situation quite difficult to conceive, except as a momentary possibility, that is, as the revolution itself) – Marx at least spoke of the “producers,” not of a political party substituting for the producers, whereas the Bolshevik concept speaks of state rule alone as the necessary and sufficient prerequisite for the transformation of the capitalist into a socialist mode of production. The producers are controlled by the state, the state by the party, the party by the central committee, and the last by the supreme leader and his court. The destroyed autocracy is resurrected in the name of Marxism. In this way, moreover, ideologically as well as practically, the revolution and socialism depend finally on the history-making individual.

Indeed, it did not take long for the Russian Revolution and its consequences to be seen as the work of the geniuses Lenin, Trotsky, and Stalin; not only in the bourgeois view, to which this comes naturally, but also quite generally by socialists claiming adherence to the materialist conception of history, which finds its dynamic not in the
exceptional abilities of individuals, but in the struggle of classes in the course of the
developing social forces of production. Neither Marx nor any reasonable person would
deny the role of the “hero” in history, whether for better or for worse; for, as previously
pointed out, the “hero” is already implicit in class society and is himself, in his thoughts
and actions, determined by the class contradictions that rend society. In his historical
writings, for instance, Marx dealt extensively with such “heroes,” like the little Napoleon,
who brought ruin to his country, or, like Bismarck, who finished the goal of German
unification, left undone by the stillborn bourgeois revolution. It is quite conceivable that
without Napoleon III and without Bismarck the history of France and Germany would
have been different from what it actually was, but this difference would have altered
nothing in the socioeconomic development of both countries, determined as it was by the
capitalist relations of production and the expansion of capital as an international
phenomenon.

What is history anyway? The bourgeoisie has no theory of history, as it has no
theory of social development. Since it merely describes what is observable or may be
found in old records, history is everything and nothing at the same time and any of its
surface manifestations may be emphasized in lieu of an explanation, which must always
serve the social power relations existing at any particular time. Like economics,
bourgeois history is pure ideology and gives no inkling of the reasons for social change.
And, just as the market economy can only be understood through the understanding of its
underlying class relations, so does this kind of history require another kind if its meaning
is to be revealed. From a Marxian point of view, history implies changing social relations
of production. That history which concerns itself exclusively with alterations in an
otherwise static society, as interesting as it may be, concerns Marxism only insofar as
these changes indicate the hidden process by which one mode of production releases
social forces that point to the rise of another mode of production. From this point of view,
the historical changes brought about by the Russian Revolution and the Bolshevik regime
have their place within an otherwise unaltered mode of production, as its social relations
remained capital-labor relations, even though capital – that is, control over the means of
production – and with it wage labor were taken out of the hands of private entrepreneurs
and placed in those of a state bureaucracy performing the exploitative functions of the
former. The capitalist system was modified but not abolished. The history made by the
Bolsheviks was still capitalist history in the ideological disguise of Marxism.

The existence of “great men” in history is a sure indication that history is being
made within the hierarchical structure of class-ridden competitive societies. The Lenin
cult, the Hitler cult, the Stalin cult, etc., represent attempts to deprive the mass of the
population of any kind of self-determination and also to ensure their complete
atomization, which makes this technically possible. Such cults have little to do with the
“great men” themselves, as personalities, but reflect the need or desire for complete
conformity to allow a particular class or a particular political movement sufficient control
over broad masses for the realization of their specific objectives, such as war, or making a
revolution. “Great men” require “great times,” and both emerge in crisis situations that
have their roots in the exaggeration of society’s fundamental contradictions.

The helplessness of the atomized individual finds a sort of imaginary solace in the
mere symbolization of his self-assertion in the leadership, or the leader, of a social
movement claiming to do for him what he cannot do for himself. The impotence of the
social individual is the potency of the individual who manages to represent one or another
kind of historically given social aspiration. The anti-social character of the capitalist
system accounts for its apparent social coherence in the symbolized form of the state, the
government, the great leader. However, the symbolization must be constantly reinforced by the concrete forms of control executed by the ruling minority.

It is almost certain that without Lenin’s arrival in Russia the Bolsheviks would not have seized governmental power, and in this sense the credit for the Bolshevik Revolution must be given to Lenin—or perhaps, to the German General Staff, or to Parvus, who made Lenin’s entry into the Russian Revolution possible. But what would have happened in Russia without the “subjective factor” of Lenin’s existence? The totally discredited tsarist regime had already been overthrown and would not have been resurrected by a counter-revolutionary coup in the face of the combined and general opposition of workers, peasants, the bourgeoisie, and even segments of the old autocratic regime. In addition, the Entente powers, relieved of the alliance with the anachronistic Russian autocratic regime, favored the new and ostensibly democratic government, if only in the hope of a more efficiently waged war against the Central European “anti-democratic” powers. Although attempts were made to resume the offensive in the west, they were not successful, and merely intensified the desire for an early peace, even a separate peace, in order to consolidate the new regime and to restore some modicum of order within the increasing social anarchy. A counter-revolution would have had as its object the forced continuation of the war and the elimination of the soviets and the Bolsheviks, to safeguard the private-property nature of the social production relations. In short, the “dictatorship of the proletariat” would most probably have been overthrown by a dictatorship of the bourgeoisie, enforced by a White terror and other fascist methods of rule. A different political system and different property relations would have evolved, but on the basis of the same production relations that sustained the Bolshevik state.

Similarly, there is little doubt that World War II was initiated by Adolf Hitler in an attempt to win World War I by a second try for German control of capitalist Europe. Without Hitler, the second war might not have broken loose at the time it actually did, but perhaps also not without the Stalin-Hitler Pact, or without the deepening of the worldwide depression, which set definite limits to the Nazis’ internal economic policies, on which their political dominance depended. It is clear, however, that Hitler cannot be blamed for World War I or for the Great Depression preceding World War II. Governments are composed of individuals, representing definite ideologies and specific economic interests, for which reason it is always possible to give credit, or to put the blame, for any particular policy on individual politicians, and to assume that had they not been there, history would have run a different course. This might even be true, but the different course would in no way affect the general development insofar as it is determined by capitalist production relations.

In brief, it is not possible to make any reliable predictions with regard to historical development on the strength of political movements and the role of individuals within these movements as they are thrown up by the development of capitalism and its difficulties, so long as these occurrences do not concern the basic social production relations but only reflect changes within these relations. It is true that political and economic phenomena constitute an entity, but to speak of such an entity may be to refer to no more than erratic movements within the given social structure, and not to social contradictions destined to destroy the given political and economic entity by way of revolutionary changes that bring another society into existence. Just as there is no way to foresee economic development in its details, that is, at what point a crisis will be released or be overcome, there is also no way to account for political development in its details, that is, which social movement will succeed or fail, or what individual will come to dominate the political scene and whether or not this individual will appear as a “history-making” individual, quite apart from his personal qualifications. What cannot be
comprehended cannot be taken into consideration, and political as well as economic events appear as a series of “accidents” or “shocks,” seemingly from outside the system but actually produced by this system, which precludes the recognition of its inherent necessities. The very existence of political life attests to its fetishistic determination. Outside this fetishistic determination, this helpless and blind subjection to the capital-expansion process, the entity of politics and economics would not appear as such, but rather as the elimination of both in a consciously arranged organization of the social requirements of the reproduction process, freed of its economic and political aspects. Politics, and with it, that type of economy which is necessarily political economy, will cease with the establishment of a classless society.

That even Lenin was somehow aware of this may be surmised by his reluctance to use the term “wage labor” after the seizure of power. Only once, in deference to an international audience, at the founding Congress of the Third International in March 1919, did he speak of “mankind throwing off the last form of slavery: capitalist or wage slavery.” Generally, however, he made it appear that the end of private capital implies the end of the wage system; although not automatically abolishing the wage system in a technical sense, it would free it from its exploitive connotations. In this respect, as in many others, Lenin merely harked back to Kautsky’s position of 1902, which maintained that in the early stages of the construction of socialism wage labor, and therefore money, (or vice versa) must be retained in order to provide the workers with the necessary incentives to work. Trotsky, too, reiterated this idea, but with an exemplary shamelessness, stating that

we still retain, and for a long time will retain, the system of wages. The farther we go, the more will its importance become simply to guarantee to all members of society all the necessaries of life; and thereby it will cease to be a system of wages. [But] in the present difficult period the system of wages is for us, first and foremost, not a method for guaranteeing the personal existence of any separate worker, but a method of estimating what the individual worker brings with his labor to the Labor Republic.... Finally, when it rewards some (through the wage system), the Labor State cannot but punish others – those who are clearly infringing labor solidarity, undermining the common work, and seriously impairing the Socialist renaissance of the country. Repression for the attainment of economic ends is a necessary weapon of the Socialist dictatorship.\text{16}

As the wage system is the basis of capitalist production, so it remains the basis of “socialist construction,” which first allows people like Lenin and Trotsky, and their state apparatus, not only to assume the position but also to speak in the voice of the capitalists when dealing with the working class. As if the wage system had not always been the only guarantee for the workers to earn a livelihood, and as if it had not always been used to estimate the amount of surplus value to be extracted from their work!

As a theory of the proletarian revolution, Marxism does not recognize alterations within unchanged social production relations as historical changes in the sense of the materialist conception of history. It speaks of changes of social development from slavery to serfdom to wage labor, and of the abolition of the latter, and therewith all forms of labor exploitation, in a classless socialist society. Each type of class society will have its own political history, of course, but Marxism recognizes this as the politics of definite social formations, which will, however, come to an end with the abolition of classes, the last political revolution in the general social developmental process. Quite apart from its objective possibility or impossibility, the Bolshevik regime had no intention to abolish the wage system and was therefore not engaged in furthering a social revolution in the

\text{16} Dictatorship vs. Democracy, p. 149.
Marxian sense. It was satisfied with the abolition of private control over the accumulation of capital, on the assumption that this would suffice to proceed to a consciously planned economy and, eventually, to a more egalitarian system of distribution. It is true, of course, that the possibility of such an endeavor had not occurred to Marx, for whom the capitalist system, in its private-property form, would have to be replaced by a system in which the producers themselves would take collective and direct control of the means of production. From this point of view, the Bolshevik endeavor, through a historical novelty not contemplated by Marx, still falls within the history of the capitalist mode of production.

By adhering to the Marxist ideology evolved within the Second International, Lenin and the Bolsheviks succeeded in identifying their inversion of Marxian theory as the only possible form of its realization. While the Bolshevik concept implied no more than the formation of a state-capitalist system, this had been the way in which, at the turn of the century, socialism had been quite generally understood. It is therefore not possible to accuse the Bolsheviks of a "betrayal" of the then prevailing “Marxist” principles; on the contrary, they actualized the declared goals of the Social Democratic movement, which itself had lost all interest in acting upon its beliefs. What the Bolsheviks did was to realize the program of the Second International by revolutionary means. However, in doing so, that is, by turning the ideology into practice and giving it concrete substance, they identified revolutionary Marxism with the state-directed socialist society envisioned by the orthodox wing of international Social Democracy.

Prior to the Bolshevik Revolution, the bourgeoisie had looked upon Marxism as a meaningless utopia, contrary to the naturally given market relations and to human nature itself. There was of course the class struggle, but this, too, like competition in general, implied no more than the Darwinian struggle for existence, which justified its suppression or amelioration, as the case might be, in accordance with changing circumstances or opportunities. But the very fact of the existence of the bourgeoisie was proof enough that society could not prevail without class divisions, as its very complexity demanded its hierarchical structure. Socialism, in the Marxian sense of the self-determination of the working class, was not a practical possibility and its advocacy was not only stupid but also criminal, for its realization would destroy not only capitalist society but society itself. The adaptation of the reformist labor movement to the realities of social life and its successful integration into the capitalist system was additional proof that the capital-labor relations were the normal social relations, which could not be tampered with except at the price of social decay.

This argument was put aside by the Bolshevik demonstration that it is possible to have “socialism” on the basis of capital-labor relations and that a social hierarchy could be maintained without the bourgeoisie, simply by turning the latter into servants of the state, the sole proprietor of the social capital. Although Marx had said that capitalism presupposes the capitalist, this need not imply the capitalist as bourgeois, as owner of private capital, for the capital concentration and centralization process indicated the diminishing of their numbers and the increasing monopolization of capital. If there was an “end” to this process, it would be the end of private capital, as the property of many capitalists, and the end of market economy, which would issue into the complete monopoly of ownership of the means of production. This might as well be in the hands of the state, which would then become the organizer of social production in a system in which “market relations” were reduced to the exchange between labor and capital through the maintenance of wage labor in the state-controlled economy. This concept might have made “socialism” comprehensible to the bourgeoisie, were it not for the fact that it involved their abolition as a ruling class. From the bourgeois point of view, it was quite immaterial whether they found themselves expropriated by a state, which was no longer
their own, or by a proletarian revolution in the Marxian sense, that is, the appropriation of the means of production by the working class. The Bolshevik state-capitalist, or, what amounts to the same, state-socialist concept was consequently equated with the Marxian concept of socialism. When the bourgeoisie speaks of Marxism, it invariably refers to its Bolshevik interpretation, as this is the only one that has found concrete application. This identification of Marxism with the Leninist concept of socialism turned the latter into a synonym for Marxism, and as such it has dominated the character of all revolutionary and national-revolutionary movements down to the present day.

Whereas for the bourgeoisie Bolshevism and Marxism meant the same thing, Social Democracy could not possibly identify the Leninist regime as a socialist state, even though it had realized its own long-forgotten goal of reaching socialism via the capture of state power. Yet because Bolshevism had expropriated the bourgeoisie, it was equally impossible to refer to it as a capitalist system, without acknowledging that even legal conquest of the state by parliamentary means need not lead to a socialist system of production. Hilferding, for one, resolved the problem simply by announcing that Bolshevism was neither capitalism nor socialism, but a societal form best described as a “totalitarian state economy,” a system based on an “unlimited personal dictatorship.” It was no longer determined by the character of its economy but by the personal notions of the omnipotent dictator. Denying his own long-held concept of “organized capitalism” as the inevitable result of the capital concentration process, and the consequent disappearance of the law of value as the regulator of the capitalist economy, Hilferding now insisted that from an economic point of view state-capitalism cannot exist. Once the state has become the sole owner of the means of production, he said, it renders impossible the functions of the capitalist economy because it abolishes the very mechanism which accounts for the economic circulation process by way of competition on which the law of value operates. But while this state of affairs had once been equated with the rise of socialism, it was now perceived as a totalitarian society equally removed from both capitalism and socialism. The one ingredient that excluded its transformation into socialism was the absence of political democracy. But if this were so, Hilferding was fundamentally in agreement with Lenin on the assumption that it is possible to institute socialism by political means, although there was no agreement as to the particular political means to be employed. In fact, Lenin was very much indebted to Hilferding, save in his rejection of the means of formal democracy as the criterion for the socialist nature of the state-controlled economy.

In this respect it is noteworthy that neither Lenin nor Hilferding had any concern for the social production relations as capital-labor relations, but merely for the character of the government presiding over the “new society.” In the opinion of both, it was the state that must control society, whether by democratic or dictatorial means; the working class was to be the obedient instrument of governmental policies. Just the same, it was Lenin’s concept of “dictatorship” that carried the day, for the Bolsheviks had seized power, whereas Hilferding’s “democracy” was slowly eroded by the authoritarian tendencies arising within the capitalist system. Besides, the “Marxism” of the Second International had lost its plausibility at the eve of World War I, whereas the success of the Bolshevik Revolution could be seen as a return to the revolutionary theory and practice of Marxism. This situation assured the rising prominence of the Leninist interpretation of Marxism, as dependent on the existence of a vanguard party not only for seizing power but also for securing the transition from capitalism to socialism. At any rate, in the course of time the Leninist conception of Marxism came to dominate that part of the

17 Article written for Sotsialistichesky Viestnik; English version in Proletarian Outlook 6:3 (1940).
international labor movement which saw itself as an anti-capitalist and anti-imperialist force.

We have dealt with Bolshevism and the Russian Revolution in some detail in order to bring out two specific points: first, that the policies of the Bolshevik regime subsequent to Lenin’s death had their cause in the prevailing situation in Russia and the world at large as well as in the political concepts of the Leninist party; and second, that the result of this combination of factors implied a second and apparently “final” destruction of the labor movement as a Marxist movement. World War I and its support by the socialist parties of the Second International signified a defeat of Marxism as a potentially revolutionary workers’ movement. The war and its aftermath led to a temporary revival of revolutionary activities for limited reformist goals, which indicated the workers’ unreadiness to dislodge the capitalist system. Only in Russia did the revolutionary upheavals go beyond mere governmental changes, by playing the means of production – not at once, but gradually – into the hands of the Bolshevik party-state. But this apparent success implied a total inversion of Marxian theory and its willful transformation into the ideology of state-capitalism, which, by its very nature, restricts itself to the nation-state and its struggle for existence and expansion in a world of competing imperialist nations and power blocs.

The concept of world revolution as the expected result of the imperialist war, which seemingly prompted the Bolsheviks’ seizure of power, was dependent upon Lenin’s notion of the indispensable existence of a vanguard party, able to grasp the opportunity for the overthrow of the bourgeois state, and capable of avoiding, or correcting, the otherwise aimless squandering of spontaneously released revolutionary energies on the part of the rebellious masses. Aside from the Russian Bolsheviks, however, no vanguard party of the Leninist type existed anywhere, so that this first presupposition for a successful socialist revolution could not be met. In the light of Lenin’s own theory, it was therefore logically inconsistent to await the extension of the Russian into an international revolution. But even if such vanguard parties could have been created overnight, so to speak, their goals would have been determined by the Leninist concept of the state and its functions in the social transformation process. If successful, there would have been more than one state-capitalist system but no international socialist revolution. In short, there would have been accomplished at an earlier time what actually came to pass after World War II without a revolution, namely the imperialistic division of the world into monopolistic and state-capitalistic national systems under the aegis of unstable power blocs.

Assuming for the sake of argument that revolutions in Western Europe had gone beyond purely political changes and had led to a dictatorship of the proletariat, exercised through a system of soviets controlling economic social relations, such a system would have found itself in opposition to the party-state in its Leninist incarnation. Most probably, it would have led to a revival of Russia’s internal opposition to the Bolshevik power monopoly and to the dethroning of its leadership. A proletarian revolution in the Marxian sense would have endangered the Bolshevik regime even more than would a bourgeois and social democratic counter-revolution, because for the Bolsheviks the spreading of the revolution was conceivable only as the expansion of the Bolshevik Revolution and the maintenance of its specific characteristics on a global scale. This was one of the reasons why the Third International, as a “tool of world revolution,” was turned into an international replica of the Leninist party.

This particular practice was based on Lenin’s theory of imperialism. More polemical than theoretical in character, Lenin’s *Imperialism : The Highest Stage of Capitalism* paid more attention to the fleeting political aspects of imperialism than to its
underlying socioeconomic dynamics. It was intended to unmask the imperialist character of the first world war, seen as the general condition for social revolution. Lenin’s arguments were substantiated by relevant data from various bourgeois sources, by a critical utilization of the theoretical findings of J. H. Hobson and Rudolf Hilferding, and by a rejection of Karl Kautsky’s speculative theory of superimperialism as a way toward a peaceful capitalism. The data and the theories were bound up with a particular historical stage of capitalist development and contained no clues regarding its further course.

The compulsion to imperialism is inherent in capitalist production, but it is the development of the latter which accounts for its specific manifestations at any particular time. For Lenin, however, capitalism became imperialistic “only at a definite and very high stage of capitalistic development,” a stage that implied the rule of national and international monopolies which, by agreement or force, divided the world’s exploitable resources among themselves. In his view, this period is characterized not so much by the export of commodities as by that of capital, which allows the big imperialist powers, and a part of their laboring populations, an increasingly parasitical existence at the expense of the subjugated regions of the world. He perceived this situation as the “highest stage” of capitalism because he expected that its manifold contradictions would lead directly to social revolutions on an international scale.

However, although World War I led to the Russian Revolution, imperialism was not the “eve of the proletarian world revolution.” What is noteworthy here nonetheless is the continuity between Lenin’s early work on the development of Russian capitalism and his theory of imperialism and the impending world revolution. Against the Narodniki, as we saw, Lenin held that capitalism would be the next step in Russia’s development and that, for that reason, the industrial proletariat would come to play the dominant role in the Russian revolution. But by involving not only the workers, but also the peasants and even layers of the bourgeoisie, the revolution would have the character of a “people’s revolution.” To realize all its potentialities, it would have to be led by an organization representing the socialism of the working class. Lenin’s theory of imperialism as “the eve of world revolution” was thus a projection of his theory of the Russian revolution onto the world at large. Just as in Russia different classes and nationalities were to combine under proletarian leadership to overthrow the autocracy, so on an international scale whole nations, at various stages of development, are to combine under the leadership of the Third International to liberate themselves from both their imperialistic masters and their native ruling classes. The world revolution is thus one of subjugated classes and nations against a common enemy – monopolist imperialism. It was this theory that, in Stalin’s view, made “Leninism the Marxism of the age of imperialism.” However, based on the presupposition of successful socialist revolutions in the advanced capitalist nations, the theory could not be proven right or wrong as the expected revolutions did not materialize.

This truly grandiose scheme, which puts Bolshevism in the center of the world revolutionary process and, to speak in Hegelian terms, made the Weltgeist manifest itself in Lenin and his party, remained a mere expression of Lenin’s imaginary powers, for with every step he took the “greatest of Realpolitiker” found himself at odds with reality. Just as he had to jettison his own agrarian program in exchange for that of his Social Revolutionary opponents, to rid himself of the “natural economy” practiced with devastating results during the period of “war communism” and fall back to market relations in the New Economic Policy, and to wage war against the self-determination of oppressed nationalities at first so generously granted by the Bolshevik regime, so he saw himself forced to construct and utilize the Third International not for the extension of the international revolution but for no more than the defense of the Bolshevik state. His
internationalism, like that of the bourgeoisie, could only serve national ends, camouflaged as general interests of the world revolution. But perhaps it was this total failure to further the declared goods of Bolshevism that really attests to Lenin’s mastery of Realpolitik, if only in the sense that an unprincipled opportunism did indeed serve the purpose of maintaining the Bolsheviks in power.

Lenin’s single-mindedness in gaining and keeping state power by way of compromises and opportunistic reversals, as dictated by circumstances outside his control, was not a practice demanded by Marxist theory but an empirical pragmatism such as characterizes bourgeois politics in general. The professional revolutionary turned into a statesman vying with other statesmen to defend the specific interests of the Bolshevik state as those of the Russian nation. Any further revolutionary development was now seen as depending on the protection of the first “workers’ state,” which thus became the foremost duty of the international proletariat. The Marxist ideology served not only internal but also external purposes by assuring working-class support for Bolshevik Russia. To be sure, this involved only part of the labor movement, but it was that part which could disrupt the anti-Bolshevik forces, which now included the old socialist parties and the trade unions. The Leninist interpretation of Marxism became the whole of Marxian theory, as a counter-ideology to all forms of anti-Bolshevism and all attempts to weaken or to destroy the Russian government. Simultaneously, however, attempts were also made to bring about a state of coexistence with the capitalist adversaries. Various concessions were proposed to demonstrate the mutual advantages to be gained through international trade and other means of collaboration. This two-faced policy served the single end of preserving the Bolshevik state by serving the national interests of Russia.

8. The German Revolution

Contrary to Bolshevik expectations, the Russian Revolution remained a national revolution. Its international repercussions involved no more than a growing demand for the ending of the war. The Bolsheviks’ call for an immediate peace without annexations and reparations found a positive response among the soldiers and workers in the Western nations. But even so, and apart from short-lived mutinies in the French and British armed forces and a series of mass strikes in the Central European countries, it took another year before the military defeat of the German and Austrian armies and general war weariness led to the revolutionary upheavals that brought the war to a close.

The here decisive German Revolution of 1918 was a spontaneous political upheaval, initiated within the armed forces but embracing at once, either actively or passively, the majority of the population, to bring the war and therewith the monarchical regime to an end. It was not seriously opposed by either the bourgeoisie or the military, especially as it allowed them to place the onus of defeat upon the revolution. What was important was to prevent the political revolution from turning into a social revolution and to emerge from the war with the capitalist system intact.

At this time, neither the bourgeoisie nor the workers were able to differentiate between Marxism and Bolshevism, except in the political terms of democracy and dictatorship. Notwithstanding the military dictatorship in capitalist countries, it was the dictatorial nature of Bolshevism that the Social Democratic leadership used in order to defend the capitalist system in the name of democracy. Long before the November Revolution, the Social Democratic Party had been the spearhead in the struggle against Bolshevism, directly and indirectly opposing all working-class actions that might impair the war effort or break up the class collaboration on which its continuation depended. But
all these efforts failed to prevent the revolution from overthrowing the old state and its war machine. So as not to lose all influence upon the unfolding political events, the Social Democrats were compelled to take part in them and to try to gain control of the revolutionary movement. To that end, the Social Democratic Party recognized the overthrow of the old regime and accepted the workers’ and soldiers’ councils as a provisional social institution, which was to lead to the formation of a republican democratic state in which Social Democracy could continue to operate as of old.

The collapse of the German Army in the autumn of 1918 had led to some constitutional and parliamentary reforms and the bringing of Social Democrats into the government as a measure to liquidate the war with the fewest internal troubles and, perhaps, to gain better armistice conditions. While the workers’ and soldiers’ councils in Russia were already beginning to lose their independent powers to the emerging Bolshevik state apparatus, they still inspired the spontaneous formation of similar organizations in the German revolution and, to a lesser extent, the social upheavals in England, France, Italy, and Hungary. In Germany, it was not the lack of effective labor organizations but their class-collaborationist character and their social patriotism that induced the workers to emulate the Russian example. Opposition to the continuation of the war, and preparations for the revolutionary overthrow of the existing systems had to be clandestinely organized, outside the official labor movement, at the places of work, linked with each other by means of committees of action. But before these planned organizations could enter the revolutionary fray, the spontaneously formed workers’ and soldiers’ councils had already put an end to the government by establishing their own political dominance.

The Social Democratic Party found itself forced to enter the council movement, if only to dampen its possible revolutionary aspirations. This was not too difficult, since the workers’ and soldiers’ councils were composed not only of radical socialists, but also of right-wing socialists, trade unionists, pacifists, nonpoliticals, and even bourgeois elements. The radicals’ slogan of the day, “All power to the workers’ and soldiers’ councils,” was therefore self-defeating, unless, of course, events should take such a turn as to alter the character and the composition of the councils. However, the great mass of the socialist workers mistook the political for a social revolution. The ideology and organizational strength of Social Democracy had left its mark; the socialization of production, if considered at all, was seen as a governmental concern, not as the task of the workers. “All power to the workers’ councils” implied the dictatorship of the proletariat, for it would leave the nonworking layers of society without political representation. Democracy was still understood, however, as the general franchise. The mass of the workers demanded both workers’ councils and a National Assembly. They got both – the councils as a meaningless part of the Weimar Constitution, and a parliamentary regime securing the continued existence of the capitalist system.

Whatever the differences between Bolshevism and Social Democracy, as political parties both thought themselves entitled to lead the working class and to determine its activities. Both assumed that if was the party through which the working class became aware of its class interests and was thus enabled to act upon them. While the Social Democratic Party was content with the control of working-class movements within bourgeois society, the Bolsheviks demanded the exclusive right to this control through the party state. But both these branches of Social Democracy saw themselves as the legitimate and indispensable representatives of the working class. A system of workers’ and soldiers’ councils, and new social institutions derived therefrom, was incomprehensible within the party concepts that had ruled the political labor movement prior to the revolution. And because opposition to capitalism had hitherto found its
expression in the socialist parties, it is not surprising that they should have come to play a special and, as it turned out, the decisive role in the formulation of policy objectives for the emerging council movement.

In Russia too, as we have seen, the competition between the various socialist organizations within the soviets for control of the revolutionary movement excluded from the very beginning self-rule of the soviets, which, in fact, proclaimed as their political goal a democratic constitution and economic reforms compatible with the capitalist system. The Bolshevik coup d’état changed this situation by basing the rule of the party on the soviets, in which it had gained a majority, even though this majority was as accidental as that of 1903, which gave to Lenin’s faction within Russian Social Democracy the name “Bolshevik.” This situation repeated itself in 1917 with the protesting departure of the right-wing socialists and Social Revolutionaries from the Second Congress of Soviets. The Bolshevik government emerged from the congress as the self-appointed “Soviet of Peoples’ Commissars,” although the congress went through the formality of ratifying the new government.

Similarly, at the German First Congress of Workers’ and Soldiers’ Councils, the Social Democratic leaders were able to appoint themselves to governmental positions because they controlled the voting majority of the hastily gathered delegates, mainly functionaries of the two socialist parties, the Majority Socialists and the Independent Socialists. This majority was retained also at the Second Congress of Workers’ and Soldiers’ Councils and assured that the political program adopted was that of the Social Democratic parties. The self-liquidation of the councils in favor of the National Assembly was a foregone conclusion, because of the continued hold of these parties on their members and their unbroken influence upon the unorganized mass of the working population. The revolution, insofar as it had a clear-cut political character, was thus a social democratic revolution, with an emphasis on democracy and a total neglect of the socialist aspect of the Social Democratic movement.

While in both Russia and Germany the workers’ and soldiers’ councils had been instrumental in making the revolution, they were unable to turn themselves into a means for the reorganization of the social production relations and thus left the reordering of society to the traditional labor movement. As far as Western Europe was concerned, this movement had long ceased to be a revolutionary movement, but it had not ceased to express specific class interests and their defense within bourgeois society. The socialist parties were still workers’ organizations, despite their inconsistencies in class struggle situations and their violations of the socialist principles of the past. As institutions making their way within capitalism, their leaders and bureaucracies were no longer interested even in the programmatic “long-term” democratic transformation of capitalism, but concentrated upon the “short-term” enjoyments of their particular privileges within the status quo. Behind their effusive celebration of democracy as the “road to socialism” there stood no more than the desire to be fully integrated into the capitalist system, a desire shared by the bourgeoisie, which also favors social harmony.

It was then only to be expected that the class collaboration exercised throughout the war should be continued within and after the revolution. This was understood not only by the bourgeoisie but also by the military authorities, who accepted and supported the new “revolutionary government” even though its legitimation was still based on the workers’ and soldiers’ councils, seen as an unavoidable interregnum between the pre and a postrevolutionary capitalist government. In order to proceed to the latter, the whole existing state apparatus was left undisturbed by the “socialist government” and continued to function in its usual ways. All that the revolution was supposed to accomplish was a change from the as yet imperfect to a more perfect bourgeois parliamentary regime, or the
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completion of the bourgeois revolution, so long delayed by the persistence of feudalistic elements within the rising capitalism. This was the immediate and only goal of German Social Democracy. Its reluctance to extend the revolution into the economic sphere was even more pronounced in the trade-union leadership, which set itself in opposition “to any socialist experiment and any form of socialization at a time when the population required work and food.” The close wartime cooperation between the trade unions and private industry was reinforced, in order to prevent and to break strikes and to combat the politicization of the workers via the factory councils in large-scale enterprises. In brief, the old labor movement in its entirety became an unabashed counter-revolutionary force within a revolution that had played political power into its hands.

Insofar as the November Revolution was a genuine revolutionary movement, it found its inspiration in the Bolshevik Revolution, seen as the usurpation of power by the soviets, and was therefore opposed to the convocation of a National Assembly and the restoration of bourgeois democracy. It stood thus in opposition both to the prerevolutionary labor movement and to the spontaneously formed workers’ and soldiers’ councils, which had made the Social Democratic policies their own. There was, however, the possibility that this immediately given situation might change, not only because of the generally unsettled conditions, but also because of the openly counter-revolutionary activity of the Social Democratic leadership, which might discredit it sufficiently to destroy its influence in its own organization and in the working class as a whole. This was not an unreasonable expectation, as the Social Democratic Party had been split on the issue of war aims in 1917; this had led to the formation of the Independent Socialist Party (U.S.P.D.), as a first indication of the radicalization of the socialist movement. Until then, organizational fetishism, with its insistence upon unity and discipline, had been strong enough to prevent an internal break. Even the Spartacus League, which came to the fore in 1915, did not attempt to form a new party, but contented itself with the position of a left opposition, first in the old party and later within the framework of the Independent Socialists, so as not to lose contact with the organized socialist workers. Although the leaderships of socialist parties were considered to be beyond repair, this was held not to be true for the rank and file, who might be won over to the revolution. However, the Independent Socialists themselves encompassed a right wing, a center, and a left wing, reaching from E. Bernstein, K. Kautsky, and R. Hilferding to K. Liebknecht, R. Luxemburg, and F. Mehring, the latter three representing the Spartacus League. As an opposition party to the social-patriotic Majority Socialists, the U.S.P.D. was seen as the leading revolutionary organization with the greatest influence upon the radical elements of the working class. But because of the divisive structure of the party it was not able to play a consistently revolutionary role and left the determination of events to the social reformists. Only after these experiences, at the end of 1918, did the Spartacus League, together with some other local radical groupings, constitute itself as the Communist Party, calling for a soviet republic.

Just as little as the bourgeoisie and its Social Democratic allies were able to assess their chances for survival during the first weeks of the revolution, but could only try to prevent its radicalization through the immediate organization of all anti-revolutionary forces in a counter-revolution against the mere possibility of a true socialist revolution, so the revolutionary minority could not assess the probability of success or failure within a situation still in flux and capable of going beyond its initial, limited, political goals. For neither side, since both comprised social minorities insofar as their conscious goals were concerned, was there a way to weigh its chances, except by trying to realize its objectives. Only by probing the strength or weakness of the opponent was it possible to influence events and to gain some insight into the otherwise unpredictable course of the revolution.
But this was no longer a question of competing political programs on a purely ideological level, but one of a confrontation of the armed revolution with the armed counter-revolution – a question of civil war. It was only in retrospect, after the defeat of the revolutionary minority, that it became clear that the revolutionary upheavals had been a cause lost in advance.

In organizing the defense of the capitalist system, the social reformists prepared for and provoked the civil war, all the while calling for its prevention, in order to arrest the rise of “Bolshevik anarchy” and to assure an orderly and bloodless transfer from the old to the new government. But civil war, Rosa Luxemburg wrote,

is only another name for class struggle. The idea of reaching socialism without class struggle through the Parliament is a laughable petty-bourgeois illusion. The National Assembly belongs to the bourgeois revolution. Whoever wants to use it today throws the revolution back to the historical stage of the bourgeois revolution; he is merely a conscious agent of the bourgeoisie or an unconscious ideologist of the petty-bourgeoisie. 1

But though this is true, it did not bother the majority of the socialist workers, who had shared for so long in this petit bourgeois ideology, and who had no desire to turn the revolution into civil war now that the war had actually ended. In distinction to the situation in Russia, where the revolution was to bring the war to an end, in the Central European nations the war was liquidated by the bourgeoisie itself and the revolution was a consequence of this liquidation. There was no longer a war to be turned into civil war. There was also no peasantry utilizing the breakdown of autocracy for the appropriation and division of the landed estates, but rather, except perhaps in Hungary, a capitalistic agriculture with a reactionary peasant population. For the revolution to succeed it would have to be one made by the industrial proletariat, set against all other classes in society, and would therefore require the participation of the working class as a whole. It could not succeed if carried out only by a minority.

In their revolutionary elan and audacity the minority of German revolutionaries were, in a sense, even more Bolshevik than the Bolsheviks in their attempts to set an example to the working class. But although they did not hesitate to react to the persistent provocations of the counter-revolution, and though they did initiate revolutionary actions on their own accord, it was not in order to gain control over the revolution and to install their own dictatorship, but to bring about the class rule of the workers’ councils. While they did not want to make the revolution for the proletariat, they thought it possible that the sharpening of the class struggle would activate always greater masses of workers and draw them into the fight against the counter-revolutionary forces masquerading as defenders of democracy. Although their efforts ended in defeat, they had been inescapable, short of leaving the field entirely uncontested to the counter-revolution whose main stronghold, at this time, was German Social Democracy. Ironically, the Marxian aspect of the revolution was defeated in the name of “Marxism” in its purely ideological social democratic cast.

1 In Rote Fahne, November 20 1918.
9. Ideology and Class Consciousness

In retrospect all lost causes appear as irrational endeavors, while those that succeed seem rational and justifiable. The goals of the defeated revolutionary minority have invariably been described as utopian and thus as indefensible. The term “utopian” does not apply, however, to objectively realizable projects, but to imaginary systems, which may or may not have concretely given material underpinnings that allow for their realization. There was nothing utopian in the attempt to gain control of society by way of workers’ councils and to end the market economy, for in the developed capitalist system the industrial proletariat is the determining factor in the social reproduction process as a whole, which is not necessarily associated with labor as wage labor. Whether a society is capitalist or socialist, in either case it is the working class that enables it to exist, production can be carried on without regard to its expansion in value terms and the requirements of capital accumulation. Distribution and the allocation of social labor are not dependent upon the indirect exchange relations of the market, but can be organized consciously through appropriate new social institutions under the open and direct control of the producers. Western capitalism in 1918 was not the necessary social production system but only the existing one, whose overthrow would merely have released it from its capitalist encumbrances.

What was missing was not the objective possibility for social change, but a subjective willingness on the part of the majority of the working class to take advantage of the opportunity to overthrow the ruling class and to take possession of the means of production. The labor movement had changed with changing capitalism, but in a direction contrary to Marxian expectations. Despite the pseudo-Marxist ideology, it tended toward the apolitical position that characterizes labor movements in the Anglo-Saxon countries and toward their positive acceptance of the capitalist system. The movement had become politically “neutral,” so to speak, by leaving political decisions to the accredited political parties of bourgeois democracy, of which the Social Democratic Party was one among others. The workers supported the party that promised, or seemingly intended, to take care of their particular immediate needs, which now comprised all their needs. They would not object to the nationalization of industries, were this the goal of their favored party, but neither did they object to reneging on this principle in favor of the private-property system. They simply left such decisions to their elected and more or less trusted leaders, just as they awaited the managers’ or entrepreneurs’ orders in the factories. They continued to deny themselves any kind of self-determination by simply leaving things as they had been, which seemed preferable to the turmoil and the uncertainties of a prolonged struggle against the traditional authorities. It is thus not possible to say that Social Democracy “betrayed” the working class; what its leaders “betrayed” was their own past, now that they had become an appreciated part of the capitalist establishment.

The failure of the German Revolution seems to vindicate the Bolshevik assertion that, left to itself, the working class is not able to make a socialist revolution and therefore requires the leadership of a revolutionary party ready to assume dictatorial powers. But the German working class did not attempt to make a socialist revolution and thus its failure to do so cannot prove the validity of the Bolshevik proposition. Moreover, there was a revolutionary “vanguard” that tried to change the purely political character of the revolution. Although this revolutionary minority did not subscribe to the Bolshevik party concept, it was no less ready to assume leadership, but as a part, not as the dominator, of the working class. Under Western European conditions, a socialist revolution depended clearly on class and not on party actions, for here it is the working class as a whole that
has to take over political power and the means of production. It is true of course – but true for all classes, the bourgeoisie as well as the proletariat – that it is always only a part of the whole that actually engages itself in social affairs, while another part remains inactive. But in either case, it is the active part that is decisive as regards the outcome of the class war. It is thus not a question of the whole of the working class literally partaking in the revolutionary process, but of a mass sufficient to match the forces mobilized by the bourgeoisie. This relative mass did not aggregate fast enough to offset the growing power of the counter-revolution.

The whole counter-revolutionary strategy consisted in forestalling a possible increase of the revolutionary minority. The great rush into the National Assembly, as the political goal of Social Democracy, was at the same time dictated by the fear that a prolonged existence of the workers’ councils could lead to their radicalization in the direction of the revolutionary minority. With the demobilization of the army, the political diversity of the soldiers’ councils would disappear, and the composition of the councils, based now exclusively in the factories, might take on a more consistently revolutionary character. That this fear was uncalled for came to light in the results of the election to the National Assembly, which gave the Majority Socialists 37.9 percent of the total vote, whereas the more radical Independent Socialists received only 7.6 percent. Social Democracy still had the confidence of the mass of the working class, despite, or perhaps because of, its anti-revolutionary program. Yet the fear persisted that the victory of bourgeois democracy might not be the last act of the revolution. With revolutionary Russia in the background, a new revolutionary upsurge remained a possibility – a situation calling for the systematic destruction of revolutionary forces that refused to accept the reconsolidation of the capitalist regime.

Although it demanded the end of the war, not the whole of the army joined the revolution. Nonetheless, so as to facilitate the orderly retreat from the frontlines and to avoid a large-scale civil war, the Military High Command accepted both the soldiers’ councils and the provisional Social Democratic government. In close cooperation with the Military High Command, the newly established government began at once to select and to organize the more trustworthy elements from the dissolving army into voluntary formations (Freikorps) to challenge, disarm, and destroy the revolutionary minority. Under the command of the Social Democratic militarist Gustav Noske, these military forces succeeded in piecemeal fashion in eliminating the armed revolutionaries wherever they tried to drive the revolution beyond the confines of bourgeois democracy. The resort to White terror disturbed the complacency of the Social Democratic masses somewhat more than the revolutionary agitation of the Communists. However, this loss of confidence in the Social Democratic leadership did not benefit the Communists but merely increased the ranks of the divided oppositional Independent Socialists. Between the elections to the National Assembly in January 1919 and the election of the Reichstag in June 1920, the votes for the Majority Socialists declined from 37.9 percent to 21.6 percent, while those of the Independent Socialists increased from 7.6 percent to 18 percent.

Just as the Social Democratic Party utilized the council movement in order to sustain its own political influence, so it did not object to the nationalization of large-scale industry called for by the Second Congress of Workers’ Councils. This was to be taken up by the National Assembly, which, of course, offered no guarantee that the demand would also be heeded. But this apparent commitment to the actualization of a program of nationalization-as a synonym for socialization-allowed the Provisional Government to camouflage its counter-revolutionary course with the promise to further the socialization process by peaceful, legal means, in contrast to the Communist endeavors to reach it by
Reform or Revolution

While the White terror ruled, this was only because “socialism was on the march” and found no other obstacle in its path than “Bolshevik anarchism.” Wherever this promise was taken seriously, as for instance by the workers’ and soldiers’ councils in the Ruhr district, who made a first step toward socialization by assuming control over industries and mines in the expectation that the government would complete and ratify their actions, their independent initiative was quickly brought to an end by military means. In any case, the Social Democratic concept of nationalization did not include proletarian self-determination but merely, and at best, the taking over of industries by the state. It was in this sense only – that is, in the Bolshevik sense – that nationalization was debatable at all, and it was soon to be discarded as an object of discussion, together with the duly instituted parliamentary committee on socialization.

The November Revolution itself was thus its one and only result. Apart from the toppling of the monarchy, some changes in electoral procedures, the eight-hour day, and the transformation of the factory councils into nonpolitical shop stewards’ committees under trade-union auspices, the liberal capitalist economy remained untouched and the state remained a bourgeois state. All the revolution had accomplished were some meager reforms that in any case could have been reached within the framework of capitalism’s “normal” development. In the minds of the reformist Social Democrats social change had always been a purely evolutionary process of small progressive improvements which would eventually issue into a quantitatively different social system. They saw themselves, in 1914 and again in 1918, not as “counter-revolutionaries” or as “ betrayers” of the working class but, on the contrary, as its true representatives, who cared for both the workers’ most immediate needs and their final social emancipation. This is nothing to be wondered at, for, more often than not, even the capitalists see themselves as benefactors of the working class. With far more justification could the Social Democratic leadership imagine that its interventions in the revolutionary process would in the end be more beneficial to the working class than a radical overturn of all existing conditions, with its accompanying interruption of the routinely necessary social and productive functions. Gradualism seemed the only assurance that the social transformation could proceed with the least cost in human misery, and, of course, the least risk for the Social Democratic leadership. Moreover, the political revolution afforded, at least in theory, an opportunity to speed up the process of social reform by bridging the antagonism of labor and capital through a more democratic state and government.

In this view class conflict could be continuously softened through government-induced concessions made to the working class at the expense of the bourgeoisie. There could be an extension of political democracy into the economic sphere and “codetermination” of the social production and distribution process. There was no need for the dictatorship of a class, whether of the bourgeoisie or the proletariat. There could be a continuation of the class collaboration practiced during the war, now to serve peaceful ends, benefiting the whole of society. A condition was imagined, such as came to pass some decades later with the “welfare state” and the “social market economy,” in which all conflicts could be arbitrated instead of being fought out, and a social harmony established that would be advantageous to all. The prewar confidence in the economic viability of the capitalist system was still alive: the setbacks of the war could be overcome through an increasing production, unhampered by time-consuming and dislocating social experiments. A bankrupt capitalism was not considered a proper base for socialism; as before, the latter would be a problem of the future, when the economy was once again in full flourish. If some workers did not see it this way, their folly should not be allowed to deprive the rest of society of the possibility to emerge from the
shambles left by the war and to meet its more immediate needs in terms of bread and butter.

The reformists had no principles to “betray.” They remained what they had been all along, but they were now obliged first of all to safeguard the system in which their cherished practice could continue. The revolution had to be reduced to a mere reform, so as to satisfy their deepest convictions and, incidentally, secure their political existence. The only thing to be wondered at was the great number of socialist workers for whom, at least ideologically, reforms were supposed to be only an intermediate stage in the march to the social revolution. Now that the opportunity was given to realize their “historical mission,” they failed to take advantage of it, preferring instead the “easy way” of social reform and the liquidation of the revolution. Again, this is not a verification of the Kautsky-Lenin proposition that the working class is incapable of raising its class consciousness beyond mere trade unionism, for the German working class was a highly socialistically educated working class, quite able to conceive of a social revolution for the overthrow of capitalism. Moreover, it was not “revolutionary consciousness” that the middle-class intellectuals had carried into the working class, but only their own reformism and opportunism, which undermined whatever revolutionary consciousness evolved within the working class. Marxist revisionism did not originate in the working class but in its leadership, for which trade unionism and parliamentarism were the sufficient means for a progressive social development. They merely turned the historically restricted practice of the labor movement into a theory of socialism and, by monopolizing its ideology, were able to influence the workers in the same direction.

Still, the workers proved only too willing to share the leaders’ reformist convictions. For Lenin, this was proof enough of their congenital incapacity to develop a revolutionary consciousness, which thus condemned them to follow the reformist lead. The solution was thus the replacement of reformist by revolutionary leaders, who would not “betray” the revolutionary potentialities of the laboring class. It was a question of the “right leadership,” a struggle among intellectuals for the minds of the workers, a competition of ideologies for the allegiance of the proletariat. And thus it was the character of the party that was deemed the decisive element in the revolutionary process, even though this party would have to win the confidence of the masses through their intuitive recognition that it represented their own interests, which the masses themselves were not able to express in effective political action.

Simultaneously, the differentiation between class and party was seen as their identity, because the latter would compensate for the lack of political awareness on the part of the less-educated proletariat. Contrary to the Marxian theory that it is material conditions and social relations that account for the rise of a revolutionary consciousness within the proletariat, in the Social Democratic view (whether reformist or revolutionary) these very conditions prevent the workers from recognizing their true class interests and from finding ways and means to realize them. They are able to rebel, no doubt, but not to turn their wrath into successful revolutionary actions and meaningful social change. For this they need the aid of middle-class intellectuals who make the cause of the workers their own, even though, or because, they do not share in those deprivations of the working class which, in the Marxian view, would turn the workers into revolutionaries. This elitist notion implies, of course, that through ideas find their source in material social conditions, they are nonetheless the irreplaceable and dominating element in the process of social change. But as ideas they are the privilege of that group in society which, with the given division of labor, attends to its ideological requirements.

But what is class consciousness anyway? Insofar as it merely refers to one’s position in society it is immediately recognizable: the bourgeois knows that he belongs to
the ruling class; the worker, that his place is among the ruled; and the social groups in between count themselves in neither of these basic classes. There is no problem so long as the different classes adhere to one and the same ideology, namely, the idea that these class relations are natural relations that will always prevail as a basic characteristic of the human condition. Actually, of course, the material interests of the various classes diverge and lead to social frictions that conflict with the common ideology. The latter is increasingly recognized as the ideology of the ruling class in support of the existing social arrangements and will be rejected as a statement of the inescapable destiny of human society. The ruling ideology is thus bound to succumb to the extension of class consciousness into the ideological sphere. The differences of material interests turn into ideological differences and then into political theories based on the concrete social contradictions. The political theories may be quite rudimentary, because of the complexities of the social issues involved, but they nonetheless constitute a change from mere class consciousness to a comprehension that social arrangements could be different from what they are. We are then on the road from mere class consciousness to a revolutionary class consciousness, which recognizes the ruling ideology as a confidence game and concerns itself with ways and means to alter the existing conditions. If this were not so, no labor movement would have arisen and social development would not be characterized by class struggles.

However, just as the presence of the ruling ideology does not suffice to maintain existing social relations, but must in turn be supported by the material forces of the state apparatus, so a counter-ideology will remain just this unless it can produce material forces stronger than those reflected by the ruling ideology. If this is not the case, the quality of the counter-ideology, whether it is merely intuitive or based on scientific considerations, does not matter and neither the intellectual nor the worker can effect a change in the existing social relations. Revolutionaries may or may not be allowed to express their views, depending on the mentality that dominates the ruling class, but under whatever conditions they will not be able to dislodge the ruling class by ideological means. In this respect the ruling class has all the advantage, since with the means of production and the forces of the state it controls instrumentalities for the perpetuation and dissemination of its own ideology. As this condition persists until the actual overthrow of a given social system, revolutions must take place with insufficient ideological preparation. In short, the counter-ideology can triumph only through a revolution that plays the means of production and political power into the hands of the revolutionaries. Until then, revolutionary class consciousness will always be less effective than the ruling ideology.