Marxian theories of crisis

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Karl Marx (1818 – 1883)

- Economic & financial crises regular feature of capitalist economies (1825, 1836, 1847, 1857 ... )

- Monetary economy: $M - C - M'$; source of profit is value added by labour

- Profitable periods of accumulation undermine own success → decline in profitability

- Overextension of credit in upturn, especially in final stages (speculation in financial assets and raw material prices)

- Expansion ends with financial crisis and sharp economic downturn

- Rising unemployment and bankruptcy of weakest firms creates conditions for new period of profitable expansion
Marx (2): Declining profitability

Three main arguments

• Wages (*Capital*, vol. 1, 1867): investment & expansion $\rightarrow$ falling unemployment, rising wages, declining profits

• ‘Realisation’: simple two sector model (C and I goods) (*Capital*, vol. 2) shows expanded reproduction *possible*; in reality overproduction results in unsold commodities (‘limited consuming power of workers’)

• Tendency of rate of profit to fall (*Capital*, vol. 3): increase in fixed capital results in smaller share of capital being invested in value-creating living labour

Three not drawn together by Marx; later Marxists disagree about which is most significant, or ways in which they might be combined
Marx (3): Financial system

• Financial capitalist lends productive capitalist money; money repaid with interest
  – Interest is derived from surplus value generated in productive sector
  – Division of surplus value between interest and net profits varies over economic cycle

• Credit creation
  – Bills of exchange
  – Discounting of bills by banks
  – Bank deposits
  – Very flexible supply of credit; subject to rapid collapse in crisis

• Fictitious capital
  – Bonds: Money raised to finance investment (or govt exp); capital does not exist twice (factory and bond); bond is merely claim on future profits (or taxes)
  – Shares: Money raised to finance investment; again capital not duplicated
Marx (4): Finance & Crisis

- Following recession: interest rate low (idle money capital, low demand for credit), net profits conducive to investment

- ‘Prosperity’: Demand for capital rises, but profits rising and trade conducted using bills of exchange; interest rates rise but moderately

- Final stage of expansion: strong increase in demand for credit & rise in interest rate: investment strong, rise in wages & raw material prices, speculation in financial assets

- Two triggers for onset of crisis
  - Curtailment of credit by over-extended banks
  - Industrial capitalists unable to meet payment commitments due to decline in net profits

- Crisis
  - Inability to sell commodities; acute demand for credit; interest payments can exceed net profits; workers lose jobs; investment projects abandoned; widespread bankruptcies
  - Fall in security prices, banking crisis, collapse of credit, sharp downturn, wages & prices fall
Marx (5): Comments

• Periodic crises intrinsic feature of capitalism; state can ameliorate impact but not eliminate crises

• Crisis and economic downturn prepared basis for new expansion: weakening workers, writing off old forms of technology, closing least efficient units

• Analysis based on commodity money (gold); state money substitute; credit money introduced later in analysis; reversion to ‘real money’ in crisis

• Importance of credit instruments (Tooke & Fullerton); accelerate growth & accumulation; output outstretches available markets; feeds speculation; culminates in crash

• Changes in capitalism after 1873?
Rudolf Hilferding (1877-1941)

- *Finance Capital* (1910)
  - Developed analysis of money and credit; emphasises role of money in allocating labour to different branches of production (‘nervous system’)
  - Concentration in industry and in banking; formation of cartels and trusts; fusion of industry and banks under dominance of banks

- Sophisticated analysis of interaction of industrial and financial capital in course of business cycle; emergence of ‘disproportions’ between different sectors of economy (consumption, means of production)

- Large firms more able to stabilise output; main cost borne by smaller enterprises

- Formation of large enterprise groups seen as basis for overcoming capitalism (‘nationalise six large Berlin banks’)
Paul Sweezy (1910 – 2004)

- **Monopoly Capitalism** (with Paul Baron, 1966)
  - Shift from concept of surplus value to (economic) surplus
  - Growth of ‘monopolies’ & rise in surplus
  - Inadequate investment prevented surplus from being realised in money
  - Marketing & military spending important in absorbing surplus
  - Little analysis of finance

- **Monthly Review Magazine** (founded by Sweezy & Huberman, 1949)
  - Essays from 1970s identified growing indebtedness of US corporations
  - Concerns that surplus would be insufficient to meet interest and debt repayments, as well as dividends and top salaries
  - Tendency for debt financed public & capitalist expenditure to produce debt crisis (Minsky)
  - Non-financial corporations becoming more engaged with financial markets, but to speculate not to finance fixed capital investment
  - Mechanisms within ‘monopoly-finance capital’ bloc not disentangled to identify specific features of modern capitalist financial operations
Ernest Mandel (1923 - 95)

• *Late Capitalism* (1972/1975) & numerous conjunctural analyses

• Integration of classical Marxian theory with contemporary quantitative indicators

• Stressed importance of money; linked value of money to gold (even after end of convertibility)

• ‘Long waves’ (Kondratiev) developed to explain longer term dynamics

• Cyclical crises attributed to combination of tendency of rate of profit to fall and wage squeeze (‘two sides of coin’)

• Stressed significance of rising debt but limited analysis of developments in financial system
Regulationists

  - Theoretically innovative integration of value theory, quantitative analysis, labour process and money; based on US
  - Distinguished extensive & intensive (‘Fordist’) regimes of accumulation
  - Extensive monetary analysis draws on theory of ‘monetary circuit’
  - Post-war Fordist accumulation involved dynamic balancing of tendency of rate of profit to fall and countertendencies
  - Limited analysis of financial system

  - Sophisticated analysis of money, credit and inflation (partly paralleling Susanne de Brunhoff, 1976/1979)
  - 1974-75 crisis attributed to falling profitability & crisis of Fordism; 1980-82 crisis to deficient demand (US monetary policy)
Gérard Duménil & Dominique Lévy

• *Crisis of Neoliberalism* (2011): capitalist, managerial, popular classes

• Three ‘social orders’ in US since turn of 20th century
  – ‘Financial hegemony’: compromise between capitalists & upper managers
  – Post-war compromise: alliance between managerial & popular classes
  – Neoliberalism: alliance of capitalist & managerial classes

• Neoliberalism characterised by unbounded quest for high incomes & unsustainable macroeconomic trajectory

• 2007-09 crisis result of overconsumption & under-accumulation

• Estimate that income of top 5% 1.6 time total dividends; even more in financial sector

• Questionable class analysis; pessimistic prognosis
The Marxian analysis

- Broad analysis integrating production, commerce and finance (c.f. Keynes ‘monetary theory of production’)
- Centrality of conflict of (class) interests
- Crisis integral feature of capitalist growth
- State policy can meliorate but not eliminate impact of crises
- Historically progressive role of industrial capitalism; negative role of financial capital
- Nationalise land and banks (Marx & Engels, *Communist Manifesto*)