1 Marxian Economics and the Great Depression

1 The Last Crisis of Capitalism?

The Great Depression was by far the most severe economic crisis in the history of capitalism. In the United States real GNP fell by 9.9 per cent in 1930, a further 7.7 per cent in 1931, and by 14.8 per cent in 1932. In the latter year industrial production in both Germany and the US was no less than 47 per cent below its 1929 level (for the other capitalist powers the collapse was less complete, but nevertheless severe). Marxian economists asked two questions about this cataclysm. What did it mean for the future of the capitalist system and the prospects for socialism? And how could it be explained consistently with Marx’s theory of crisis? Neither question was simple. Marx’s theory of capitalist crisis was nowhere well worked out, nor, indeed, even organised systematically, while the political history of the 1930s involved novel developments. The most notable phenomena were the success of fascism in Germany, the New Deal in the United States and the growth of state intervention elsewhere. They raised once again the question of the state’s role in modern capitalism and the basis of mass support for reaction or reform rather than revolution.

There was no agreement among Marxian theorists concerning the nature of the crisis. Initially, at least, German Social Democratic economists found little to be excited about. The Great Depression was ‘neither Young-crisis nor rationalisation-crisis, nor total breakdown of the capitalist system nor herald of the world revolution’, Fritz Nahtali wrote in 1930, ‘but typical crisis of the capitalist system with historical peculiarities, as are revealed by every crisis’. In the following year Karl Kautsky attacked radical elements in the German SPD (Social Democratic Party) who argued that only socialism could end the crisis: ‘This view reminds me of people who, in a cool wet summer, assume that it will never get warm and that a new ice age is beginning.’ As with all previous crises, a recovery was inevitable; it would
increase the economic and political strength of the working class sufficiently
to ensure that the current crisis would be the last of its kind. 'We have every
reason to expect', Kautsky concluded, 'that the coming prosperity will
introduce an era of lasting well-being, lasting security and rapidly progress-
ing adjustment of the production process to the needs of the working class,
an era which we must characterise as the proletarian revolution.' Instead
fascism triumphed in Germany, while elsewhere recovery was slow and
incomplete, but neither Kautsky nor the SPD's leading economic theoreti-
cian, Rudolf Hilferding, appear to have revised their remarkably complacent
interpretation of the depression.5

Most Marxists, however, agreed with Friedrich Pollock of the Frankfurt
Institute that the Great Depression was deeper, geographically more
extensive and longer-lasting than its predecessors, even that of 1873–9,
and that it therefore needed a special explanation.6 A minority pointed to
the existence of 'long waves' of capitalist development. In addition to the
accepted 7–10 year trade cycle, it was suggested, there were regular fluctua-
tions over half a century. During the long downswing, cyclical
booms were weaker, and depressions stronger and more protracted, than
in the upswing of the long wave. This notion originated before the First
World War with the Russian Marxist Alexander Helphand (Parvus). In the
1920s it attracted the attention of both German economists such as de Wolff
and Wagemann and, in the Soviet Union, the former Social Revolutionary
N.D. Kondratiev, after whom the 50 year cycle has come to be named.7 Very
approximately, long upswings were identified with the periods 1851–73 and
1896–1914 (or 1920), and the corresponding downswings were located in
1826–50, 1873–95 and from 1920 onwards. A long-wave explanation of the
Great Depression was advanced, somewhat tentatively, by Fritz Naftali,
and with much more confidence by the Austro-Marxist Otto Bauer, both
stressing the role of falling agricultural prices in long downswings.8 But this
hypothesis received little support, Pollock, for example, dismissing long
waves as 'metaphysical', and as depending upon 'unreliable generalisations'
from isolated circumstances.9

If the crisis represented neither the downturn of a regular trade cycle nor
the amplification of such a depression by the Kondratiev long wave, there
seemed to be no grounds for expecting a sustained recovery in the rate of
accumulation, or in output and employment. It could be argued, therefore,
that capitalism was doomed, either to protracted stagnation or to imminent
economic breakdown. In general the breakdown thesis in its strict sense -- the
assertion that profitable growth would soon become impossible, for nar-
rowly economic reasons -- was more widely supported before 1914 than
thereafter, though it had been advocated with great vigour by Henryk
Grossmann on the very eve of the Wall Street crash.10 However, by the
mid-1930s the official Soviet line, enunciated by Stalin at the 17th Party
Congress, referred to 'a depression of a special kind', with a 'limited revival'
Marxian Economists and the Great Depression

Biography of Friedrich Pollock

Pollock was born in Freiburg in 1894, the son of a Jewish merchant. Initially he trained for a commercial career, but after 1918 he studied economics and politics at Munich, Freiburg and Frankfurt, where he wrote a dissertation on Marx's theory of money. From 1924 onwards Pollock worked with Carl Grünberg, the patron of the Frankfurt Institute, and was acting Director of the Institute in 1928–30. Pollock visited the Soviet Union in 1927 at the invitation of David Riazanov, and drew upon his field research in a major book on Soviet planning which appeared two years later. Hitler's seizure of power drove Pollock to New York with his friend Max Horkheimer and the other leading members of the Frankfurt School, whose principal economic theorist he had become. Pollock was a strong critic of economic determinism, and in his analysis of state capitalism he asserted the primacy of political and ideological influences. After 1945 he lived for a while in California before returning to Germany. He died in Switzerland in 1970.

which amounted to neither a real recovery nor a relapse into the depth of the slump. In the words of the Comintern's leading economic spokesman, Eugen Varga, the Great Depression had 'caused a profound disturbance of the entire capitalist system, initiated a new and higher stage of the general crisis of capitalism and resulted in the maturing of the objective pre-requisites for the revolutionary crisis'. The former theoretician of the Left Opposition, Evgeny Preobrazhensky, temporarily back in favour in the early 1930s, concurred: 'if it does not lead to a world war, or is not interrupted by a technological revolution, a general economic crisis under monopoly must outgrow its economic framework and become a general social crisis of the entire historical system of capitalism'. Renewed expansion in some parts of the capitalist world (for example in the United States) might be possible, but only at the expense of others (especially Britain and France). 11

More independent Marxists took a similar line. While recognising that 'decline is not collapse', the maverick American Communist Lewis Corey nevertheless saw the Depression as proof of increasing instability and a growing tendency for stagnation, indicating a 'final, permanent crisis' for the capitalist system.

In Germany Natalie Moszkowska interpreted the increasing severity of crises as evidence of the danger of a permanent crisis, which testified to the impending downfall (Niedergang) of capitalism. Her compatriot, Fritz
Biography of
Lewis Corey

Born Louis Fraina in Italy in 1892, Lewis Corey (who adopted the name in 1926) came to the United States at the age of three. He was brought up in poverty in New York, leaving school at fourteen. Corey was active in the Socialist Party, Socialist Labor Party and Industrial Workers of the World, and was in 1919 briefly jailed for his earlier anti-war activities. He was one of the first members of the US Communist Party, but resigned in 1922 in protest against its subservience to Moscow; however, he remained a Marxist for more than a decade. Corey worked first as a clerk and proof-reader, then as a researcher and editor, as educational director for a trade union, and (in 1942–51) as professor of economics at Antioch College. Although now a liberal, and a vociferous anti-Communist, Corey was under intense pressure from McCarthyite investigators at the time of his death in 1953.

Sternberg, found three reasons for believing that recovery would be exceptionally difficult: new overseas markets were no longer available; the unprecedented impoverishment of salaried employees, civil servants and the independent middleclass had removed an important built-in stabiliser; and the sheer scale of unemployment and real wage cuts made the revival of domestic demand unusually problematical.¹²

A few Marxists went even further. Both Trotsky and the Council Communist, Paul Mattick, referred to the Depression as the ‘death agony’ of capitalism. ‘For the first time’, Mattick wrote in 1933 in the programme of the Industrial Workers of the World, ‘in the final phase of capitalism surplus value no longer suffices to sustain both a sufficient wage level and the necessary accumulation.’ Not only did this represent the objective economic conditions for proletarian revolution, it forced humanity to choose between ‘Communism or Barbarism’. In similar vein Trotsky saw the Great Depression as a dramatic vindication of his ‘conception of the epoch’ inaugurated by the First World War, which signified that the further development of the productive forces in Europe was constrained by the nation-state structure of advanced capitalism. Expressing himself in the language of Lenin’s Imperialism, he wrote:

The life of monopolistic capitalism in our time is a chain of crises. Each crisis is a catastrophe. The need for salvation from these partial catastrophes by means of tariff walls, inflation, increase of government
spending, and debts lays the ground for additional, deeper and more widespread crises. The struggle for markets, for raw materials, for colonies makes military catastrophes unavoidable. All in all, they prepare revolutionary catastrophes... there is no doubt that the 'theory of collapse' has triumphed over the theory of peaceful development.\textsuperscript{13}

There was evidently some imprecision here. What is meant by the 'new and higher stage of the general crisis of capitalism'? Is increasing instability consistent with stagnation? What, exactly, is a 'permanent crisis'? These questions were not satisfactorily answered by any of these writers. Trotsky in particular relied on rhetoric and assertion, and failed to provide any solid economic argument to support his view that a new epoch of proletarian revolution had begun in 1917 (see Chapter 13 of volume I of this book). His secretary for much of the 1930s, Jean van Heijenoort, writes of a possible 'lack of confidence on Trotsky's part in his command of economics', an impression confirmed by Sternberg's account of his informal tutorials with Trotsky in 1934.\textsuperscript{14}

By far the most coherent theory of stagnation came (in 1942) from the pen of Paul Sweezy. Emphasising mass underconsumption and the curtailment of investment opportunities, it owed as much to liberal theorists like J.M. Keynes and Alvin Hansen as it did to Marx,\textsuperscript{15} while also drawing heavily on Hilferding and Lenin. Like many Marxist writers, Sweezy was more interested in qualitative than in purely quantitative economic change, and pointed to the emergence of a new stage of capitalist development. He criticised Hilferding and Lenin for mistakenly generalising, in their notion of 'finance capital', a specific, brief phase of banker dominance over industry to characterise twentieth-century capitalism as a whole (see Chapters 5 and 14 of volume I of this book). Anticipating his later collaboration with Paul Baran, Sweezy proposed the term monopoly capital to encapsulate the era of giant corporations, price rigidity, growing profit margins, sluggish investment and rising selling costs to offset the tendency to underconsumptionist stagnation.\textsuperscript{16} Natalie Moszkowska's concept of late capitalism was quite close to this.\textsuperscript{17}

By comparison with the European Marxists, Sweezy's treatment was 'economistic', and he paid relatively little attention to the increasing economic role of the state. For Otto Bauer, drawing heavily on contemporary German experience, the Great Depression had been the herald of a new bureaucratically directed monopoly capitalism. The limited industrial recovery in Europe after 1932 had been based upon expanding armaments expenditures, Bauer argued, together with rigid state control of both foreign trade and domestic price and wage formation. Defunct banks had been nationalised, and through its special employment measures the government had gained control over what had become a 'military reserve army' of the unemployed. A return to the liberal capitalism of free competition and free
trade was impossible, Bauer believed, and the rise in the state's economic power was irreversible. But the new system offered only the appearance of economic planning, not the reality; it could only suppress the fundamental contradictions of the capitalist economy, and could not overcome them. A new world war was inevitable.18

Eugen Varga turned to Lenin's account of wartime capitalism (and implicitly to that of Bukharin) to reach a conclusion similar to Bauer's: 'The principal results of the efforts to overcome the crisis artificially (and of all capitalist economic policy during the crisis) is [sic] the intervention of the state in every detail of economic life in favour of the ruling classes in general, and of monopoly capital and the big agrarians in particular. Monopoly capital makes use of its control of the state machinery to effect a systematic shift of national income in its favour and to rob the state treasury in various ways and under all sorts of pretexts. "State capitalist" tendencies have grown considerably. A transition from monopoly capitalism to a "state war-monopoly capitalism", as Lenin called capitalism in the period of the First World War, is taking place to a certain extent.'

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**Biography of Eugen Varga**

Born in Budapest in 1879, Varga studied in Budapest, Berlin and Paris, joining the Hungarian Social Democratic Party in 1906. In 1918 he became Professor of Political Economy at the University of Budapest, and in the following year served as People's Commissar of Finance and then as Chairman of the Supreme Economic Council of the short-lived Hungarian Soviet republic. On its overthrow Varga fled to the Soviet Union, where he worked for the Comintern and soon became its most prominent economic spokesman. In 1927 Varga began a 20-year term as chairman of the Institute of World Economics in Moscow, and editor of its journal. A prolific author from the early 1920s onwards, he was elected to the Soviet Academy of Sciences in 1939. His unorthodox views on the post-war prospects for capitalism cost Varga his official positions in 1947 and forced a total recantation two years later. After the death of Stalin, however, Varga's rehabilitation was rapid and complete, earning him the Order of Lenin twice (in 1954 and 1959), a Stalin Prize (in 1954) and a Lenin Prize (in 1963). He died in October 1964.

'In fact the present situation of capitalism very much resembles that during the World War . . . the preparations for the next world war dominate
the economic policy of all nations more and more.' State war-monopoly capitalism is thus distinguished by the predominance of military considerations in economic policy, and by a substantial growth in the economic power of the state. Like Bauer, Varga insisted that capitalism remained profoundly contradictory.

Lewis Corey, who used the terms 'state capitalism', 'monopoly capitalism' and 'monopoly state capitalism' interchangeably, denied that the system represented a new social order:

The 'national planning' which accompanies state capitalism is not planning in any real sense, for planning depends upon abolition of the anarchy of private profit relations; it is merely piecemeal aid to capitalist industry and planned limitation of output to prevent complete breakdown and a revolt of the workers. State capitalism is an unworkable compromise between the old and the new (a negative expression of the need for a new social order) and aggravates the antagonisms of declining capitalism.

As we have seen, Trotsky, for all his other differences with both Bauer and Varga, took a similar view. Since the basic contradiction was that the productive forces had outgrown the bounds of the nation state, any solution to the crisis through state economic management was impossible. New imperialist wars were inevitable unless proletarian revolution intervened.

A radically different view was expressed by Friedrich Pollock. Initially Pollock had emphasised capitalists' opposition to planning, which would convert them into rentiers and, by exposing its parasitic nature, threaten the legitimacy of their privileged position. But he soon came to stress the increasing economic functions of the state, citing the Roosevelt National Industrial Recovery Act as a prime example. Neither a new world war nor complete economic breakdown could be regarded as inevitable, Pollock argued. A planned, stable capitalist economy was entirely possible, given a further growth of state regulation and a corresponding transformation of the political system. Power would be increasingly concentrated in the hands of an economic oligarchy. The middle class would lose its independence, while technological unemployment and labour market segmentation would blunt the strike weapon and destroy the proletariat's will to resist. 'What is coming to an end', Pollock concluded in 1933, 'is not capitalism but merely its liberal phase. Economically, politically and culturally, there will in the future be less and less freedom for the majority of mankind.' Parliamentary government would give way to plebiscitary dictatorship, and the burgeoning apparatus of psychological mass control would render the state apparatus independent of all classes, allowing it to assume an autonomous [unparteiisch] position over and above society.
By 1941 Pollock was writing of a new state capitalism in which the market no longer controls production or distribution, and economic laws have disappeared. These functions are now vested in the state, which regulates economic life to ensure the full employment of resources using a ‘pseudo-market’ as one of its instruments. State capitalism ‘signifies the transition from a predominantly economic to an essentially political era . . . the profit motive is superseded by the power motive’ to which profit is subsidiary, and capitalists are reduced to rentiers.\(^\text{24}\) Pollock identifies two variants of the new system. In a democratic state capitalism the state is controlled by the people, while in the totalitarian version it is the tool of a ‘new ruling group’ of top business management, the leading state bureaucrats (including the military) and the upper echelons of the (single) party apparatus. Pollock expects the latter to triumph. In a dystopia similar to George Orwell’s 1984, war and preparations for war are paramount, since the system cannot survive mass unemployment but must also hold back the living standards of the masses, lest increased leisure offers ‘more opportunity for critical thinking, out of which a revolutionary spirit might develop’.\(^\text{25}\) Subject to these conditions state capitalism faces no insurmountable economic barriers, for ‘we are unable to discover any inherent economic forces, “economic laws” of the old or a new type, which could prevent the functioning of state capitalism . . . we may even say that under state capitalism economics as a social science has lost its object’.\(^\text{26}\)

Closely related to this is the question of fascism. For Karl Kautsky, who never understood its appeal to big business, fascism was an irrational product of economic backwardness, suited to Italian but not to German circumstances.\(^\text{27}\) At the other extreme Pollock saw fascism as a paradigm of the new social order, in which politics had established primacy over economics and the state had come to dominate economic life. This was the majority position in the Frankfurt School,\(^\text{28}\) but a minority of Pollock’s colleagues, notably Herbert Marcuse and Franz Neumann, took the more orthodox Marxist line that fascism was a form of capitalist dictatorship. In his influential book Behemoth, Neumann dismissed ‘state capitalism’ as a contradiction in terms, and described the contemporary German economy as totalitarian monopoly capitalism.\(^\text{29}\) This conclusion, ‘substantially identical’ with that of Paul Sweezy on the nature of Nazi Germany and having close affinities with Hilferding’s concept of totalitarian state economy,\(^\text{30}\) resembled the official communist position. Trotsky’s analysis was more subtle, recognising the petit-bourgeois basis of Fascism, but its conclusions were much the same. For most Marxists fascism was ‘the open, terrorist dictatorship of the most reactionary, most chauvinist and most imperialist elements of finance capital’, as Dimitrov told the Seventh World Congress of the Comintern.\(^\text{31}\) In Lewis Corey’s words, ‘Fascism is merely the old order, only more so and without the progressive features which that order formerly possessed.’\(^\text{32}\) The contrast with Pollock could not be more pronounced.
II The Causes of the Great Depression

Since there was so little agreement about the nature of the Great Depression, it is hardly surprising that no single theory of its causes commanded general support. Writing in 1942, Paul Sweezy distinguished two types of crisis: those resulting from the tendency for the rate of profit to decline, and those due to difficulties in the realisation of surplus value.\(^{33}\) It is, however, apparent from Sweezy's presentation that there are two distinct crisis theories under each heading, making four in all. The rate of profit may decline either because of a tendency for technical progress to force up the organic composition of capital faster than the rate of exploitation, as stressed by Marx in volume III of *Capital*; or as a result of a declining rate of exploitation, due to a rate of capital accumulation fast enough to exhaust the reserve army of the unemployed and drive up wages, which Marx hints at in volumes I and III.\(^ {34}\) Realisation problems may arise both because of disproportionalities between the different branches of production, and in consequence of a deficiency in aggregate demand caused by underconsumption.\(^ {35}\) These theories are not necessarily mutually exclusive: Sweezy himself rejected the first and third versions in favour of the second (for short-term fluctuations) and the fourth (as a theory of secular stagnation). Nor, as will become apparent, were they all entirely independent of each other. But they are sufficiently distinctive for there to have been considerable controversy over their suitability as Marxist explanations of the depression, and for them to require separate discussion.

Before 1929 the first variant of the falling rate of profit argument had generally been accepted, but only rarely was it taken seriously as a theory of crisis. Some economists on the fringes of Marxism had indeed rejected the entire analysis, suggesting that capitalists would (in the absence of rising wages) adopt a technical innovation only if the rate of profit would be raised by so doing.\(^ {36}\) Among orthodox Marxist political economists, however, it was standard practice to accept Marx's analysis as a correct exposition of the consequences of technical change, without deeming it at all relevant to capitalist crises: the most extreme example of this is Rosa Luxemburg, but there are many others.\(^ {37}\) Hilferding did connect the falling rate of profit and the occurrence of crises, but without emphasising it (he relied to a greater extent on disproportionalities).\(^ {38}\) With only rare exceptions this neglect was repeated in the 1920s, and in the case of Soviet economists such as Varga it continued throughout the following decade. Richard Day's thorough survey of the contemporary Russian-language literature on the Great Depression yields just one reference to the falling rate of profit.\(^ {39}\)

This began to change in 1929 with the publication of Henryk Grossmann's massive text on breakdown theory. Grossmann's numerical model, based on a 1913 article by Otto Bauer, was one in which technical progress requires capitalists to increase their constant capital at a rate of 10 per cent
per period and their variable capital by only 5 per cent. He assumed a constant rate of exploitation, and had little difficulty in showing that accumulation would eventually (after 35 periods) become impossible due to a shortage of the surplus value needed to finance it.\textsuperscript{40} In his numerical example crisis breaks out when capitalist consumption falls to zero, and this occurs while the rate of profit (though declining) is still positive. For this reason it is perhaps incorrect to characterise Grossmann as a falling rate of profit theorist in the strict sense, but the mechanism underlying his analysis is identical with that of volume III of \textit{Capital}. Grossmann was severely criticised by communists, Social Democrats and independent Marxists alike,\textsuperscript{41} but within a few years the rising organic composition of capital began to play a prominent role in several Marxian crisis theories. First into the arena was Lewis Corey, who cited official statistics to demonstrate a sustained increase in the organic composition in the United States both in the long term (from 1849 to 1914) and in the build-up to the Great Depression: 'In 1923–29, constant capital in manufactures rose over four times as much as variable capital: 24.4\% compared with 5.7\%.' This could be offset by an increased rate of exploitation, Corey admitted, but only exceptionally would the rate of profit fail to decline. Between 1923 and 1931 it had, in fact, fallen from 9.2 per cent to less than zero\textsuperscript{42} (though, as we shall see, Corey attributed part of this decline to realisation difficulties). In Britain, first John Strachey and then Maurice Dobb invoked the falling rate of profit as one element in their, somewhat eclectic, theories of crisis, while on the Continent Otto Bauer was drawing similar conclusions from the rapid post-war rationalisation of capitalist production.\textsuperscript{43}

There was, however, no shortage of dissenters from this position. For the first time, writers within the Marxist mainstream disputed the validity of Marx's argument. Rather oddly, no one raised against Corey the obvious objection that his empirical evidence was suspect, since it related to prices rather than to labour value magnitudes. Instead the law was challenged at the theoretical level. Moszkowska pointed out that the mere fact of a fall in the rate of profit was insufficient support for the volume III analysis, since the decline might have occurred for quite different reasons (for example, as the result of realisation difficulties).\textsuperscript{44} She also criticised Marx's conclusions on the grounds that – as Tugan-Baranovsky and Bortkiewicz had suggested – the productivity growth associated with technical progress would produce a rising rate of profit, unless real wages rose rapidly enough to keep the rate of exploitation unchanged. It made as much sense, she argued, to speak of a 'law of the rising rate of exploitation' as of a 'falling rate of profit'.\textsuperscript{45} Marx himself had discussed the countervailing tendencies which operated against the tendency for the profit rate to fall. The 'cheapening of the elements of constant capital' would lower the organic composition, while a reduction in necessary labour time would raise the rate of exploitation.\textsuperscript{46} For Sweezy and – more hesitantly – Dobb, these factors made it impossible to draw any
Biography of
Maurice Dobb

Dobb was born in London in 1900, into a Nonconformist family of small businessmen. Educated at Charterhouse and Pembroke College, Cambridge, he first joined the Independent Labour Party, becoming a Communist in 1922 after he had moved to the London School of Economics as a research student. Dobb remained an active and loyal (though sometimes critical) member of the Party throughout his life, serving on the editorial boards of *Labour Monthly*, *Modern Quarterly*, *Marxism Quarterly* and *Marxism Today*. He returned to Cambridge in 1924 as a lecturer and spent the rest of his life there, becoming a Fellow of Trinity College in 1948 and University Reader in Economics in 1959. Dobb was an early visitor to the Soviet Union and published two important books on the Soviet economy, together with major works on the history of economic thought, planning theory, economic history and economic development. Something of an outsider at Cambridge, Dobb was nevertheless elected Fellow of the British Academy. He died in 1976.

firm conclusions about the long-run tendency of the rate of profit, and rendered Marx's law of doubtful validity as a theory of crisis (see Chapter 7 below). 47

A declining profit rate could be deduced, with much greater confidence, from a fall in the rate of exploitation due to rising real wages in conditions of prosperity. This 'overaccumulation' theory can be traced back to Marx, and was revived by Otto Bauer in 1913 (see Chapter 6 of volume I of this book). It offers a clear and plausible model of cyclical fluctuations along the following lines. Accumulation commences while there is still a substantial reserve army of the unemployed, relatively low real wages, and high rates of exploitation and of profit. Although constant capital is accumulated more rapidly than variable capital, the demand for labour power expands. The reserve army shrinks, and real wages begin to rise. Soon they outstrip the growth in the productivity of labour, depressing the rate of exploitation and lowering the profit rate. This chokes off investment and brings accumulation to a halt. Unemployment increases, real wages fall, the rate of exploitation recovers, and the rate of profit rises again, allowing the cycle to repeat itself. 48 Moszkowska had argued in these terms in her first book, though she abandoned the position in her later works. 49 Strachey cited the increase in real wages at the peak of the trade cycle as decisive evidence against underconsumptionism, 50 while both Sweezy and Dobb regarded overaccu-
mulation as the principal element in Marxian crisis theory (without using the term).\textsuperscript{51}

As a theoretical possibility over-accumulation was difficult to deny, but its empirical relevance was another matter. Corey and Varga cited US statistics to show that unemployment had remained high, and real wages had been stagnant, in the years leading up to 1929. Both saw this as evidence that underconsumption rather than overaccumulation lay behind the Great Depression.\textsuperscript{52} However, before this – the most common Marxist interpretation of the slump – can be examined, it is useful to deal with the disproportionality variant of realisation theory because it sometimes became indistinguishable from a theory of underconsumption.

The anarchy of capitalist production had long been regarded by Marxists as a major cause of economic crisis. Since investments are undertaken by individual capitalists in isolation from each other, with no overall plan to guide their decisions or to render them consistent with each other, overproduction in particular sectors is almost unavoidable and is likely to spill over into other branches of industry, giving rise to general overproduction. The exact mechanism by which this comes about was never fully specified. No more than orthodox theorists did Marxian economists have a precise conception of effective demand and the multiplier process. However, they were much closer to these concepts than was pre-Keynesian orthodoxy, and the notion of disproportionality also allowed them to recognise the functional role of crises in capitalist economies. Crises have a cathartic effect, eliminating false investments and restoring the correct proportions in accordance with the 'law of value' (that is, establishing an allocation of resources such that the rate of profit tends towards equality in all industries).\textsuperscript{53}

Elements of a disproportionality theory are found in both Otto Bauer's and Fritz Napolitani's accounts of capitalist rationalisation in the 1920s. Napolitani and Fritz Sternberg took the argument further by linking it to the growth of monopoly which, they argued, had made matters worse by encouraging overinvestment in initially profitable monopolised industries and transferring the full burden of the necessary adjustments to the competitive sector.\textsuperscript{54} According to Friedrich Pollock, state support for ailing monopolists further weakened the system's automatic self-stabilising capacities. It introduced a form of 'guaranteed capitalism', in which the regulatory power of competition, operating through the inflicting of ruinous losses upon unsuccessful enterprises, was no longer effective. This was one of the most important reasons why the Great Depression had proved so intractable.\textsuperscript{55} It also indicated a serious weakness in the \textit{General Theory}, Pollock believed. Keynes's analysis of investment-goods and consumer-goods industries in aggregate led him to ignore the problems of proportionality between their various branches, and thus to misjudge the laws of disturbance of the capitalist economy.\textsuperscript{56}
Preobrazhensky's explanation of the crisis hinged on the proposition that disproportionalities had become much more serious in the new, monopoly, stage of capitalism. Under competitive conditions resources could be moved quickly from one branch of the economy to another through the stimulus of the price mechanism, and the general level of output responded rapidly to increases in aggregate demand. In monopoly capitalism, however, resource mobility was impeded and demand fluctuations had asymmetrical effects: output fell when demand decreased, but an increase in demand raised prices rather than production. There were several reasons why investment, in particular, was slow to expand in reaction to growing demand. Monopolists held huge reserves of excess capacity, which discouraged new investment. Barriers to entry made the establishment of new enterprises more difficult. Inefficient units of production took longer to be eliminated, and the increasing weakness of a conservative and bureaucratic trade union movement reduced the incentive to innovate which was previously provided by rising wages. Hence crises were more intense, and recovery slower, than in the competitive phase of capitalist history. Even the temporary breathing-space offered by the growth of non-capitalist demand (here Preobrazhensky cites Rosa Luxemburg) was no longer available to monopoly capitalism.57

Since the turn of the century, however, disproportionality theory had been highly controversial among Marxian economists, as it seemed to carry revisionist implications. If crises resulted from anarchic individualism, they could presumably be overcome through the collective planning of accumulation by capitalists themselves, either privately or in association with the state. This prospect of a largely crisis-free capitalism had attracted first Eduard Bernstein and then the theorists of 'organised capitalism' after 1914, while simultaneously repelling revolutionary Marxists from Luxemburg to Lenin and Varga.58 Somewhat inconsistently, Natalie Moszkowska raised against disproportionality explanations of the depression both the increase in private planning under monopoly capital and the effective regulatory function which continued to be exercised by the price mechanism; she even cited Hayek on the latter point. Moszkowska contrasted what she termed the old and new theories of disproportionality. The new theory stressed the imbalance between wages and profits, between consumption and saving, and hence between investment- and consumer-goods industries. 'If the old theory looks for the cause of the crisis in production, the new theory looks to distribution . . . Low wages and high profits weaken the power to consume and encourage accumulation.' For Moszkowska, disproportionality meant underconsumption.59

Her theory of crisis may be summarised as follows. Competition between capitalists reduces real wages, either absolutely or in relation to profits. Thus the rate of exploitation rises, making it increasingly difficult for capitalists to find sufficient consumption demand for them to realise the surplus value contained in their commodities. So long as real wages grow less rapidly than
labour productivity, there is disequilibrium in the market for labour power. This gives rise to disequilibrium in commodity markets, causing a growing disproportion between production and consumption. One result is an increase in circulation costs, as capitalists try desperately to create demand through various forms of sales promotion. In monopoly capitalism underconsumptionist forces are stronger as, due to the suppression of price competition, the rate of exploitation rises even if money wages remain constant. Moszkowska denies that underconsumptionism entails stagnation rather than sharp fluctuations in economic activity. She argues that the necessary adjustment of production to consumption is achieved, temporarily, in each cyclical downswing, by the operation of three endogenous stabilisers: the maintenance of consumption spending by unemployed workers and non-capitalist classes; the growing importance of fixed costs, which means that productivity falls faster than income payments; and an intensification of the sales effort and a corresponding increase in wages of unproductive workers.

A more sophisticated underconsumptionist theory was provided by Otto Bauer, who made explicit much of what Moszkowska’s analysis had left implicit. Bauer begins with the assumption that the savings propensity of capitalists is much greater than that of the working class (which tends to zero):

The relation between the development of mass consumption and the development of social production is thus determined by the relation between wages and profits. The slower the sum of wages and the faster the sum of profits in society grows, the slower is the growth of mass consumption and the faster the growth of the social productive apparatus.

Thus everything hinges upon the relative shares of wages and profits. If profits increase faster than wages, so that the rate of exploitation rises, saving grows more rapidly (and consumption less rapidly) than output.

Bauer formalises these insights in the first-ever mathematical model of underconsumption to come from a Marxist writer. He defines accumulation as the difference between net output and consumption. If the rate of exploitation increases, accumulation will accelerate. This gives the actual increase in productive capacity. The increase in capacity which is required, however, is related to the growth in consumption by a coefficient which ‘depends on the prevailing degree of development of technology’, and corresponds loosely to the accelerator coefficient of Keynesian macroeconomic theory. Bauer concludes that, so long as the growth of consumption lags behind the growth of income, actual accumulation will exceed what is needed, so that ‘society’s constant capital grows faster than the requirement for constant capital for the production of the increase in consumption; consumption lags behind the capacity to produce’. The eventual result is a crisis of underconsumption.
Marxian Economists and the Great Depression

Communist theoreticians were inclined to repudiate such arguments on the grounds both of textual authority and political expediency. As to the first, Marx himself had denounced underconsumptionist theories of crisis as 'sheer tautology', and had pointed to the increase in real wages which commonly occurred at cyclical peaks and produced crises of overaccumulation.55 As to the second, underconsumptionism was attacked as a counter-revolutionary heresy which encouraged the belief that crises could be overcome by reformist methods, through raising wages, without abolishing the capitalist mode of production. It was a doctrine 'adapted to the tasks of Social-Democratic practice', as one party textbook pronounced.66 Against this, the ambiguities of Marx's own position were also recognised.67 He shared with the underconsumptionists both the rejection of Say's Law and the belief that crises ensued when 'consumption lags behind the development of production under capitalism', and so expressed 'the contradiction between the social character of production and the capitalist form of appropriation'.68 Thus Paul Sweezy, a non-party scholar sympathetic to the communist movement, took over Bauer's model in its entirety,69 while Corey and Varga argued in a similar, if less elegant, way. Corey linked technical progress, the resulting increase in the organic composition of capital, growing productivity, and a chronic increase in the rate of exploitation which:

... imposes limitations upon the purchasing power and consumption of the workers. Wages always lag behind profits, and wages always fall relatively to output and profits. This measurably restricts the growth of markets, creates disproportions in the output of means of production and means of consumption and sets in motion the forces of cyclical crisis and breakdown.70

Varga insisted that the rising unemployment created by the increasing organic composition had led to the absolute, not merely relative, immiseration of the working class: 'The relatively declining power of consumption of capitalist society therefore also puts limits to the sale of the means of production... The limitedness of the power of society to consume, the proletarian situation of the masses, is the cause of all true crises of overproduction'. This was the official Soviet explanation of the Great Depression.71

III Conclusion

Varga was unusually single-minded; only the later Moszkowska shared his commitment to an underconsumptionism which excluded all other variants of Marxian crisis theory. Most writers combined two or more of the four
approaches considered in the previous section and even Moszkowska, in her 1929 text, slid effortlessly from underconsumptionism to what we have described as 'overaccumulation', but used the term itself to denote her rather uneasy synthesis of the two analyses.\textsuperscript{72} Bauer and Corey added a volume III-style falling rate of profit theory to their underconsumptionism, while Fritz Naphtali drew upon both the latter theory and on disproportionality. Dobb and Sweezy were equally eclectic. Only the falling rate of profit explanation was completely rejected by Sweezy, while elements of all four crisis theories are mingled in Dobb's subtle, if rather confusing, discussion.\textsuperscript{73}

Several writers attempted an explicit synthesis. Sweezy's was probably the most coherent, adding overaccumulation as a source of short-run fluctuations to underconsumption as the root cause of secular stagnation. Preobrazhensky's contribution was also impressive, going well beyond the generally vague idea of disproportionality to formulate a rather convincing theory of underinvestment in monopoly (as compared with competitive) capitalism. At the other extreme came Strachey's baffling conclusion: 'It is of the nature of capitalism's present dilemma that consumers' demand may be simultaneously too low to provide a market, and too high to allow of profitable production. This is what Marx meant when he spoke of the contradictions of capitalism.\textsuperscript{74} It is impossible to accept the notion that effective demand may be, at one and the same time, too high and too low. It is, however, possible, first that demand will normally be either too high or too low; and second that the equilibrium level of demand represents a knife-edge, departure from which in either direction is self-perpetuating. Otto Bauer came closer to such a model of macroeconomic instability in his discussion of government intervention in the era of bureaucratically directed monopoly capitalism. The state could not overcome the basic contradictions of capitalism, Bauer argued. If its intervention served to raise the rate of exploitation, underconsumption would ensue, while state action which reduced the rate of exploitation would spark off a crisis by lowering the rate of profit.\textsuperscript{75} However, Bauer made no attempt to formalise this intuition, and it would be both wrong and unnecessary to read into his work the theoretical advances of a later generation.\textsuperscript{76}

Nevertheless, despite their differences and hesitations, Marxist economists had done rather well by comparison with neoclassical theorists, both in explaining the developments of the inter-war years in general and in accounting for the specific problem of the Great Depression in particular.\textsuperscript{77} The reasons are not difficult to understand. Orthodox economists had no overall social theory which went beyond the cosmopolitan liberalism of the nineteenth century, so that world wars and fascism were entirely outside their paradigm. By contrast the Marxists had a much more sophisticated framework within which to understand such phenomena.

There was between the wars considerable depth and variety in orthodox non-Marxian analysis of the trade cycle.\textsuperscript{78} But non-Marxian orthodoxy was
wedded to a theory which maintained that deficiencies in effective demand were impossible. Those economists who favoured public work projects can be admired for their intuition, but prior to 1936 they had no coherent theoretical rationale for them. The analytical impediments faced by the Marxists were less serious. Crises were an integral part of their perspective, and Marx’s economics provided many points of departure from which they could be explained. If anything their problem was the exact opposite to that faced by the non-Marxians: an embarrassment of riches. Hence the diversity of views which emerged.

Nonetheless, Marxist analyses of the Depression proved deficient, and the ultimate reason is similar to that applying in the case of bourgeois economics: they lacked an adequate theory of effective demand. Marx himself had both employed a neoclassical conception of demand and provided an excellent critique of it, indicating that it was not generally valid. He had also formulated a quantity-constrained conception of workers’ demand for consumption goods, but he had not extended this to other categories of demand, nor had he consistently accepted any version of underconsumptionism. The Marxists of the 1930s failed to overcome these defects, but the dominant strands of disproportionality and underconsumptionism indicated that they were working towards doing so. In this sense Joan Robinson was correct to conclude (in 1942) that: ‘Marx, however imperfectly he worked out the details, set himself the task of discovering the laws of motion of capitalism, and if there is any hope of progress in economics at all, it must be in using academic methods to solve the problems posed by Marx.’ Robinson’s ‘academic methods’ were, of course, those of Keynes.

Post-war discussion of other questions raised in this chapter is considered in Part II. The ways in which Marxian economists tried to understand the structural changes in modern capitalism are outlined in Chapter 4. Chapter 6 provides an account of the theories of monopoly capitalism and underconsumption as they were modified to explain the ‘long boom’ after 1945. Developments in the theory of the falling rate of profit are assessed in Chapter 7 and, finally, in Chapter 8 we analyse the Marxian literature on the significance of military expenditure. Some of these issues will reappear in Part III, as they were adapted to explain the apparent lack of capitalist development in the Third World, and again in Chapter 16, in the context of the so-called ‘second slump’ of the 1970s. First, however, we turn to the other major events of the 1930s which were of concern to Marxian political economy: the nature of the Soviet mode of production and the Stalinist claim that it represented genuine socialism.
The Great Depression and Stalinism

Notes

Marxist Economists and the Great Depression


22. F. Pollock, 'Die Gegenwärtige Lage des Kapitalismus und die Aussichten einer Planwirtschaftlichen Neuordnung', Zeitschrift für Sozialforschung, 1, 1932, p. 27.


25. Ibid, pp. 73, 89–90.


30. Sweezy, Theory, p. 337n; cf. ibid, p. 341, where Sweezy repudiates his earlier use of 'state capitalism' to describe the Nazi regime; Sweezy, 'The Illusion of the "Managerial Revolution"', Science and Society, 6, 1942, pp. 6–10; and R. Hillierding, 'State Capitalism or Totalitarian State Economy', in C. Wright Mills (ed.), The Marxists (Harmondsworth: Penguin, 1963), pp. 323–41; the article was first published in 1941.


32. Corey, Decline, p. 513.


34. Ibid, pp. 100–6 and 209–13; and 147–55, respectively.

35. Ibid, pp. 156–62 and 162–89 respectively.


42. Corey; *Decline*, pp. 113-29.


46. K. Marx, *Capital*, volume III (Moscow: Foreign Languages Publishing House, 1962), Ch. XIV.


52. Corey; *Decline*, pp. 74-93; Varga, *The Great Crisis*, pp. 86-98.


56. E. Baumann, 'Keynes' Revision der Liberalistischen Nationalökonomie', *Zeitschrift für Sozialforschung* 5, 1936, pp. 384-403 (Baumann is a pseudonym for Pollock and Kurt Mandelbaum).

57. Preobrazhensky, *Decline of Capitalism*, Chs 1-3 and 5 (the latter summarises a long and rather involved argument).


64. Ibid, pp. 351–3.


72. Moszkowska, *Das Marxche System*, pp. 122–3. (To increase the confusion, Grossmann also used 'overaccumulation' to summarise his theory of the falling rate of profit.)


