The object of this article is to present the main aspects of the marxist theory of crisis in capitalist economies, and to give an account of some of the various ways in which bourgeois economists have attempted to deal with capitalism's contradictions and crises. In particular, the failure of Keynesian policies will be examined, and the elements of the newest weapon of the capitalist state, capitalist economic planning, will be presented. The latter involves political and social policies, as well as economic ones; in particular, the attempt to dampen down the trade union movement through productivity deals, workers' participation and the like. It is therefore vital for revolutionaries to understand why these policies are being introduced, how they are intended to work, and how they can be resisted.

Pat Vort-Ronald is a post-graduate research student at the University of Adelaide.

THE LABOUR THEORY OF VALUE

In any society where goods are produced, not for direct use but to be exchanged, there must be a means by which commodities of different kinds can be compared and exchanged with each other. For Marx, this means of comparison was the labour-time taken to produce a given commodity. This constitutes the value of a given commodity in comparison with other commodities. This exchange value, however, may have no necessary relation to its usefulness or use value; a pot or tool may be far more useful than an intricate piece of jewellery, but the latter may have involved more labour-time in its production and so may have a far greater exchange value. Thus, Marx's economic analysis locates value in the actual process of production, not in the process of circulation or exchange, and his analysis of capitalism focuses on the dynamics of capitalist production.
capitalist production itself and to show how profit and exploitation arise in the production process itself, Marx assumed that commodities were exchanged (bought and sold) at their real value, discounting profit which might be made by selling above value. Marx also approached capitalist production in a particular country as a whole, rather than just examining individual capitalist enterprises. Hence, in his analysis, he uses concepts such as total social capital and total profit.

Similarly, the "structural tendencies" which Marx saw arising from capitalist production, for example, the tendency of the rate of profit to fall, or the counter-tendency for the rate of exploitation to rise, refer to a capitalist economy overall, and cannot be measured directly at any particular time. Often they show themselves indirectly, e.g. a falling rate of profit may be shown by a movement of capital from one country to another where the rate of profit is higher.

THE DYNAMICS OF CAPITALIST PRODUCTION

In the capitalist mode of production, the direct producers are workers who do not own the means of production. The latter are owned by the capitalist class. In order to live, workers must sell their labour-power to the capitalist. In return, they receive a wage which is sufficient for them to subsist and reproduce themselves at a minimum standard in a particular society. (1) However, their labour actually produces commodities of greater value for the capitalist than the wage they receive. The difference between the value of labour-power and the exchange-value it produces for the capitalist, which Marx calls surplus-value, is the source of capitalist profit, which allows them to add to and expand the means of production. The aim of capitalist production is the creation of more and more exchange values, so that profit may increase and capital be expanded.

The technological precondition of capitalist production was the development of means of production (steam-powered machinery etc.) which increased the productivity of labour, i.e. reduced the labour-time necessary for the production of a given commodity. Because the overall purpose of capitalist production is profit, or more surplus-value, there is always an impetus to increase the productivity of labour, and hence the rate of exploitation, through the introduction of more and more sophisticated means of production. Hence, in industries in which commodities are produced, there is an overall tendency for the
by an absolute increase in the amount of profit. However, if the productivity of labour is not increasing enough to offset the rising organic composition of capital, further accumulation may reach a point at which there is simply insufficient surplus-value being produced in relation to total social capital. When this occurs, it means that, from the point of view of profitability, the existing capital is "simultaneously too small and too large: it is too large in relation to the existing surplus-value and it is not large enough to overcome the dearth of surplus-value." (2) It is the contradiction between the tendency of the rate of profit to fall and the impetus to accumulate which leads to the periodic cycles of booms and depressions or recessions in capitalist production.

THE ROLE OF CRISIS

When capital accumulation reaches the point where there is insufficient surplus-value being produced in relation to total social capital, production is accelerated in an effort to produce relatively more surplus-value, i.e. to compensate for the declining rate of profit by increasing the mass of profit. This results in the overproduction of commodities (particularly production goods or what Marx calls Department I commodities) which is the beginning of the depression or crisis period after the "boom" of accelerated production and accumulation. The crisis appears as an overproduction of commodities although, as we have seen, its cause is the overproduction of capital relative to surplus-value. Because accumulation, and therefore investment, is restricted, commodities produced can't be sold or realised, and so there appears to be an "overproduction" or "underconsumption" of commodities. However, these particular forms of crisis can only be explained in terms of capitalist production in general, and the falling rate of profit in particular. The more detailed manifestations of capitalist crisis (for example, the Great Depression of the 1930s) are a halt in capitalist accumulation and therefore investment, a loss of business 'confidence' shown through the collapse of the stock market, etc. and massive unemployment.

This overproduction has occurred because the relatively reduced labour-power (reduced because of the rising organic composition of capital) is no longer able to reproduce and enlarge the total mass of capital: it is an overproduction of capital with respect to a given degree of productivity of labour, or exploitation. If the rate of exploitation can be increased, relative to the value of total social capital, then accumulation can proceed one more. And this is precisely what capitalist crisis does, hence its 'regulating' role.

Stagnation, or a sudden halt in the accumulation process, means that the exchange value or price of capital is depreciated, although its actual use-value is the same. This means that the same quantity of use-value, of means of production, before the crisis, represents a smaller exchange-value of means of production after the crisis. However, neither the rate of surplus-value nor the mass of surplus-value are affected, as they relate to the unaltered use-value of capital and hence to its unaltered productive capacity.

Hence, the potential rate of profit has now increased because the same amount of surplus-value relates to a lower total capital. Yaffe explains how this increase in the rate of profit allows capital to be restructured, so that production and accumulation can be resumed:

"The increase in the rate of profit only holds true once the expansionary process has begun again and represents a redistribution of profits (or potential profits) in favour of those capitalists who have managed to buy up capital 'cheaply';

"Secondly, with the centralisation and restructuring of capital that takes place in the crisis through competition, only the more productive capitals survive and allow for a higher social productivity of labour with increased markets. It is this mechanism which decreases the rate of exploitation and mass of surplus-value. The larger markets allow for increasing 'economies of scale'.

"Thirdly, this restructuring usually includes the abandoning of part of the least profitable and obsolete constant capital and, as such, frees the surviving capital (in money, or in commodity form) for new, more productive investment.

"Fourthly, due to increased unemployment, wages, which had a tendency to go above their value in the period of prosperity previous to the crisis, are now temporarily pushed below their value. Simultaneously, the working-day can also be lengthened and the intensification of labour can be increased, resulting in an addition of surplus-value. Further, through 'rationalisations' in the labour-force, new methods and techniques of work, new methods of production can be introduced without the 'frictions' that would have taken place before the 'disciplining' effects of the
crisis on the labour-force.

"All these factors together play a role in the restoration of profitability of capital and this allows the accumulation process to continue on a new higher level. The crisis, therefore, removes a temporary barrier to further accumulation but only to set new limits on a higher level still." (3)

In this sense, crisis is the self-regulating mechanism of capitalist production when the tendency for the rate of profit to fall is not offset by other tendencies. The restructuring of capital and resumption of accumulation, however, only take place at considerable destruction of capital values (and therefore loss to sections of the capitalist class) and huge cost to the working class, through unemployment. The masses of unemployed present considerable social and political threat to the capitalist economic and social order (e.g. in the period from 1929-31, CPA membership increased by 500 per cent!). Hence it is in response to the political consequences of allowing capitalism to remain self-regulating that capitalist policies of state intervention into the economy, particularly those relying on the theories of Keynes, have developed. Since Keynesian economic theory focuses on the spheres of realisation and circulation, rather than production, as the crucial areas in the capitalist system, it seems appropriate to briefly discuss the marxist view of realisation (in terms of money) and circulation of commodities under capitalism.

MONEY AND THE CIRCULATION OF COMMODITIES

For Marx, the production process, not the circulation of commodities, nor their realisation in terms of money, was the key to the "inner workings" of the capitalist economy, for values must be produced before they can be realised. Of course, surplus-value, once produced, must be realised in the sphere of circulation if it is to be accumulated as profit and re-invested. This is, however, only a secondary problem compared to the problem of production. Although the production process is the original site of the contradictions which lead to capitalist crisis, these contradictions cannot be seen or measured directly, but rather manifest themselves through market and price relations which signify either an expanding (sufficient production of surplus-value in relation to total social capital) or contracting (insufficient surplus-value in relation to total social capital) economy.

According to Keynesian theory, market relations are governed by 'demand' and 'supply'. Marxist theory acknowledges that the demand for, and supply of, commodities can play a part in directly determining the price of particular commodities. Unlike Keynesian theory, however, marxism seeks to explain the levels of supply and demand, instead of just accepting them. For neither supply nor demand fall from the sky: their levels are determined by the rate of profit, which refers us back to significant movements in the production process. Marxism, then, treats supply and demand as the complex end-points of scientific analysis, rather than as simple 'givens'.

Another notion used misleadingly by Keynesian theory is that of the 'power' of money. Money is often seen as a kind of motor force in the economy, the manipulation of which can slow down or speed up investment and therefore production. It is true that the availability of money, particularly in the form of credit, does affect investment. However, money itself is a commodity, expressing given quantities of exchange-value. Historically, money, in the form of coins, then notes, was necessary as a 'universal equivalent' for which other commodities could be exchange. Originally, paper money was issued as an expression of actual values held by national governments, either in gold, or some other form. But no matter what form it takes, the amount of money in circulation in an economy is an expression of the total values of all commodities in circulation. If the face-value of money in circulation is increased faster than new values in the form of commodities are created, then no new value is produced; more money is merely equivalent to the same amount of values in circulation. Thus all that happens is that the unit of currency (the dollar, for instance) is devalued, for the ratio of the number of those units to a given commodity simply rises.

Of course, adding to the supply of money in circulation can have an immediately stimulating effect on investments (as the extension of credit in another form does). But this also mortgages surplus-value not yet in existence, and which, when produced, will not then be available for normal accumulation.

EFFECTS OF KEYNESIAN POLICY ON CAPITALIST CRISIS

As mentioned above, Keynesian economic policy was a response to the increasingly destabilising political and social effects of the Great Depression, rather than to its effect on capitalist production. For, as we have seen, capitalist crisis, if left to itself, results in a
restructuring of capital and a resumption of capital accumulation.

Keynes explained crisis and depression in the following way:

As capitalist production expands, there tends to be an 'oversupply' of capital, and so the potential profit from investment tends to decrease, while there is insufficient 'effective demand' for goods already produced. ('Effective demand' refers to sufficient money for actual purposes, not to social need. Keynesian economists, by discussing 'effective demand', divert attention away from the constant gap between what capitalism produces and what society actually needs.)

Keynes' analysis of 'oversupply' of capital rests on the assumption that supply is a magical given, and that scarcity alone makes capital profitable. With the decline in expected profit from capital investment, or, as Keynes called it, a decline in the 'marginal utility' of capital, the capitalists' propensity to invest declines, i.e. investments and capital accumulation halt, leading to stagnation and depression. This comes about (says Keynes) because capitalists prefer to hold their capital in the form of savings, rather than invest it in further capital production, which will not yield sufficient profit. The resulting stagnation, of course, leads to large-scale unemployment.

Keynes sought to remedy this crisis situation, and to control investment and employment in general, by manipulating the 'propensity to invest' of the capitalists. This could be done by the government's lowering of the interest rate on investment loans, part of Keynes' monetary policy, and an important technique in government management of the economy. At the same time, Keynes sought to raise employment, through government financed public works. This not only employed workers, but it gave them the money to spend on consumer goods, thus stimulating 'effective demand' and encouraging capitalists to invest in production to supply commodities for this demand. Government production of public works also meant the government hired private contractors, and so directly subsidised industry. Such expenditure could not be financed out of taxes and loans alone. Hence Keynes advocated 'deficit budgeting', i.e. governments should not be afraid to spend more than they actually received in revenue and loans.

Keynes' declining 'marginal propensity to invest' corresponds in some ways to Marx's falling rate of profit. However, Keynes attributed it merely to an 'oversupply' of capital, without explaining how or why such a situation should come about. Keynesian policy did 'work' in the short term in that lowering of the interest rate and government works did stimulate investment and offset unemployment to some extent. And World War II created precedents for qualitatively greater government intervention into the economy. However, the basic contradictions of capitalist production had not been changed, and their effects still emerged in terms of the boom-recession or 'business' cycle. Monetary manipulation and government intervention could only attempt to 'flatten' the business cycle through stimulating investment when the rate of accumulation slowed, and through slowing the rate of investment and therefore accumulation when it reached the dangerous peak before a crisis. Hence the 'stop-go' policies, in which credit squeezes (raising of the rate of interest) alternate with boom periods.

Thus, Keynesian policies treat the effects, not the causes, of capitalist crisis, the basic contradictions of which still remain. And in fact, Keynesian policies create further problems for the capitalist economy as a whole.

LONG-TERM EFFECTS OF KEYNESIAN POLICY ON THE CAPITALIST ECONOMY

Firstly, government spending is financed by (a) taxes; (b) loans; and (c) deficit financing. But no matter what the form of financing, it ultimately has to be paid for out of surplus-value, except to the extent that the national debt is reduced by the debasement of currency (inflation).

This means that government expenditure uses surplus-value which could otherwise be used by capitalists to accumulate more capital. Government expenditure does not produce any surplus-value, and for this reason schools, roads, etc. are 'unproductive' in terms of capitalist production.

Government expenditure may stimulate demand for capital or consumer goods, thus aiding certain sections of capitalists to accumulate. It may also provide a transport infrastructure and cheap raw materials for capitalists by enabling them access to raw materials and markets. However, from the point of view of total social capital, most government spending does not produce new values, and so does not add to total social capital. In fact, it prevents capitalist accumulation in that it uses surplus-value that would otherwise have been available to capitalists for further accumulation. As government spending increases, so does
the number of government workers. This means that there is an increasing expenditure on both goods and wages which does not produce any surplus-value. This is paid for out of the surplus-value produced by a relatively declining number of productive workers in capitalist production. Thus, overall, government expenditure prevents the growth of total social capital.

As Yaffe puts it:

"It is clear, therefore, that there are limitations to 'unproductive' expenditure and other government-induced demands in a capitalist economy. If production grows faster in a 'non-productive' sector, the production of profit, or surplus-value, relative to total production, declines more rapidly than before. More surplus-value must be produced from a smaller base of productive workers in order that the tendency for the rate of profit to fall is checked. As long as the productivity of labour can be sufficiently increased so as to maintain the rate of profit and finance the non-productive sector, government-induced expenditure will indeed be the 'cause' of high employment and social stability. But this process is self-defeating: to cope with the expense of the non-productive sector, the exploitability of labour must steadily be raised. This means a higher organic composition of capital and a decline in the exploitable labour force relative to growing capital. To maintain a high state of employment indefinitely the non-productive sector must increase faster than total production. But this implies a slow deterioration of private capital expansion which can only be halted by halting the expansion of the non-productive sector." (4)

In addition, insofar as government expenditure is financed by the issue of bonds and by budgetary deficits, it leads to an increase in the national debt. This means that future productivity and surplus-value is in fact mortgaged to pay for present unproductive expenditure. Thus not only existing surplus-value, but future surplus-value, is deployed into unproductive government expenditure.

Apart from government expenditure, the Keynesian approach of 'flattening' the business cycle in the long run inhibits capitalist accumulation, however much in the short run it may stimulate production in general, and prevent economic and social disruption. For, as we have seen, it is only accelerated capital accumulation which creates the conditions of capitalist prosperity or boom, and these conditions require, as a precondition, severe depression, bringing about the destruction of a part of capital, which is necessary for a resumption of production by the remaining capital at a higher rate of profit. If this cycle is continually prevented the destruction of capital, and the process of concentration and centralisation is inhibited. (In the United Kingdom the government has for some years encouraged and financed 'rationalisation' and 'reorganisation' of industry to offset its own inhibiting effect on the normal mechanisms of concentration through crisis.)

INFLATION

Another effect of government expenditure is the impetus it gives to inflation, or the devaluation of money. As we have seen, the total value of money represents the total value of commodities currently in circulation. But huge government expenditure means that money is being expended, particularly in wages, without a corresponding increase in real values. This requires constant increases in the supply of money (about 20 per cent per year in Australia) and results in "too much money chasing too few goods" which means price rises and inflation. In addition, capitalist enterprises often have large unproductive sectors, e.g. advertising, which contribute to an increase of the money in circulation without a corresponding increase in productivity. It should be noted in passing that inflation does not begin with money-wage rises. While rises in wages have been achieved by the working class in most advanced capitalist countries, inflation has increased much faster, hence workers' struggles for increased money wages are merely defensive attempts to keep up with inflation.

'Stagflation', which means simultaneous stagnation (lack of investment) and inflation, which has baffled many Keynesian economists, is merely a combination of inflation, caused by increasing government expenditure and government-induced production, and interference with the accumulation process, caused by government attempts to moderate the business cycle.

BALANCE OF PAYMENTS CRISIS

One of the ways in which stagnation, or lack of accumulation, manifests itself, is through an unfavourable balance of payments. This means that more capital, particularly in the form of money, is leaving a country than is coming in. This is partly because a low
rate of profit leads capitalists to invest overseas where profit rates may be higher. But another important aspect of this is a lack of exports compared with imports. Low productivity makes it difficult for commodities to be produced at competitive prices for overseas markets. Wages are an important aspect of production costs for exports, and if these are high (because of general inflation, and because full, or near-full employment gives trade unions a stronger bargaining position), then export goods cannot be produced at competitive prices.

The value of imports is then likely to exceed that of exports, and a nett obligation to overseas manufacturers thus arises. Eventually, the total of domestic currency and obligations held overseas becomes of such a magnitude that foreign governments and capitalists lose confidence in the likelihood of their being adequately realised, and the currency must be devalued. This is what caused the famous American dollar and pound sterling devaluations.

Thus, Keynesian economic policies maintain old, and create new, contradictions for capitalist economies.

In addition, Keynesian remedies have had disturbing political implications for capitalism. For depressions can no longer be passed off as ‘natural’ disasters. Since workers know full well that the government can create conditions of full employment, they know that unemployment represents a deliberate attempt on the part of the government to weaken the bargaining position of the working class. Finally, state intervention in the economy raises the question among workers of nationalisation of the economy, and complete abolition of the private sector.

CAPITALIST PLANNING

It is in response to the economic problems of stagnation and inflation, which have been increased by Keynesian policies, that capitalist planning has been developed. This involves long and medium term government planning (as distinct from Keynesian ‘stop-go’ methods) at the social and political, as well as the economic, levels. This kind of planning is exemplified by the policies of the Organisation for Economic Co-operation and Development (OECD), an international capitalist think-tank, set up in 1961 to deal with problems which Keynesian policy had failed to solve. Australia joined OECD in 1971.

Whereas Keynesian policies focused on employment and demand management, OECD policies centre on a model designed to promote ‘growth’, which necessitates increased capital accumulation and therefore higher profit rates. This involves political, social and economic policies to this end, and includes as a central feature the undermining of working class militancy and organisation. Economic policy can be divided into two spheres: firstly, policy designed to aid capital formation and, secondly, that designed to streamline the realisation process.

Capital formation is aided by increasing profits and productivity through government-sponsored manpower policies and direct government control over wages. This means the government pays for workers’ training and re-training schemes, child care centres (to allow more women to enter the work force), etc. While, at the same time, controlling wages by political means. This leads to a direct increase in profits and productivity and so aids capital accumulation. This is accompanied by rationalisation of capitalist enterprises: policies which eliminate small, inefficient enterprises, e.g. by removal of tariff protection. This aids the concentration and centralisation of capital, which in turn, assists accumulation. The control of wages, which directly increases profits, since lower wages make exports more competitive in overseas markets.

The realisation process is streamlined through general co-ordination of government and private investment, and through long-term planning to make demand and supply predictable for large capitalist enterprises.

The policy of direct wage control can, if wages are kept low enough, work to offset the tendency of the rate of profit to fall and so maintain a reasonable rate of capital accumulation without crises, which are replaced by planned ‘rationalisations’. Wage control can only be achieved through complex social and political policy which ties the workers to capital at three points:

1. In government planning boards to which trade union leaders are appointed.
2. Tying unions to the state apparatus in the way the Arbitration Act already seeks to do (the British Industrial Relations Act is a more typical example).
3. Class collaborationist schemes at the point of production: (workers’ participation, job enrichment, productivity deals).

By these means workers’ class interests are liquidated into those of capital and the independence of their organisations is undermined.
Thus, OECD economic policy depends on the subjugation of working class political and economic institutions, particularly trade unions. Boiled down to its essentials, capitalist planning aims to keep capitalism going by sweating more surplus-value out of the working class, and by co-opting their institutions to prevent resistance. If co-option fails, as it has in Britain, sterner methods, such as Heath's deliberate creation of unemployment, are used.

Many of the main aspects of capitalist planning have been introduced into Australia by the Federal Labor Government. These include government action for the rationalisation of industry (through tariff cuts), manpower policy and re-training schemes and worker participation schemes. (6) It is essential for these schemes to be analysed, and strategies formed to oppose them. The whole thrust of capitalist planning is to make workers pay for regulating capitalism. Opposition to this is not merely narrow economism: it poses the whole question of workers' control in a very concrete way: the control of the working class over the capitalist to the extent of preventing them from running the economy in the way they choose. It is a refusal on the part of the working class to take responsibility for capitalism's problems. Existing workers' control strategies and defensive struggles for wage rises could be combined with the following demands. (7)

1. A rising scale of wages regulated by housewife and trade union committees. This demand says that the working class will decide, through its own representatives who experience the problem directly, what is the rise in the working class' cost of living. It would acknowledge the work of housewives as the reproducers of labor-power, who must directly confront cost of living rises. It would expose the anarchy of capitalist production as the source of price rises, and it would point to the need to establish a society where workers are not faced with the continual struggle for existence that capitalism dictates.

2. The demand for work or full pay, which has already been expressed in Australia through the work-in, or refusal to take the sack. This cannot be fulfilled by individual employers, but must be raised as a demand upon the state, as the agency of the capitalist class. It can be argued that this is a minimum need which should be fulfilled by any society, but again, capitalism prevents satisfaction of minimum needs for the majority. It insists that, once again, whatever the problems of the ruling class, the solutions will not be at the expense of the working class.

3. In the context of the above, the demand for democracy in unions becomes increasingly important. Workers' control means that workers' organisations must be made responsive to the demands of the rank and file; this is all the more imperative in the face of a concerted attempt by capitalist government to integrate trade unions into capitalist planning and make them part of the state apparatus.

NOTES

1. The worker's wage, according to Marx, is based upon the labor-time necessary for his/her subsistence and reproduction. Marx did not deal with the way in which labor-power is in fact reproduced, by the work of women in the family. Women who do this work, labor outside the capitalist mode of production, but their work is necessary to the latter, since they service workers and future workers (children) for capitalist production. Revolutionary struggles should take account of the particular work and specific oppression of women under capitalism.


5. Details of Labor's adoption of OECD schemes can be found in: Catley R. and MacFarlane, B., "Labor's Plan: Neo-capitalism Comes to Australia", Intervention No. 3.


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