

Capitalism - Debate : On overproduction versus overproduction crises

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Following the latest economic crisis and in discussions amongst comrades, the words overproduction/underconsumption crisis and overproduction in the sense of capitalism needing constant growth and accumulation to keep both profits and the rate of profits up are often conflated. The idea of overproduction/underconsumption crisis as used by Marxist economists relates to a very specific form of crisis in capitalism, specifically a general glut or an overproduction of all goods and services in the economy. The fact that capitalism requires constantly expanding production and reproduction beyond what is required to fulfil the needs of society is a different phenomenon.

From speaking with some comrades, I have come to believe that the differentiation between these terms is not clear and it is important to distinguish these two things to clarify terminology and for a clearer analysis..

An overproduction crisis is not that capitalists produce more than what is needed in the absence of capitalism due to their need for growth and continuing accumulation of capital to keep the rate of profits high.

In comparison to a situation of simple reproduction or zero growth, of course capitalism produces more goods. They are required as there is no production of surplus value in simple reproduction models or a zero growth model. The absence of production of goods and services greater than what is needed to reproduce the economy at the same level (which includes the replacement of both fixed and circulating constant capital goods allowing for amortisation of capital and the subsistence and reproduction of the working class) means there is neither surplus product nor surplus value produced and that means there are no profits. If the situation occurs in a capitalist production model, the capitalist economy would be stagnant; all that will exist is the revenue from sale that relates to replacement of capital (a portion for replacement of constant fixed capital due to amortisation and the replacement of constant circulating capital; so it is a return for replacement of capital used up in production but no return for economic growth). Since there would be no return for economic growth and profits, what capitalist would invest in these circumstances? As such, zero growth remains completely theoretical but not plausible. This can be done outside a capitalist production model obviously as the price of the good would relate solely for replacement of means of production and payment for labour used in production. We can allow for increased population by increasing production of workers' consumption goods in a zero growth economy as profits simply do not exist in this situation.

An overproduction crisis is a specific explanation for the reason that an economic crisis has occurred. An overproduction crisis requires that Say's Law does not hold because if production creates its own demand, there cannot be general gluts or overproduction as the cause of an economic crisis.

Explaining Overproduction/Underconsumption Crises and the importance of abandoning Say's Law for Marx and the possibility of an overproduction crisis:

If comrades are arguing that we are in an overproduction crisis, then I am convinced that this is a problematic analysis; Rosa Luxemburg relates imperialism to need for expansion of markets for the purposes of realisation of profits which requires the sale of both intermediate and production goods to ensure the expansion of capital and its centralisation. The issue is that the capitalist world market is far greater than ever before in that globalisation has brought more and more countries into the capitalist market system; of course, the capitalist world economy still contains combined and uneven economic development. For Rosa Luxemburg, this could create an overproduction crisis as the capitalist class needs to sell their goods and she argues that workers cannot provide sufficient consumption to do this, but since the capitalist world market itself has expanded and capitalists have a greater area in which to sell product, this should mitigate the danger for capitalists of a general glut.

I am more convinced that we are looking at a realisation crisis deriving from squeezing wages and wage incomes (stagnant money wages and falling real wages for the former) and destruction of welfare state for the latter (wage incomes). Given that this is part and parcel of neoliberal ideology, this should not be surprising. Marx rejects the classical version of Say's Law in the discussion of simple and expanded reproduction in Volume II of *Capital*. Say's law was a theoretical cheat in economic theory to avoid having to develop a coherent theory of output; Say's Law says production will create its own demand or consumption; that is, whatever is produced will be consumed (and hence there is no difficulty with realisation of profits or the surplus value created in the production process).

The reason that Say's Law is so important is that it is either the rejection or the abandonment of the theoretical argument of Say's Law that enables the overproduction/underconsumption crisis to actually exist; this is the case for Malthus's stupid argument that high rents mean that landed aristocracy and landlords will purchase foreign luxury goods to ensure that the value of the production can be sold (Malthus was an apologist for the landed aristocracy). The same will hold of Sismondi and Lauderdale's underconsumptionist arguments (without the landlord and high rents nonsense).

So, back to Say's Law, what this is saying is that general gluts (overproduction of all goods) cannot exist; certainly overproduction in one sector or industry can exist in a short period but capital mobility shifts the redundant capital out of that sector to more profitable sectors. Marx clearly rejects Say's Law and hence the possibility of overproduction/underconsumption crises arising under capitalism becomes a distinct possibility.

But Marx's position about the long term tendency for the rate of profit to fall relates to a different set of phenomena. That is why there is still a debate among Marxist economists about the current period. We can argue (I think without question) that Marx's falling rate of profit certainly was behind the shift in manufacturing and industrial production out of the advanced capitalist world towards areas where cheaper means of production and inputs existed; combined of course with lower wages and often lack of trade union development. Neoliberalism and its extension to the advanced capitalist world and the destruction of wages, wage incomes and working conditions in the advanced capitalist world (the wage squeeze) is what they wanted to destroy decent incomes which were viewed as hampering profit rates. Privatisation also creates new areas of capitalist penetration. Add to that the export led growth regimes which support all this and this is how we got here.

Given Marx's rejection of Say's Law, which Rosa Luxemburg places at the essence of her argument about the insufficiency of markets to ensure realisation of profits and as such as the basis for imperialism, we need to discuss Say's Law if we are to address overproduction/underconsumption crises.

To argue that we are in an overproduction/underconsumption crisis needs to be proved. Capitalist crises are complex and complicated. To argue that a single cause exists in the current period without addressing financialisation, the impact of neoliberalism, the impact of free internationalisation mobility of capital and the expansion of global markets is problematic.

Causes of Economic Crises from a Marxist Perspective

To further clarify, there is still great debate among Marxist economists as to the cause of the crisis. Moreover, there are various theories and discussions for crises from a Marxist perspective.

Crises are part and parcel of the manner of accumulation and growth of the capitalist economic system and do not necessarily mean the end of the capitalist system; the system can recover (as we have seen historically). Moreover, the subjective element is essential for the end of the system:

1) Marx's falling rate of profits crisis (FROP): (Marx introduces this in volume one of Capital and finishes the discussion in volume three; this is related to long term increases in capital relative to labour and the increase in dead to living labour in production creates problems in maintaining the rate of profits as s/v relative to $(c/v + 1)$ decreases add to this rising numbers of the reserve army of labour due to increased use of machinery and the need for capital to constantly grow and essentially a point of overaccumulation is reached where redundant capital is destroyed, wages are further squeezed until the r can rise again.

2) Wage-profit squeeze (that is rising wages and wage incomes + rising rents squeeze profits and the rate of profits; first because profits and rents both come out of the surplus product even if rents are a cost to the capitalist. Rising rents (if land and housing is not owned by the capitalist class) means that there is less value available to the capitalists for reinvestment; if land/housing is part of capitalist speculation, it is drawing capital out of capitalist circuits of capital (M-C-M'))

3) Overproduction/Underconsumption (that is, a general glut in production, with all sectors of production having overproduced the goods and services and they cannot be sold; this is equivalent to an underconsumption crisis as what is happening here is that given the value of output which is then divided between wages, profits and rents; the amount that the working class can consume (they are the primary consumers) and what needs to be reinvested (recognising that the capitalists do consume as do landlords or landed aristocracy) but what the workers' wages + capitalist consumption + capitalist reinvestment + the value of commodities consumed by landlords produced or traded for is not sufficient to realise the surplus value inherent in the commodities as prices will not allow a profit (remember that wages and rents are essentially costs to the capitalists and that not only do they need to reinvest to maintain the size of their capital investment, but increase their investments in the quest for further profits).

Overproduction occurring in only or a few more sectors merely means that too much capital has flooded into a sector and this will be rebalanced over time (this would be a short-term issue remedied over future production periods).

Sometimes the issue that is raised is that increasing service industries which do not really produce surplus value lead to problems both with decreasing amounts of surplus value to be produced which will impact upon profitability and that there is decreasing creation of surplus value and hence profits (See Paul Sweezy); this is then wed to an inability to create and realise surplus value (*Theory of Capitalist Development*).

4) Financialisation and the increasing amount of uncertainty leads to a crisis in the financial markets which spreads out into the real economy (Boyer)

5) Lenin's disproportionality crisis in terms of dept I (producing intermediate and capital goods) as opposed to dept II (producing final goods); they are not aligned.

Many of these arguments are already embodied in Marx's discussion of crises in volume I of *Capital*, the discussion in Volume II on Schemes of Reproduction which Luxemburg uses in her discussion on *The Accumulation of Capital* where overproduction is the reason for imperialism as Luxemburg argues that the way around an overproduction/underconsumption crisis is to use the places outside of the capitalist system to dump commodities as the system of capitalism where there is only the workers and the capitalists cannot solve the problem as consumption is limited due to the fact that workers and capitalists inside the capitalist economic system cannot consume all that is produced in the system; this could theoretically explain the entrenchment of combined and unequal development from a different perspective than the search for raw materials and cheapening costs of production that characterised imperialism before neoliberalism. In many senses, Luxemburg could argue that the elimination of places where there is insufficient development of capitalism due to globalisation could be a significant cause to the current crisis. Does it make sense? For Luxemburg, there are insufficient markets to sell goods and services causing a general overproduction/underconsumption crisis in the system.

As such, for capitalists, there is an additional constraint, that is the sale of goods and services so that the surplus value contained in them can be realised as profits, where prices of goods and services must be greater than the value of that laid out by capitalists before production commences):

Looking at production of goods and services:

1) Intermediate good production (dept I): there is deliberate overproduction of many intermediate goods by China, that is, competition in action to cause a price drop and drive others from the production market. That is not an overproduction crisis, just capitalist competition in action.

2) Production of consumption goods (dept II): in some cases in Europe due to the CAP there is a deliberate underproduction (or destruction of) agricultural goods to keep prices up and subsidise agriculture. In the 1980s-90s, the advanced capitalist world served as consumers for final goods produced in China and other countries.

Private transport of goods and services (e.g., trucking, ships, rail) is something subject to competition and needs of capitalists to get goods to market.

The neoliberal economic ideology calls for three interrelated things:

1) Privatisation of public sector (goods and services);

2) Export-led growth production which makes domestic wage levels and hence domestic consumption less relevant and these are being sold overseas (this would relate both to intermediate and final goods production);

3) Introduction of austerity with commensurate money wages stagnation and destruction of welfare states. Given rising prices (and in the case of Britain the shift from Retail Price index (includes housing) to Consumer Price Index for benefits and wage freeze and then 1% growth cap), and stagnant money wages, it means by definition that real wages (wages/prices of goods consumed) have fallen. Add to that the fact that welfare state also was not only for unemployed, benefits for those in work and unemployed have fallen, meaning wage incomes have fallen. So this means that those in advanced capitalist world cannot consume as much (also remember that personal credit has

been squeezed; easy but expensive credit was made more available to offset decreased wage incomes; following the crash of 2007-8, credit has become harder to get and more expensive). As such, what we are seeing is a wage squeeze to keep profits up (combine with lower corporate profits as well).

As Marx discusses in Volume I of *Capital*, this is normal immediately following the crash, what we are seeing is a longer term squeeze on wages and wage incomes. This will/has impact(ed) upon ability of the working class to consume. I believe that we are looking at an attempt to cut the social subsistence wage actually; which is a new policy attempt as compared to both the 19th century (the vast majority of growth went to the capitalists rather than being shared with workers until unemployment started decreasing to the point that trade unions could forcing wage increases) and the early 20th century. In the post war period, linking wages with productivity allowed wage and profit increases while growth was high. The link between wages and productivity was decoupled in the late 1970s and early 80s.

Is it an overproduction crisis or is overproduction/underconsumption a symptom rather than the cause? I would argue the later. Simply said, there is an issue of realisation of profits due to wage squeezes. Luxury good production (as Marx pointed out) does not enter the determination of the rate of profit. Rather it is dependent on high rates of profits and rents) is not relevant here. This difficulty with realisation of profits impacts upon workers consumption, and then on capitalist investment in manufacturing and intermediate good production. Moreover, this will impact the choice of techniques in use. With low wages, increasing use of tech to cut costs becomes less of a concern; but remember, some goods' production requires advanced techniques and the use of large amounts of fixed constant capital (steel) and also various techniques of production can co-exist alongside of each other depending on what is actually is being produced (an obvious example is the textile industry where some production used advanced techniques while others in the sector were still done in sweatshops with large numbers of workers using low level sewing machines).

So, export led growth undermines production for domestic consumption and will also limit consumption of internationally produced goods due to wage squeezes and squeezes in workers' incomes. What happens then? This then leads to not increased production but less production for consumer goods as expectations of realisation of profits decrease; this will impact both intermediate goods that enter into final consumption goods and goods for consumption. This brings us to the question of production for the use by governments (e.g., military goods); these are one of the few goods where realisation is guaranteed as purchase is done by governments which, as such, ensures realisation of surplus value as the issue of risk is eliminated from production (this is how the military industrial complex has made itself indispensable). If governments actually spent more and purchased directly that would also help realisation; privatisation has impacted upon the production of goods and services often decreasing the amount available as only those that can afford to purchase these things can obtain them and non-profitability means that less would be produced or created.

In terms of consumption in developing economies (as well as production): markets are expanding. Again, keeping wages and wage incomes low can impact upon potential for realisation. However, more and more people (and countries) are being integrated in the capitalist world economy which helps sale and realisation of profits. Even if goods are sold at a low price, as long as it is greater than cost of production, profits can be realised. In some cases, the mass of profits is rising although the rate of profits may not be.

Production of services (some of these are private and some public):

We need to differentiate services and how they relate to this as it is goods and services we must

discuss; in the advanced capitalist world as services are the primary sector of production in the advanced capitalist world (and largest employer) (in the sense of what is the largest sector in the countries in terms of what is produced):

1) Retail: this is not overproduced, what is needed can be produced or adjusted easily (private)

2) Financial services (private unless nationalised or socialised): These can be overproduced and the markets are extremely unstable and volatile and as we know are values of the markets are often completely independent of what is happening in the real economy. Again, valuation of stocks and the value of companies are often disparate. Expansion of stock markets and financial markets are ongoing throughout the world as are the creation of these markets and the expansion of finance capital. What is the relation between stock markets, banking services and the real economy? That is an important issue that must be discussed further.

3) Education, health, caring, cleaning (often done by women at the lower levels), sanitation, energy, and water, and public transport, etc (some private, some public; increased privatisation will impact significantly availability to access. Are these overproduced? I would argue that education is not, health depends upon nationalisation and hollowing out with some parts going to private sector (see Carillion) are these overproduced? No again (in totally private health care, overproduction is not the issue, it is the costs and access which is relevant and by nature many are not able to access). Cleaning and domestic services are increasingly being done in the private sector for low pay and under poor working conditions. What we will find is that not only are pay and working conditions bad, but there are insufficient numbers of people working in the field (due to pay, conditions of work, and perceptions of the job). So where is the overproduction in these forms of services? If in the public sector, production of these services is not increasing, more and more there is privatisation which is not overproducing the services. Finally, there is the direct hire of domestic workers by consumers to cover housework and caring services in the informal sector.

It is probable that income inequality will be the cause of the next crisis, but that does not mean that financial crisis will be separate or will not lead the first plunge into crisis.

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