Surplus Capital: The Ultimate Cause of the Crisis?

Nick Potts

Firstly I consider how economists’ explanations of the current crisis will be selectively given prominence depending on whom various political parties and interest groups wish to blame, with bankers and speculators being the ‘obvious’ initial targets. Recognising that I cannot escape from being an interested party myself, I argue that the current crisis results from the fundamental nature of capitalism itself as explained by Marx over 100 years ago. I explain how Marx’s theory of the determination of the value of commodities by labour-time leads Marx to predict recurrent crisis, moments of self-defeat, will inevitably occur in capitalism through a tendency for the profit rate to fall in labour-time terms as the economy grows. The falling rate of profit in labour-time terms can be hidden by inflation of commodities’ prices relative to their falling labour-time values, but the underlying profitability problem in the ‘real’ economy still manifests on the surface by investment in fictitious capital appearing to offer a higher return than productive investment. Firms now invest a rising proportion of their capital/profits, now surplus capital, in fictitious capital (shares, futures etc.), creating fictitious capital bubbles. Fictitious capital bubbles must inevitably burst and crisis result, appearing on the surface to be purely a financial crisis. I move on to record how Grossmann in 1928 repeats Marx’s argument to confidently predict a coming huge financial crisis and depression in the US.

Keywords: Marx; Grossmann; Value Theory; Surplus Capital; Crisis

Why Pick Marx?

Economics is ‘easy’ when you know what the ‘problem’ is or, rather whom you wish to ‘blame’ for that problem. Just build a model, conventionally from the early 20th century onwards an equilibrium model, and disrupt it by introducing the problem you wish to solve. Now deal with the problem by, if you believe in the market, by

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spreading the market, or if in the Keynesian tradition, you believe in the power of government, by managing the market. It’s a game of pick and mix: every political party and interest group (from central bankers to single interest groups such as environmental campaigners) can selectively, depending on their pre-existing agenda, find or encourage the development of the economics they require. For example, Desai explains how Thatcherism simply relied on a small sect of free-market economists and followers of Hayek, with the views of the economics profession as a whole at the time being irrelevant to this process. Economics as a broad church is thus flexible enough to provide all the parables required of it. Thus economists will attempt to explain the current crisis, or rather their explanations will be selectively given prominence, according to whom various interested parties wish to blame, with bankers and speculators being the ‘obvious’ initial target.

So it is naïve to hope that the ‘unexpected’ nature of the current crisis, in both timing and severity, following as it does a 30-year period of the ‘triumph’ of capitalism through globalisation, will lead to economists seriously considering whether the ‘problem’ is the fundamental nature of capitalism itself. As an interested party myself, by making such a suggestion I am also potentially guilty of assuming what I wish to find. But, as McNeillan explains, Marx himself thought that it is impossible to separate economics from ethics. So we must recognise that economics can never be a neutral science, no matter how much it may aspire or pretend to be. Furthermore, if we accept that the problem lies in capitalism itself, we cannot duck the political implication of this result: the need to prevent such a crisis from inevitably recurring by progressing from the capitalist system to a superior system that really does put humanity first. I do not believe Marx predicted that capitalism will inevitably collapse by itself, rather Marx predicts that capitalism will inevitably produce growing inequality and periodic crisis. So the question Marx poses to us is whether we can learn from this experience and organise to move on to a better society?

The Basic Idea

We need to recognise that although the market may be ‘efficient’, or rather capable of dynamic growth, it will periodically defeat itself. This is precisely what Marx set out to explain in Capital; how the exciting dynamic market system had inherent underlying tendencies, including a fundamental tendency to experience crisis. Marx criticised the

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5 We should note how, when Marx got his say, he again predicted the inevitable economic collapse of capitalism (P. Kennedy, ‘Read the Big Four to Know Capital’s Fate’, Financial Times, 13 March 2009). See A. Kliman, Reclaiming Marx’s ‘Capital’ (Lanham, MD: Lexington Books, 2007, p. 31), for a specific refutation of this myth, and passim for a definitive refutation of the myth that Marx’s value theory is internally inconsistent.
economists of his time for being obsessed with surface appearances, modelling the economy purely in physical, or as economists call them today ‘real’, terms. To break beneath the surface, following Smith and Ricardo, Marx worked in labour-time terms. It was his theory of the determination of the value of commodities by labour-time that led Marx to predict recurrent crisis, moments of self-defeat, would inevitably occur in capitalism through a tendency for the profit rate to fall in labour-time terms as the economy grows. Kliman points out how many ‘Marxist’ economists have forgot this through retrospectively and inappropriately applying a mainstream equilibrium/ simultaneous approach to Marx.6

As this is a tendency, Marx was not saying the profit rate would ‘observably’ decline smoothly in every boom; there are counter-tendencies, and we must remember Marx was talking in labour-time terms, not nominal or ‘real’ money terms. Marx explained how in the 19th century, at the end of booms, surplus capital pushed up speculation in fictitious capital (shares, futures, etc.).7 By surplus capital Marx meant capital/profit that firms did not want to productively invest due to deteriorating profitability in labour-time terms. This deterioration can be hidden on the surface by inflation of commodities’ prices relative to their falling labour-time values and by the inflation of the ‘value’ of fictitious capital that investment of surplus capital in fictitious capital produces. The underlying profitability problem in the ‘real’ economy thus simply manifests on the surface by investment in fictitious capital appearing to offer a higher return than productive investment. We have the foundations for a fictitious capital bubble, not an accidental random bubble, but one rooted in the tendential behaviour of the productive economy. The fictitious capital bubble must inevitably burst and crisis result, appearing to be purely a financial crisis. Grossmann, writing in 1928, repeated this argument to confidently predict a coming huge financial crisis and depression in the US.8

The Idea In More Detail

The big idea is Marx’s theory of the determination of commodities’ values by labour-time. In the Preface of Volume Two of Capital, Engels explains how Marx thought Adam Smith had already discovered that the basis to profit was a surplus-value extracted from living labour in production.9 Ricardo builds on Smith but stumbles on how capitalists with different compositions of constant capital (non-living labour inputs) to variable capital (input of living labour) could realise the same rate of profit if surplus-value extracted from living labour is the sole source of profit. Engels states,

6 Kliman, Reclaiming Marx’s ‘Capital’, op. cit.
This contradiction to the law of value was already known to Ricardo, but neither he nor his followers were able to resolve it. . . . Marx had already resolved this contradiction . . . the solution is to be included in Volume 3. Some months will pass until its publication.\footnote{Ibid., p. 101.}

Nine years later, in 1894, Volume Three of Capital arrived. Note that Engels prepared Volumes Two and Three of Capital for publication after Marx’s death in 1883. Marx finally solved the problem he had alluded to in Volume One of Capital\footnote{K. Marx, Capital: A Critique of Political Economy, Volume 1 (London and New York: Penguin and Vintage, 1976), p. 421.} in Chapter Nine, Volume Three of Capital, entitled ‘Formation of a General Rate of Profit (Average Rate of Profit), and Transformation of Commodity Values into Prices of Production.’ Commodities’ appropriated values (the values they exchange at) will systematically deviate from their produced values, tendentially equalising profitability across all competitive sectors of the economy, without violating the concept that living labour is the sole source of new value and surplus-value. After demonstrating in Part Two of Volume Three of Capital how his theory of value is an advance on Ricardo’s, in Part Three Marx immediately moves on to explain how the profit rate will tend to fall in boom times: inevitably, capitalism will periodically defeat itself. This tendency results from the way capitalists compete with each other, and applies to the profit rate in value terms, not use-value/physical/conventional/’real’ terms. Dealing with the second issue first:

\begin{itemize}
  \item variations in productivity have no impact whatever on the labour itself represented in value. As productivity is an attribute of labour in its concrete useful form, it naturally ceases to have any bearing on that labour as soon as we abstract from its concrete useful form. The same labour, therefore, performed for the same length of time, always yields the same amount of value, independently of any variations in productivity. But it provides different quantities of use-values during equal periods of time; more, if productivity rises; fewer, if it falls.\footnote{Ibid., p. 137.}
  
  \item There corresponds to this growing volume of constant capital – although this expresses only at a certain remove the growth in the actual mass of use-values which the constant capital consists of in material terms – a continual cheapening of the product.\footnote{Marx, Capital, Vol. 3, op. cit., p. 318.}

  \item The profit rate does not fall because labour becomes less productive but rather because it becomes more productive.\footnote{Ibid., p. 347.}
\end{itemize}

In Parts Two and Three of Volume Three of Capital, for that matter in general, Marx holds the value of money constant at £1 = one hour of labour-time, ensuring that value in monetary expression or labour-time is quantitatively identical. When Marx
does consider the possibility of a variable value of money at the end of Part One of Volume Three of *Capital* he states:

if, other things being equal . . . there is a change in the value of the money commodity. (This is so even with a purely nominal change in value, the rise and fall of tokens of value, as long as other factors remain the same.) Let the total capital be £100 and the profit £20, so that the rate of profit is 20 per cent. If the price of gold is now halved or doubled, in the first case the same capital that was previously worth £100 is now worth £200, and the profit has a value of £40 instead of £20 (i.e. it is expressed in this new amount of money). In the second case, the capital falls to a value of £50, and the profit is now expressed in a product valued at £10. In both cases, however, 200:40 = 50:10 = 100:20 = 20 per cent. There would be no real change in the capital value in any case such as this, but simply a change in the monetary expression of the same value and surplus-value . . . If it is only the money value that rises or falls (as a result of a change in the value of money), the monetary expression of the surplus-value rises or falls in the same proportion. The profit rate then remains unchanged.15

Don’t be fooled by purely nominal monetary expressions of value, adjust for the ‘value’ of money. But Marx does not want us to be fooled by use-value, so he does not mean economists’ conventional definition of ‘real’ terms; the value of money should not be understood as how many use-values a unit of money can buy. For Marx the value of money is how much labour-time a unit of money expresses.

Marx explains how he thinks capitalists tend to compete in Part Four, Volume One of *Capital* and Part Three, Volume Three of *Capital*. He stresses the central role of technological change in competition. The most advanced producers in each sector are most advanced precisely because they operate with the latest technology. Competition ensures capitals tend to get bigger and apply relatively more constant capital than living labour:

The course of the development of capitalist production and accumulation requires increasingly large-scale labour processes and hence increasingly large dimensions and increasingly large advances of capital for each individual establishment. The growing concentration of capitals (accompanied at the same time, though in lesser degree, by a growing number of capitalists) is therefore both one of its material conditions and one of the results that it itself produces. Hand in hand with this, in a relationship of reciprocity, goes progressive expropriation of the more or less immediate producers. In this way a situation comes about in which the individual capitalist have command of increasingly large armies of workers (no matter how much the variable capital may fall in relation to the constant capital), so that the mass of surplus-value and hence profit which they appropriate grows, along with and despite the fall in the rate of profit. The reasons that concentrate massive armies of workers under the command of individual capitalists are precisely the same reasons as also swell the amount of fixed capital employed, as well as the raw

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15 Ibid., pp. 236–238.
and ancillary materials, in a growing proportion as compared with the mass of living labour applied.\footnote{Ibid., pp. 325–326.}

For the economy as a whole in boom, constant capital input grows faster than living labour input. Productivity improvement will cheapen commodities: assuming wages are fixed in use-value terms at a given material standard of living necessary to reproduce the worker, this will cheapen the worker. We have the production of relative surplus-value.\footnote{Surplus-value may also rise through lengthening the working day or dropping wages below workers’ accustomed cost of reproduction. Such production of absolute surplus-value is, however, more likely to be enforced in crisis than in boom. An individual capitalist may increase the surplus-value they extract from their own workers by making their workers work at above average intensity. But if all workers are made to work more intensely, the effect is simply higher average intensity, more units of use-value per average hour of labour and an increase in the productivity of labour.} For each unit of living labour the variable capital component falls as surplus-value rises. If exploitation rises sufficiently quickly, the growth of surplus-value may even exceed the growth of constant capital, increasing the rate of profit (surplus-value divided by the total capital advanced in constant and variable capital). However, no matter how long it might be, the working day is finite. The ultimate limit of the growth of surplus-value, assuming workers only live on air, is the growth of living-labour input, which tends to grow slower than constant capital. Thus the rate of profit has a tendency to fall in times of accumulation/boom, despite the counter-tendency of increased exploitation. Technological change leads to declining profitability, sowing the seeds for eventual crisis. This appears contradictory:

No capitalist voluntarily applies a new method of production, no matter how much more productive it may be or how much it might raise the rate of surplus-value, if it reduces the rate of profit. But every new method of production of this kind makes commodities cheaper. At first, therefore, he can sell them above their price of production, perhaps above their value. He pockets the difference between their costs of production and the market price of the other commodities, which are produced at higher production costs. This is possible because the average socially necessary labour-time required to produce these latter commodities is greater than the labour-time required with the new method of production. His production procedure is ahead of the social average. But competition makes the new procedure universal and subjects it to the general law. A fall in the profit rate then ensues—firstly perhaps in this sphere of production, and subsequently equalised with the others—a fall that is completely independent of the capitalists’ will.\footnote{Ibid., pp. 373–374.}

In crisis the conditions necessary for restoration of higher profitability are enforced. Constant capital falls in price (suffers physical and moral depreciation); workers adjust their ‘expectations’ of how they must work and what constitutes a normal standard of living. Reforms are sought in every conceivable area to restart the motor. Marx states (note: by producers Marx means immediate producers, the workers):

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The true barrier to capitalist production is capital itself. It is that capital and its self-valorization appear as the starting and finishing point, as the motive and purpose of production; production is production only for capital, and not the reverse, i.e. the means of production are not simply means for a steadily expanding pattern of life for the society of the producers. The barriers within which the maintenance and valorization of the capital-value has necessarily to move—and this in turn depends on the dispossession and impoverishment of the great mass of the producers—therefore come constantly into contradiction with the methods of production that capital must apply to its purpose and which set its course towards an unlimited expansion of production, to production as an end in itself, to an unrestricted development of the social productive powers of labour. The means—the unrestricted development of the forces of social production—comes into persistent conflict with the restricted end, the valorization of the existing capital.

Progress and technological change come at a cost because of the fundamentally contradictory nature of the capitalist system. The valorisation process—value—drives the system; although use-value is necessary, it is a side effect of capitalism’s historically specific and inevitably unstable and self-defeating valorisation process. Vulgar economists may imagine that the economy has an ideal equilibrium and blame exogenous shocks through human imperfection for divergence from this equilibrium, but Marx explains how at its heart the economic cycle is endogenous to the capitalist system (the outcome of the ‘efficient’ market). If we accept Marx’s conclusion, it must fundamentally change the way we view capitalism. As such Marx’s economics posed a political challenge to all who wished to present capitalism as a stable or at least a manageable system. For this reason throughout the 20th century many socialists and moderate ‘Marxists’ have tried to discredit Marx’s central conclusions. Kliman provides an extensive account of how Marx’s value theory was dismissed as being internally inconsistent throughout the 20th century (including notably by Bortkiewicz, then Sweezy, Samuelson and Roemer).

In 1906–1907 Bortkiewicz set the battleground, the transformation ‘problem’, and devised the method of attack, applying a simultaneous and dualistic approach to Marx’s value theory. A dualistic approach to price and value imagines that produced value in labour-time is one distinct system and appropriated value in money is another distinct system, and that these two separate dual systems must somehow be balanced/brought together in equilibrium (Bortkiewicz’s equilibrium was a state of identically repeating simple reproduction). To preserve equilibrium/balance in the future, a simultaneous approach imagines that the unit value of inputs

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19 Ibid., pp. 358–359.
20 Crisis may occur for many other reasons, including war, disaster, workers’ wage push or ‘pure’ financial crisis. But the point is that the tendency for the profit rate to fall will ensure crisis must inevitably result, even if there is no war, disaster, workers’ wage push or ‘pure’ financial crisis, etc.
21 Kliman, Reclaiming Marx’s ‘Capital’, op. cit.
must be re-valued to the unit value of outputs. The transformation problem becomes a ‘problem’. In Chapter Nine, Volume Three of Capital three aggregate equalities hold through the transformation: total profit equals total surplus-value, total wages equals the value of variable capital and the total price of capital equals the total value of capital. Taking a simultaneous and dualistic approach ensures we can only preserve one of the three aggregate equalities, and it is up to us which we choose to preserve.23 ‘Marx’s’ value theory does not add up, it is internally inconsistent, please dismiss it or rather, if you are a ‘Marxist’ economist, correct it and re-examine its conclusions. Employing a simultaneous approach, Okishio asserted the theorem that viable technological change (cost reducing at current prices) can never cause the ‘uniform’ profit rate to fall, in direct opposition to Marx’s prediction of a tendency for the rate of profit to fall in boom.24 Such is Marx conventionally understood by academics of the left.25 Steadman explained how employing the conventional simultaneous and dualistic ‘Marxist’ method makes value in terms of labour-time redundant/exist because it is perfectly proxied by physical/use-value/conventional ‘real’ terms.26 ‘Marxist’ economics turns out to be no advance on neo-Ricardian or Sraffian economics.

But, as Kliman explains, all this depends on attributing to Marx a method that fails to deliver his own conclusions, while hermeneutically it makes logical sense to see if there is a possible interpretation of Marx’s method that actually does produce his central results.27 Only if no such interpretation exists can we say that Marx is internally inconsistent on his own terms. Since the 1980s the Temporal Single System Interpretation (TSSI) of Marx has set out to prove that Marx actually employed a sequential and non-dualistic approach to price and value.28 Following this approach Marx’s value theory is, and always has been, internally consistent: all of Marx’s central results hold. The transformation problem is no longer a problem; all three aggregate equalities generally hold.29 The Okishio theorem is overturned: the profit rate in value terms tends to fall in boom for precisely the reasons Marx suggested.30

23 M. Desai, Marxian Economics (London: Basil Blackwell, 1979). Some simultaneous and dualistic interpretations of the transformation problem claim to satisfy all three equalities by introducing certain further ‘reasonable’ assumptions and restrictions (see, for example, J. Loranger, ‘A Profit-Rate Invariant Solution To The Marxian Transformation Problem’, Capital and Class, 82: Spring (2004), pp. 23–37). Kliman, Reclaiming Marx’s ‘Capital’, op. cit., pp. 169–170, proves that Loranger’s ‘solution’ only satisfies all three equalities if we ‘reasonably’ allow prices and money wages to be negative in certain scenarios!


Freeman, Kliman, Foley and Laibman debated the validity of the Okishio theorem in 1999 and 2000 in *Research In Political Economy*. All contributors to the debate recognised possible exceptions to the Okishio theorem if a sequential approach is employed instead of a simultaneous approach and how the profit rate in value and physical/material/use-value terms may diverge. Given the Okishio theorem claims that the ‘universal’ profit rate can never fall for the reasons Marx suggested, such exceptions clearly refute the theorem. However, Foley questioned the importance of focussing on the value profit rate over the material rate, while Laibman employed replacement cost valuation to, in a sequential setting, reproduce the simultaneous assumption that the value of inputs is determined by the value of outputs of the same period. Freeman and Kliman stressed the importance of the profit rate in value terms (not use-value/material terms) to Marx’s work and that profit must be related to the value of capital when it is actually advanced at the start of production. Potts illustrates how the Okishio theorem holds if we follow a simultaneous and dualistic (SAD) approach or the New Interpretation (NI), but fails if we follow the TSSI of Marx. Valuing inputs at the value of outputs by SAD or NI calculation ensures that in boom the total capital applied in value terms falls each period, thus boosting the profit rate in value terms to the material rate. We have no decline in the value profit rate because we never have a boom/accumulation in value terms in the first place! Critics of the TSSI of Marx, such as Mohun and Veneziani, have tried to find increasingly obscure reasons to challenge the TSSI’s internal consistency, as refuted by Kliman and Freeman. We should remember that the TSSI of Marx simply aims to bring a consistent Marx back to the debate by clearing him of false allegations of internal inconsistency; it neither claims that Marx was necessarily right about everything nor that alternative concepts of value have nothing to offer.

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33 This is clearly evident in Laibman, ‘Numerology, Temporalism, and Profit Rate Trends’, op. cit., pp. 295–306.


The TSSI’s sequential approach recognises that capital is advanced with its components having the unit values holding at the time of that advancement; production now occurs with the newly produced commodities having a potentially different unit value. The profit rate depends on the surplus-value extracted in production related to the value of the capital advanced when it was actually advanced, and not on the value of the capital advanced as if it were magically made simultaneously at the end of the period it acted as an input for! The TSSI of Marx thus abstractly imagines a sequence of periods with circulation following production at the end of each period.

A non-dualistic approach to price and value rejects the dualistic notion that produced values are purely a matter of labour-time and appropriated values are purely a matter of price in money. Both produced values and appropriated values can be expressed in labour-time or money through appropriately accounting for the value of money. Abstractly at the end of production each period we have a total produced value of capital with price formation determining the distribution of this total value between capitalists (to tendentially equalise profit across sectors). The value of money at the end of production each period is simply the total produced value of capital in term of labour-time divided by the total appropriated value of this capital in monetary expression. The inverse of the value of money is termed by the TSSI of Marx the ‘monetary expression of labour-time’ (MELT), the number of nominal units of money that express one hour of labour-time. MELT is likely to change at the end of production each period, unless, as Marx normally does, we abstractly hold MELT constant. So to uncover value in labour-time terms we must simply account for inflation: not in ‘real’ use-value terms but in terms of the monetary expression of labour-time.36

In summary, the TSSI of Marx allows us to consider a consistent Marx who centrally predicts a tendency for the profit rate to fall in boom. Let us now turn our attention to the financial system. Lapavitsas and Itoh record how Marx in Volume Three of Capital explains how the financial system/credit system grows organically to support the circuit of capital.37 Commercial credit, banks, stock markets, etc., the financial system in general minimises the need to hold idle capital in money form, and through the creation of credit can flexibly support the expansion of the productive economy. The financial system is a powerful weapon for capitalism, but all capitalist swords are double-edged. As the financial system supports accumulation the contradictions accumulation produces heighten, to be snapped back in crisis:

the rate of profit, is the spur to capitalist production (in the same way as the valorization of capital is its sole purpose), a fall in this rate slows down the formation of new, independent capitals and thus appears as a threat to the development of the capitalist production process; it promotes overproduction,

36 If by employing a simultaneous and dualistic approach labour-time terms are perfectly proxied by physical terms, inflation can only be conceived of as being in conventional ‘real’ terms.
speculation and crises, and leads to the existence of excess capital alongside a surplus population.\footnote{38 Marx, \textit{Capital}, Vol. 3, op. cit., pp. 349–350.}

As the profit rate falls, so there is a growth in the minimum capital the individual capitalist needs . . . This growing concentration leads in turn, at a certain level, to a new fall in the rate of profit. The mass of small fragmented capitals are thereby forced onto adventurous paths: speculation, credit swindles, share swindles, crises. The so-called plethora of capital is always basically reducible to a plethora of that capital for which the fall in the profit rate is not outweighed by its mass—and this is always the case with fresh offshoots of capital that are newly formed—or to the plethora in which these capitals, which are incapable of acting by themselves, are available to the leaders of great branches of business in the form of credit.\footnote{39 Ibid., p. 359.}

If the credit system appears as the principal lever of overproduction and excessive speculation in commerce, this is simply because the reproduction process, which is elastic by nature, is now forced to its most extreme limit; and this is because a great part of the social capital is applied by those who are not its owners, and who therefore proceed quite unlike owners who, when they function themselves, anxiously weigh the limits of their private capital. This only goes to show how the valorization of capital founded on the antithetical character of capitalist production permits actual free development only up to a certain point, which is constantly broken through by the credit system. . . . credit accelerates the violent outbreaks of this contradiction, crises . . . \footnote{40 Ibid., p. 572.}

Can we simply inflate away the need for crisis to snap back the contradictions? Marx sees no cure in this approach:

In a system of production where the entire interconnection of the reproduction process rests on credit, a crisis must evidently break out if credit is suddenly withdrawn and only cash payment is accepted, in the form of a violent scramble for means of payment. At first glance, therefore, the entire crisis presents itself as simply a credit and monetary crisis. And in fact all it does involve is simply the convertibility of bills of exchange into money. The majority of these bills represent actual purchases and sales, the ultimate basis of the entire crisis being the expansion of these far beyond the social need. On top of this, however, a tremendous number of these bills represent purely fraudulent deals, which now come to light and explode; as well as unsuccessful speculations conducted with borrowed capital, and finally commodity capitals that are either devalued or unsaleable, or returns that are never going to come in. It is clear that this entire artificial system of forced expansion of the reproduction process cannot be cured by now allowing one bank, e.g. the Bank of England, to give all the swindlers the capital they lack in paper money and to buy all the depreciated commodities at their old nominal values.\footnote{41 Ibid., p. 621.}

A devaluation of credit money (not to speak of a complete loss of its monetary character, which is in any case purely imaginary) would destroy all the existing
relationships. The value of commodities is thus sacrificed in order to ensure the fantastic and autonomous existence of this value in money. In any event, a money value is only guaranteed as long as money itself is guaranteed. This is why many millions’ worth of commodities have to be sacrificed for a few millions in money. This is unavoidable in capitalist production, and forms one of its particular charms. In former modes of production, this does not happen, because given the narrow basis on which these move, neither credit nor credit money is able to develop. As long as the social character of labour appears as the monetary existence of the commodity and hence as a thing outside actual production, monetary crises, independent of real crises or as an intensification of them, are unavoidable. It is evident on the other hand that, as long as a bank’s credit is not undermined, it can alleviate the panic in such cases by increasing its credit money, whereas it increases this panic by contracting credit. 42

The second quote both recognises the possibility of a bank, such as a central bank, being able to alleviate crisis by creating credit, and the necessity for such potential creation of credit to be held back to protect the value of money. Marx suggested that inflationary expansion is indeed possible, but it cannot cure the problems or resolve the contradictions that boom has heightened. The need for crisis is at best postponed. Thus, the financial system both supports the expansion of the productive economy and as that expansion develops, supports growing speculation in fictitious capital (shares, futures, property prices, debts in general, that are all the capitalisation of expected future streams of income and not real capital). But at the heart of the system the valorisation process limits the sustainability of expansion, as expressed by the tendency for the profit rate to decline. Inflation may be a temporary option to force unsustainable expansion but protecting the value of money ensures booms must end in crisis in the end. 43

Grossmann seeks to not only confirm Marx’s prediction of a tendency for the rate of profit to fall as capital accumulates, but to link it with Marx’s prediction that capitalism will bring about its own negation, 44 to build a theory of the breakdown of capitalism. 45 Grossmann is critiquing attempts by revisionist Marxists, such as Hilferding, Kautsky and Otto Bauer, to present a ‘balanced’ vision of the development of capitalism. Grossmann is not proposing that capitalism will automatically end through pure economic breakdown as his opponents immediately suggested, and continued to suggest, see for example Mandel in the introduction to Volume Three of Capital. 46 Rather, Grossmann stresses that the falling rate of profit will lead to recurrent and worsening crises, in which profitability is restored, including notably by

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42 Ibid., p. 649. Page 649 continues: ‘The suspension of cash payments by the so-called national banks, which is resorted to as the sole expedient in all extreme cases, shows that even now no metal is needed at home.’ (But is still needed for international settlement.) Marx’s understanding of the financial system is clearly taking his monetary theory far beyond any simple notion of a ‘well-behaved’ commodity money world.


the devaluation of capital, laying the basis for renewed accumulation and following crisis, and so on. The crises are potential revolutionary situations that could, only if the working class are sufficiently organised, lead to revolution and the end of capitalism.47

Leaving aside such fundamental questions Grossmann stresses how surplus capital will grow as accumulation develops and the profit rate falls.48 When discussing Capital Volume Three, Chapter 15, Section 3, ‘Surplus Capital Alongside Surplus Population’, Grossmann notes:

A classic illustration is the United States today (March 1928) where, together with a superfluity of capital, shortage of investment opportunities and massive speculation in real estate and shares, there is a surplus working population of 4 million unemployed workers. This not because too much surplus value has been produced but because in relation to the accumulated mass of capital too little surplus value is available.49

Grossmann very clearly predicts an imminent crisis, potential breakdown, for the United States:

superfluous capital looks for spheres of profitable investment. With no chance in production, capital is either exported or switched to speculation. . . . Let us take the present economic situation of the USA as an example of these movements. Despite the optimism of many bourgeois writers who think that the Americas have succeeded in solving the problem of crises and creating economic stability, there are enough signs to suggest that America is fast approaching a state of over-accumulation. . . . The basic characteristic of the economic year 1927 is that industry and commerce have watched their production fall . . . The depressed state of industry is reflected by an expansion of speculative loans and speculative driving up of share prices. According to estimates of the US department of commerce, in 1927 the USA invested $1.648 billion of new capital abroad. While this was partly matched by a reverse flow of $919m, the greater part of this money flowed straight into the New York stock exchange for speculation. Advances by New York banks by way of brokers’ loans on the stock exchange totalled $4.282 billion at the start of May . . . Today America is doing its best to avert the coming crash—already foreshadowed in the panic selling on the stock exchange of December 1928—by


48 N. Potts, ‘Recovering Marx: Past and Present’, Critique, 37:3 August (2009), pp. 473–478, explains how Grossmann’s illustration of the falling rate of profit in Grossmann, The Law of Accumulation and Collapse of the Capitalist System, op. cit., can easily be adjusted to disprove the Okishio theorem, which would not even be stated for another 30 years! I conclude that Grossmann’s sequential analysis at the aggregate level has far more in common with the TSSI of Marx than any other modern version of Marxist economics.

forcing up exports. ... When these efforts are matched by a similar drive by the Germans and the British, the crisis will only be intensified.\footnote{50}

Grossmann also interestingly identifies Hilferding’s concept of finance capital, the predominant role of banks in lending to and co-ordinating industry,\footnote{51} as a temporary phase in capitalism that occurs only when capital is relatively short in supply. When capitalism is further developed capital is abundant, indeed tends to become surplus:

Hilferding’s exposition contradicts the actual tendencies of development of capitalism. It is also incompatible with the fundamental ideas of Marx’s theory. For if Hilferding were right in arguing that the banks dominate industry, this would only shatter Marx’s theory of the crucial importance of production itself to the structure of capitalism. The crucial role would then be played not by the production process but by finance capital, or structures in the sphere of circulation. ... At more advanced stages of accumulation industry becomes increasingly more independent of credit flow because it shifts to self-financing through depreciation and reserves. ... In countries like Britain, France and especially the USA, it is simply not possible to speak of industry being dependent on the banks. ... According to Vogelstein, this is one of the reasons why banks have been turning to the stock exchange by way of investments.\footnote{52}

In conclusion I suggest Marx’s analysis of the process of capitalist accumulation provides a clear basis for understanding both the inevitability of crisis and capitalism’s need for crisis to periodically restore the profit rate by destroying capital, precisely so that capital can be accumulated again. This apparently contradictory result simply follows from the contradictory nature of the capitalist system itself.

**Conclusion**

If we simply focus on ‘real’ terms, like nearly every economist does, the profit rate is unlikely to decline in boom, so what does it matter that the ‘unobservable’, ‘underlying’, ‘mystical’ profit rate in labour-time terms falls? Nearly every economist would say thank you, but where is the manifestation? I accept that inflation (meaning the decline in the labour-time value of money) may distort surface appearances away from the situation in labour-time terms. But I contend that this does not stop the underlying situation in labour-time terms from manifesting on the surface through the return on holding fictitious capital rising in booms, potentially above the return from productive investment. I believe that this result essentially rests on the idea that the behaviour of fictitious capital depends on the mass of profit while the rate of profit depends on the mass of profit in relation to total capital advanced.\footnote{53}

\footnote{50} Ibid., pp. 191–193.  
\footnote{53} For a mathematical illustration of this process see, N. Potts, ‘Back To C19th Business As Usual: A Surprise?’, Faculty of Business, Sport and Enterprise Research and Enterprise Working Paper 7 (2009), Southampton Solent University, available from Nick.Potts@solent.ac.uk.
Speculative investment of surplus capital is likely to become more attractive to productive capitalists the longer a boom lasts and the more intense it becomes. Such investment of surplus capital is likely to make speculative investment in fictitious capital seem even more attractive to all. We have a bubble, not an accidental random bubble, but one rooted in the tendential behaviour of the productive economy; we have our manifestation.

Of course a purely financial bubble, unrelated to falling profitability in labour-time terms, may occur and burst creating crisis. Alternatively, at least for a while, government control or influence over the financial system and productive economy may prevent bubbles and ‘successfully’ manage the cycle by deciding when to slow the economy or to create crisis, thus preventing ‘unexpected’ crisis. But this is not the point. Marx shows us how, if we allow the economy to just let rip, and use its amazing expansionary powers to their full extent, it is bound to end in crisis. Boom endogenously creates the conditions for crisis; capitalism inevitably periodically defeats itself. So crisis is unavoidable, whether it is government-planned, purely the product of financial system or just ‘arrives’, ‘unexpectedly’, in the end.