Understanding Capital
Marx's Economic Theory

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9

The Theory of Capitalist Crisis

The Temporal Unevenness of Capital Accumulation

The picture of capital accumulation presented by the circuit of capital model on a steady-state path is one of smooth, continuous, and balanced growth. All measures of economic activity, flows and stocks of value, are growing at the same rate. Value moves through each phase of the circuit of capital regularly and easily. There is no tendency for finished commodities to pile up unsold in inventories, or for inventories to become depleted, or for money capital to stagnate. If there are changes in the pattern of social consumption, the system is adapting to them smoothly by shifting capital out of declining sectors and into growing sectors. The value of money is constant or changing in a predictable and steady pattern.

History shows few periods of such sustained and even accumulation. Invariably the accumulation process takes place unevenly, with high rates of growth interrupted by periods of slow or negative growth. At certain times inventories of commodities accumulate unsold and excess capacity emerges in productive facilities. The rate of change of the value of money undergoes sharp changes. Typically after a longer or shorter period of such disturbances, the system returns to a mode of steady accumulation, only to be disturbed once more.

A careful study of the historical record shows that these periods of disturbance in capital accumulation have a regular pattern, in that certain events usually precede others in the historical sequence. But the pattern of disturbances is irregular in that the timing of different phases and the intervals between different phases are variable. The magnitudes of the changes in production and other aspects of the circuit of capital also vary widely.

The stylized aspects of disturbances to accumulation are summed up in the notion of the *business cycle.* The cycle begins with the system growing in some approximation of steady accumulation with a stable value of money. This steady growth accelerates into a boom; the value of money starts to fall more rapidly, shortages begin to develop, interest rates rise, and the rate of profit declines. The rapid expansion finally reaches a turning point, often marked by extreme conditions in credit markets (either very high rates of interest or a breakdown in the lending process altogether), after which the rate of growth of output actually becomes negative. In this recession phase capitalists find it difficult to sell the commodities they have produced and cut back on production, thereby creating unemployment and excess capacity. Capital outlays fall; hence money capital tends to stagnate. At some point the contraction phase comes to an end—normally after the value of money becomes more stable or starts to rise and after interest rates fall sharply—and a stronger or weaker phase of accumulation starts again.

Many business cycle movements are mild and short-lived; and it is possible to view them as a normal part of capital accumulation. But at times, as in the 1930s in the world economy, these disturbances are so severe and protracted as to call into question the further development of the capitalist system itself. These severe episodes Marx calls *crises* of the system. They often mark a sharp turning point in the developmental pattern of capitalism, involving major political changes and major changes in the relation of the State to the market.

The General Theory of Crises

Marx often discusses capitalist crises as examples of the general contradictions of capitalist production in extreme conditions. A severe crisis of accumulation dramatically manifests a rapid increase in unfilled need (as unemployment rises and incomes fall) on the one hand and a rapid increase in unused capacity to meet needs (as means of production stand idle and inventories are destroyed) on the other. This irrational pattern Marx viewed as essentially new and specific to capitalist production. Earlier social formations experienced severe productive crises, of course, with famines, floods, epidemics, and wars. But in these situations the increase in unfilled need corresponds to the destruction of means of production. It is not hard to understand why people have unfilled needs when their means of production have been destroyed, but it is a great puzzle why people should experience unfilled need at the same time that a great productive apparatus stands unused. Marx says (1894, pp. 257–258):

> There are not too many necessities of life produced, in proportion to the existing population. Quite the reverse. Too little is produced to decently and humanely satisfy the wants of the great mass.
>
> There are not too many means of production produced to employ the able-bodied portion of the population. Quite the reverse . . .
>
> On the other hand, too many means of labour and necessities of life are produced at times to permit of their serving as means for the exploitation of labourers at a certain rate of profit . . .
>
> Not too much wealth is produced. But at times too much wealth is produced in its capitalistic, self-contradictory forms.

Without going into very much detail as to the exact mechanisms of crisis, Marx argues that this pattern reflects the basic contradiction in commodity production between use-value and value. Commodity production is motivated proximately by the pursuit of value, and capitalist production more specifically by the pursuit of surplus value. The production and distribution of use-values is an incidental by-product of this pursuit of value. In such a system we can see how unfilled need might coexist with unused capacity to produce when for some reason the production of use-values becomes inconsistent with the appropriation or preservation of value.

Marx makes this point in the early pages of *Capital*. In his discussion (1867, pp. 113–114) of the form $C-M-C'$, he emphasizes the separation of sale and purchase that develops along with money and the commodity form. He points out the connection between crisis and the fundamental character of commodity production in the following terms:

> If the interval of time between the two complementary phases of the metamorphosis of a commodity become too great, if the split

> between the sale and the purchase become too pronounced, the intimate connection between them, their oneness, asserts itself by producing—a crisis. The antithesis, use-value and value; the contradictions that private labour is bound to manifest itself as direct social labour, that a particularised concrete kind of labour has to pass for abstract human labour; the contradiction between the personification of objects and the representation of persons by things; all these antitheses and contradictions, which are immanent in commodities, assert themselves, and develop their modes of motion, in the antithetical phases of the metamorphosis of a commodity. These modes therefore imply the possibility, and no more than the possibility, of crises. The conversion of this mere possibility into a reality is the result of a long series of relations, that, from our present standpoint of simple circulation, have as yet no existence.

Marx develops this line of argument throughout *Capital*. Once we understand the division of capitalist society between workers and capitalists, the problem of crises can be given a more precise form. The behavior of workers is unlikely to give rise to a severe rupture between sales and purchases because workers would use their stocks of money value to maintain their consumption in the face of a disturbance. If workers had control over the whole flow of value in the system, a severe crisis could not occur. In this sense the restricted purchasing power of the workers is a necessary condition for capitalist crisis. Marx says in *Theories of Surplus Value* (1963, p. 492):

> The criterion of the expansion of production is *capital* itself, the existing level of the conditions of production and the unlimited desire of the capitalists to enrich themselves and to enlarge their capital, but by no means *consumption*, which from the outset is inhibited, since the majority of the population, the working people, can only expand their consumption within very narrow limits, whereas the demand for labour, although it grows *absolutely*, decreases *relatively*, to the same extent as capitalism develops.

The sufficient condition for crisis is the existence of capitalist production itself because capitalists do not sell in order to buy, rather they buy in order to sell. The logic of the pursuit of surplus value contains within itself the problem of crisis. Marx sums up this argument in *Capital* (1894, p. 258):

> the expansion or contraction of production are determined by the appropriation of unpaid labour and the proportion of this unpaid

> labour to materialised labour in general, or to speak the language of the capitalists, by profit and the proportion of this profit to the employed capital, thus by a definite rate of profit, rather than the relation of production to social requirements, i.e., to the requirements of socially developed human beings. It is for this reason that the capitalist mode of production meets with barriers at a certain expanded stage of production which, if viewed from the other premise, would reversely have been altogether inadequate. It comes to a standstill at a point fixed by the production and realisation of profit, and not the satisfaction of requirements.

Thus the central point in Marx's general analysis of capitalist crisis is that crisis arises inherently from the contradictions of the capitalist mode of production. Crises are not imposed on the system from outside it but develop with its own development. Furthermore Marx sees crisis as purgative. The crisis tends to resolve the problems that created it and to recreate the conditions for renewed accumulation.

Specific Theories of Crisis

In Marx's available works there is no systematic, synthetic discussion of the theory of capitalist crisis. He discusses this issue in a wide variety of contexts, often as a parenthesis in a discussion of some other issue and frequently in the course of making a critique of some earlier writer. The most sustained discussion of the problem of crisis occurs in *Theories of Surplus Value* (1963, chap. 17); but even in this text Marx's primary aim is to make a thorough critique of Ricardo's discussion of Say's Law, not to put forward a positive theory of the sources of capitalist crisis.

Thus it seems fair to say that in the strict sense there is no Marxist theory of capitalist crisis, no model, that is, that we can reliably view as arising from a fully considered position of Marx himself. Later scholars, polemicists, and revolutionaries have reconstructed a variety of theories of crisis in the strict sense, each one emphasizing one or another aspect of Marx's unsystematic discussion.

There are three broad categories into which these attempted reconstructions fall. First, some theories locate crisis in the *disproportionalities* that arise in the course of capital accumulation. These theories naturally center on the idea of the anarchy of capitalist production within the framework of the two-department analysis of reproduction in Marx's work. Second, an influential group of theories stresses *underconsumption*, or inadequate aggregate demand, as the source of capitalist crisis. The general idea is that the distributional inequities of capitalist relations of production are inconsistent with system-wide requirements for the growth of demand and the realization of the product. Finally, some theories approach the problem through the ideas associated with the law of *the tendency for the rate of profit to fall* with accumulation. In these theories the falling rate of profit has to be converted into a generalized crisis of realization.

Marx's Critique of Say's Law

All these theories of crisis reject, along the lines of Marx's own critique, the classical economic postulate known as *Say's Law*. As we have seen through the analysis of the circuit of capital, if all the commodities produced in a given period could be sold for money at given prices, the resulting money revenues would suffice to buy the commodities at those same prices. Thus there is in a tautological sense a potential money demand for commodities created by their very production. The classical economists who espoused Say's Law went one step further and argued that this potential money demand becomes actual and that the monetary mechanism somehow smoothly and regularly solves the problem of financing these potential money demands.

The simplest arguments for this position eliminate the concept of money altogether and are based on the premise that commodities exchange directly for each other. Mill says, astoundingly enough, "What constitutes the means of payment for commodities is simply commodities" (quoted in Keynes, 1936, p. 18). A more sophisticated line of argument claims that the behavior of economic agents or the operation of markets normally assures that the production of commodities will generate the money demand required to buy them. Ricardo sums up this position (quoted in Marx, 1963, p. 493) by saying, "no man produces, but with a view to consume or sell, and he never sells, but with an intention to purchase some other commodity."

Marx criticized both versions of Say's Law. First, he insists on the importance of the mediation of money in exchange. He says in *Capital* (1867, p. 113):

> The sale and purchase constitute one identical act . . . That identity further implies that the exchange, if it do take place, constitutes a period of rest, an interval, long or short, in the life of the commodity . . . No one can sell unless some one else purchases. But no one is forthwith bound to purchase, because he has just sold.

We can use the circuit of capital framework to give more specificity to this idea. In the circuit of capital the time lags in production and spending give rise to stocks of value tied up in productive capital, financial capital, and commercial capital. Suppose that the time lag in capitalist spending of money capital lengthens for some reason. Capital outlays then must fall below their previous level and, as a result, so must sales of commodities. Because production continues on the basis of earlier capital outlays, the immediate effect will be an increase in inventories of finished commodities awaiting sale and a lengthening of the time lag between the production of commodities and their sale. This sequence of events is precisely what happens in that phase of a capitalist crisis in which firms have difficulty selling what they have produced. Thus the scale of aggregate demand in the market in relation to production can vary if capitalists (or workers, for that matter) lengthen the time lag in their spending. This possibility means that there can be insufficient aggregate demand in certain periods, thus contradicting the claim of Say's Law.

Marx goes further than this, however. He argues that capitalist systems will in fact tend to experience such shifts in spending lags and in aggregate demand, whereas other modes of production will not. Thus the phenomenon of crisis is linked to the behavior of producers in a capitalist economy in *Theories of Surplus Value* (1963, pp. 502–503):

> In a situation where men produce for themselves, there are indeec no crises, but neither is there capitalist production. Nor have we ever heard that the ancients, with their slave production ever knew crises, although individual producers among the ancients, too, did go bankrupt.
>
> . . . The capitalist's immediate object in selling, is to turn his commodity, or rather his commodity capital, back into *money capital*, and thereby to *realise* his profit. Consumption—revenue—is by no means the guiding motive in this process, although it is for the person who only sells *commodities* in order to transform them into means of subsistence. But this is not capitalist production, in which revenue appears as the result and not as the determining purpose.

> Everyone *sells* first of all in order to sell, that is to say, in order to transform commodities into money.

The various Marxist theories of crisis differ in their choice of the exact aspect of capitalist production that leads to crisis.

Theories of Disproportionality

Marx's analysis of simple and expanded reproduction points up the necessity for a capitalist economy to allocate capital correctly between the two departments of production. But at the same time Marx argues that capitalist production is characterized by anarchy in precisely the area concerned here, that is, the allocation of social capital. In principle capital is allocated entirely by the decentralized decisions of capitalists. If these decentralized decisions result in too much capital being allocated in one department, the balancing conditions for smooth reproduction will be violated. The overexpanded department will find difficulty in selling its whole output, and its rate of profit will fall relative to the underexpanded market. Could the crisis be the method the system uses to resolve these contradictions?

This story is, of course, the basic theme of the classical economists, especially Smith, in praise of the market system. Imbalances of allocation are supposed to be corrected by the decentralized mechanisms of capital allocation. That is, as profit rates rise in one department relative to the other, capitalists will move their capital away from the overexpanded department and toward the underinvested one in their search for a higher rate of profit. As a result, the classical argument goes, the imbalance will tend to be corrected by precisely the anarchic forces that gave rise to it in the first place.

At this point the Marxist argument takes a different turn. The Marxist theorist of disproportionality argues that the contraction of the overexpanded department is not matched by an expansion of the underinvested department; hence aggregate demand falls during the adjustment process and a crisis of realization occurs in both departments. In this version of the theory excessive investment in one department sets in motion a sequence of events that leads to a fall in aggregate demand and thus triggers off a general crisis in the process of reallocating capital from the overexpanded to the underinvested department.

As discussed in the preceding section, a fall in aggregate demand must involve a change in the rate of turnover of money capital in one or both departments. Another aspect of proportionality in the theory of crisis is the question of distribution of capital among its various forms—money capital, productive capital, and commercial capital. Smooth reproduction of the capitalist system requires the correct allocation of capital both between the two departments and among the forms of aggregate capital. If capitalists slow down the rate of turnover of money capital by refusing to spend it on capital outlays at the normal rate, they reduce workers' incomes and their own demand for means of production and thus reduce aggregate demand. As a result, inventories of finished commodities grow as well; or, to put it another way, the rate of turnover of commercial capital also falls. In this situation both holdings of money and inventories of finished commodities are disproportionately large in relation to productive capital. Marx describes this situation in these terms (1963, p. 494): "Surplus value amassed in the form of money (gold or notes) could only be transformed into capital at a loss. It therefore lies idle as a hoard in the banks or in the form of credit money, which in essence makes no difference at all."

In this version of the disproportionality theory, the initial disturbance—the disproportion between the social capital allocated to Departments I and II—is transformed into a disturbance in the relations of the various forms of capital throughout the system. The symptoms of capitalist crisis then appear—the emergence of unsold inventories, cutbacks in production and employment, and a cumulative fall in aggregate demand.

Underconsumption Theories of Crisis

A striking feature of capitalist crisis is the inability of capitalist producers in general to sell all they can produce. In periods of crisis the aggregate demand of buyers falls short of the aggregate supply. Some Marxist theories of crisis make this the fundamental aspect. The basic idea in these approaches is that the capitalist economy cannot generate enough demand to buy back its own output, either as a general rule or specifically in periods of crisis.

The simplest form of the underconsumptionist theory claims that it is logically impossible for capitalist economies to generate enough aggregate demand. In one form (which, as we have seen in Chapter 5, is fallacious) the argument is that because workers receive only a fraction of the value they create as wages, their consumption demand always falls short of the value produced, thus leaving an excess supply on the market. The fallacy in this simple form of underconsumptionist theory lies in its failure to recognize that the surplus value is also available as incomes of capitalists and capitalist firms, which can support additional demand for output. Marx himself makes this point in his discussion of simple reproduction (1893, pp. 410–411):

> It is sheer tautology to say that crises are caused by the scarcity of effective consumption, or of effective consumers . . . But if one were to attempt to give this tautology the semblance of a profounder justification by saying that the working-class receives too small a portion of its own product and the evil would be remedied as soon as it receives a larger share of it and its wages increase in consequence, one could only remark that crises are always prepared by precisely a period in which wages rise generally and the working-class actually gets a larger share of that part of the annual product which is intended for consumption.

As noted in Chapter 5, the sum of workers' and capitalists' incomes is always exactly the same as the sum of the value produced. When sufficient financing is available, either in stocks of a money commodity or in the expansion of credit, a capitalist system can in principle generate enough aggregate demand to stay on a path of expanded reproduction without an unusual buildup of inventories. The demonstration of this possibility does not, of course, show that aggregate demand will in fact always be large enough. To show this, we would have to investigate the forces determining the decisions of workers and capitalists actually to spend the incomes generated in production. It is traditional in Marxist theory to view workers as prone to spend their entire incomes rapidly; hence the problem of inadequate demand in the Marxist framework centers on the decisions of capitalists to spend surplus value, either to buy means of production to expand production through accumulation or to consume.

Perhaps the most influential discussion along these lines is that of Rosa Luxemburg, who argues that capitalist economies are structurally incapable of generating enough aggregate demand to buy back the whole product (Chapter 5). Luxemburg's argument has two facets. First, she makes use of Marx's analysis of expanded reproduction to emphasize the fact that, in the absence of new production of the money commodity and of new borrowing by capitalist firms, the lag in spending will create a growing gap between supply and demand on a path of expanded reproduction. We examined this problem in Chapter 5 and showed that either the expansion of credit or the production of the money commodity is essential to resolving this problem. But this conclusion shifts the focus of the study of aggregate demand away from distribution proper (that is, the division of value added between workers and capitalists) to the workings of the credit system.

Second, Luxemburg argues that even when capitalists have the incomes to spend and can finance their spending, it is unreasonable to suppose that they will invest enough in expanding the total capital to maintain aggregate demand indefinitely. According to Luxemburg, the ultimate purpose of production in a capitalist economy is to provide goods for consumption by workers. Investment in productive capacity can be justified in the end only as a way of producing consumption goods. But the process of accumulation constantly raises the rate of surplus value and reduces the consumption base on which investment depends. As workers receive a smaller and smaller part of the total value added, their spending on consumption becomes less and less important relative to total production. How, asks Luxemburg, can we imagine that capitalists will continue to invest large sums of money to create productive capacity to meet a shrinking final demand? Surely sooner or later excess capacity will emerge and capitalists will refuse to spend their surplus value to accumulate further. Thus even though they have the incomes to create enough demand, they will not in fact spend them rapidly enough to generate the demand required to buy back the total product.

This argument, which shares many elements with Keynesian theories of stagnation, is not easy to dismiss; but there is something strikingly un-Marxian about the premise that the ultimate aim of capitalist production is workers' consumption. Marx's own formulations tend to the opposite conclusion—that the aim of capitalism is the accumulation of capital, a grand and obsessive project to which workers' consumption is a mere accessory.

The most recent form of the underconsumptionist theory of crisis is the theory of the *political business cycle.* This theory rests not on any supposed inability of capitalist social relations to create adequate aggregate demand but on the inability of a class-divided industrial capitalist society to tolerate high levels of aggregate demand indefinitely. As put forward by Kalecki (1943), this theory argues that the level of aggregate demand in the capitalist economy can be regulated by policy decisions of the State, in particular by policies concerning foreign trade, the State budget, and central bank provision of credit to the economy. Kalecki believes that with the proper manipulation of these policies the State could secure consistently high rates of growth of aggregate demand and, in fact, could in most industrialized countries eliminate the floating reserve army of the unemployed. But the disappearance of the reserve army of the unemployed would eliminate the fear of unemployment among workers and greatly strengthen their bargaining position for wages and working conditions vis-a-vis the capitalists. Thus, Kalecki argues, capitalists would eventually pressure the State to reduce aggregate demand and create a controlled capitalist crisis in order to replenish the reserve army of labor and to discipline workers into a conciliatory frame of mind.

The theory of the political business cycle raises important questions. At a technical level it forces us to consider very carefully why it is that the State has the power to determine aggregate demand and exactly what mechanisms permit the State to defeat the spontaneous movements of market-determined decisions. It further suggests that, were workers to achieve a firm hold on the policies of the State, they could eliminate capitalist crises without eliminating capitalism itself. I suspect that this conclusion would not be congenial to Marx.

Falling Rate of Profit Theories of Crisis

Marx's views emphasize the technically progressive character of capitalist production. As we noted in Chapters 4 and 8, this theme emerges first in his discussion of relative surplus value, where technical progress permits a fall in the value of labor-power despite possible increases in workers' real consumption, and second in his discussion of the tendency for the rate of profit to fall with capitalist development because the increase in the rate of surplus value from relative surplus value creation is offset by increases in the ratio of constant to variable capital. It is tempting to try to ground the theory of crisis in this grand theme of Marx's work, to use the falling rate of profit as an explanation of capitalist crisis. In this perspective crisis is linked decisively with the most fundamental and the historically most progressive aspects of capitalist production—its technical progressiveness and its ability to mobilize enormous productive forces.

At first glance this path seems extremely promising. We have seen that capitalist crisis involves a slowing of capitalist spending. It seems quite plausible that a fall in the average rate of profit could produce exactly such a fall in capital outlays. But a closer analysis reveals some deep questions about this argument. Notice that, on the basis of the circuit of capital analysis, continued accumulation is possible at any positive rate of profit, no matter how small it may be in absolute terms. A lower rate of profit certainly implies a lower growth rate for the system of capitals as a whole, given the rate of turnover of productive capital, money capital, and commercial capital and the proportion of surplus value that is reinvested in capitalist production. But a lower absolute rate of growth of the capitalist system does not carry with it any obvious problems for the internal consistency of that system. If the rate of profit were indeed falling consistently, why would the capitalist system not adapt to this fall through a gradual reduction in the rate of accumulation? Such a gradual reduction might not be welcome to capitalists, but it is not obvious that it must lead to the characteristic phenomena of capitalist crisis that we examined earlier. In other words, this explanation for capitalist crisis has to produce some systematic reason why a fall in the rate of profit leads at certain moments to sharp and discontinuous adjustments in economic activity.

But if we grant that such a mechanism (though Marx does not suggest one explicitly) exists in capitalist economies, perhaps involving the credit system and finance, then we also face the problem of specifying which factors produce the fall in the rate of profit and thus are the ultimate causes of the crisis. Here two schools of thought contend. Some scholars, following Ricardo's thinking about the profit rate, emphasize the idea that rising real wages reduce the rate of surplus value and in this way lower the rate of profit. For example, some twentieth-century analysts emphasize the tendency for profit margins to fall near the peak of a boom and for money wages to rise more rapidly than money prices when employment becomes very high. In this view, the boom phase of the business cycle comes to an end because accumulation exhausts the reserve army of labor and as a result competition for jobs becomes much less severe; hence wages rise. The result is a *profit squeeze*, in which the rate of surplus value falls and the profit rate declines. The crisis creates mass unemployment and thus replenishes the reserve army of labor. Competition for jobs increases and wage increases moderate as a result. After some time these processes restore the level of rates of surplus value and profitability and permit accumulation to resume. As we noted earlier, Marx argued that crises were usually preceded by periods of high and rising wages. But in another discussion in *Capital* (1867, p. 620) he argues that it is a mistake to see rising wages as the cause of crises: "To put it mathematically: the rate of accumulation is the independent, not the dependent, variable; the rate of wages, the dependent, not the independent, variable."

In contrast, other writers, while not disputing the empirical importance of the exhaustion of the reserve army of labor at the peak of some booms, emphasize the more classically Marxian idea that the accumulation process itself changes technology and tends to increase the value of constant capital more rapidly than it increases the value of variable capital. In this approach accumulation is seen as gradually altering the technological base of production by increasing the capital investment required to produce. Marx describes this process in these terms in *Capital* (1894, pp. 250–251): "A drop in the rate of profit is attended by a rise in the minimum capital required by an individual capitalist for the productive employment of labour; required both for its exploitation generally, and for making the consumed labour-time suffice as the labour-time necessary for the production of the commodities, so that it does not exceed the average social labour-time required." At some point this cumulative change becomes inconsistent with the profit plans capitalists have made in undertaking investments, and the result is a crisis. The crisis in this view is purgative because it involves the destruction of old capital, an event that raises the average productivity of labor and permits accumulation to resume, albeit at a lower average rate of profit.

Long-Run Tendencies of Capital Accumulation

Marx's discussion of crisis in the sense of short-term disturbances in the process of capital accumulation is accompanied by a discussion of the long-run tendencies of capital accumulation. This analysis has been very influential politically and is among the most controversial of Marx's economic ideas.

Marx argues that the accumulation of capital will be accompanied by dramatic increases in the scale of individual capitals. Two mechanisms are responsible for these increases. First, each capital tends to grow through the reinvestment of its own profits. Thus every successful capital tends to become larger through time. Marx calls this process the *concentration* of capital. Second, Marx argues that large, successful capitals tend to absorb smaller capitals in the course of competition. This tendency corresponds to the phenomena of bankruptcy, merger, and acquisition in contemporary capitalist economies. This process, which Marx calls the *centralization* of capital, can be greatly accelerated by periods of general economic crisis, because many small and weak capitals are put in a vulnerable position by the failure of demand and low profitability characteristic of the crisis.

The processes of concentration and centralization of capital lead to a situation in which the typical important capital is quite large in relation to its competitors and the market, a situation Marx calls *monopoly*. This situation is not monopoly in the strict sense that there is only one seller in a market but monopoly in the larger sense that the capitals have and can use market power (pricing and advertising strategies) as weapons in the competitive struggle.

Capital accumulation also has an important impact on the lives of the working class. First, Marx argues, growth of capital and of employment for some parts of the population will be accompanied by growth in the reserve armies of workers. The rapid pace of technical change constantly displaces employed workers into the ranks of the temporarily unemployed, the floating reserve army. As agriculture becomes organized on capitalist lines, agricultural workers are displaced, forming a great latent reserve army of labor for urban industry. Finally, more and more workers find their skills made obsolete or become discouraged with the struggle for employment and fall into the stagnant reserve army. Although these reserve armies may be diminished in periods of great prosperity, when the demand for labor is very high, they tend to grow along with the accumulation of capital.

Second, according to Marx capital accumulation impoverishes workers by transforming work itself, dividing tasks into smaller and more routine parts, and thus fragmenting the worker's humanity. The worker collectively controls larger and more powerful means of production, but individually becomes a powerless drudge. The worker is caught between the increasingly sterile and limited work offered by capitalist employers and the competition of the reserve armies of labor that threaten her standard of living.

Third, Marx argues that the progress of capital accumulation depends on constantly rising rates of exploitation, so that productive workers, even when their real wage and standard of living are rising, control a smaller and smaller proportion of the social product. The social gap between the worker and capitalist widens continually with capital accumulation, even when the standards of living of both are rising.

Thus the picture of highly developed capitalism we get from Marx's writings emphasizes the competition of a small number of extremely large capitalist enterprises, each wielding massive economic resources and using advertising, marketing, acquisitions, and financial manipulation in an attempt to gain competitive advantage. In Marx's view such a system of monopoly capital would greatly exacerbate the social contradictions inherent in capitalist society. A small number of very powerful economic decision makers, their decisions aimed at the acquisition of surplus value rather than directly at any social good, would structure and control the social and economic environments. Individual workers, despite the fact that their labor actually created this society, would find themselves left out of significant decisions, living a life very different from that of the elite who controlled the large capitals—in fact, in a different world.

The Ultimate Crisis of Capitalism

Marx also expected this system of monopoly capitals to prepare the way for the transformation of the capitalist economic system into a socialist one. This is a complex conception and has several facets. First of all, the development of monopoly capital rationalizes production on a social basis. Huge productive forces are brought into action by monopoly capital to supply mass demand cheaply. Thus monopoly capital creates the institutions necessary to govern social production on a centralized and social basis. Second, monopoly capitalism creates the technical basis for socialism by developing highly productive technology that enables the production of comfortable social surpluses. Finally, the monopoly stage of capitalism, according to Marx, creates the social and political basis for the emergence of socialism by fostering the development of a massive, conscious, and politically organized working class. This proletarian class Marx sees as the political foundation of a socialist society, as the class that can inherit the direction of the society from capitalists.

The final crisis of capitalism is not so much a technical problem of credit or aggregate demand as it is a human and historic turning point. The final crisis of capitalism arises when capitalism itself actually creates a mass of people who have the technical knowledge and self-confidence to deploy the massive powers of social production for social ends.