OVERPRODUCTION AND CRISES. pdf

1: Rodbertus - Overproduction and Crises

For as regards commercial crises, overproduction must take place before the needs of society are fully satisfied, since the purchasing power of the majority of society, of the working classes, diminishes in proportion to the increase of productiveness.

Just weeks before the U. Panicky runs on major banks has caused new failures and forced mergers. The economic crisis first made headlines with the credit market meltdown of August That was followed by bank runs that brought about the demise of Countrywide Financial Corp. Bear Stearns, the fifth largest investment bank, went down in March. IndyMac Bancorp, another colossal mortgage lender, failed in July. In the most recent and most acute phase of the crisis, at least so far, the U. As they scrambled to prop up the financial system, bankers and politicians debated behind closed doors who would be rescued and who would be allowed to sink. Finally, huge panicky withdrawals from banking giants Washington Mutual and Wachovia Corp. The following day, however, the laboriously crafted bill failed in the House in a to vote, with two-thirds of voting Republicans and 40 percent of the Democrats turning thumbs down. Among other factors, the mass popular outrage at the bailout scheme played a decisive role in defeating the bill. Investors responded by pulling their money out of the stock market, sending the Dow Jones Industrial average down points by the close of trading. It was the largest one-day point drop ever, easily beating the point loss on the first day of trading after the Sept. False and misleading explanations Writers and spokespeople representing tendencies ranging from liberal populists such as Ralph Nader to mainstream politicians to right-wing libertarians and beyond appear to agree that the root cause of the crisis is some combination of reckless and predatory lending, greed, runaway speculation, market manipulation and outright incompetence on the part of bankers and other major financial players. Deregulation that began under the Democratic Carter administration and continued under Reagan and other Republican administrations is often pointed to as a contributing factor, if not the major cause. Bigoted and racist scapegoating is raising its ugly head. Anti-Semitic voices hint at Jewish control of the U. Right-wing representative Dan Tancredo R-Colo. Rising racism and anti-Semitism have always accompanied financial collapse going back to the crash of A wave of anti-Arab racism was unleashed during the oil crisis of the s. General economic downturn and contraction have been used by reactionaries to promote anti-immigrant worker hysteria. In recent years, Latino workers have been the targets. The rising tide of a fightback movement of the multi-national working class, as happened in the Great Depression of the s, can set back the forces of racism and division by promoting unity in struggle against the bosses. Contrary to Democratic and Republican politicians and others, the root cause of this crisis is not the greed, recklessness, swindling and incompetence of a handful of Wall Street CEOs, bankers and speculators. Such behavior characterizes virtually every boom phase of the capitalist business cycle, each involving their own particular bubbleâ€”railroads in the 19th century, real estate and stocks in the s, high-tech stocks in the s, and housing, oil and grain in recent years. The real root cause is the capitalist system itself and the inevitable overproduction that is a characteristic and inescapable phase of the capitalist business cycle. During each such phase, more goodsâ€”be they houses, cars, clothing, or television setsâ€”are produced than can be sold at a profit, leading to an inevitable crash. Corporate moguls, capitalist politicians and media pundits go to great lengths to hide this fundamental truth with elaborate lies and fabrications. To admit that capitalism itself is to blame for these recurring crises would be an indictment of the very system that brings them enormous profits at the expense of working people. It would be a call for its destruction. Expansion of credit In the capitalist business cycle, each boom phase is extended by an expansion of credit. Credit ensures that, at least for a while, producers continue to find buyers for their commodities by enabling purchases that might not have happened without a loan. In the post-World War II period, government deficit spending, including on the military, has also extended boomsâ€”but only so far. Sooner or later, rising interest rates, an exhaustion of credit by borrowers and weakening of the currency force an end to the boom. The recent industrial boom in Asia drove world interest rates, along with the prices of oil, grain and other key commodities, sharply higher. Western consumers provided the market for a large share of that industrial output, much of it on borrowed money. The very nature of capitalism and the credit system means that whenever a serious crisis hits, the banks hold society hostage. The more the contradictions of capitalism develop, the greater the development of the credit system. And the more the credit system develops, the more the banks hold society hostage in a crisis. Tax money versus borrowed money A key immediate cause of the current crisis was indeed the exhaustion of the credit of millions of working-class families, including maxed-out credit cards and home equity lines of credit. Since the federal government is already deep in the red, it is highly unlikely that much if any of the hundreds of billions of dollars of bailout expendituresâ€”which some think will likely exceed a trillionâ€”can come out of current tax revenues. Instead, the bailout will most likely have to be financed by additional borrowing, which commits future tax revenues to pay the interest and principal on the growing mountain of U. In other words, now that millions of working-class borrowers have exhausted their credit and been driven into debt slavery and bankruptcy, the bankers and politicians propose that the remaining credit of the U. Needless to say, that credit line is not unlimited. In fact, it is showing signs of being maxed out as well. One key indication that the credit line of the U. In fact, if not for support from foreign central banks, the dollar would likely have declined much more seriously than has already been the case. Likely outcome of the bailout In their testimony to Congress, Paulson and Bernanke assured that we the taxpayers will not lose anywhere near the amount being committed to the bailout and could even end up making money. They claim that, when the financial markets stabilize and the economy recovers, the assets acquired by the federal government can be re-sold, presumably back to the same banks now desperate to unload them, and possibly at a profit. Even if many of the homes and the land they stand on that back the mortgages acquired by the federal government are foreclosed on and auctioned off, the assets acquired by the government are by no means worthless, or so the argument goes. The hope of the bankers, of course, is that the increasingly centralized and enlarged surviving financial entities will, after the economy re-stabilizes, recoup their losses and more. Leaving aside the political repercussions and criminal injustice involved in the federal governmentâ€”supposedly representing the peopleâ€”foreclosing on millions of homes and evicting the families living in them, the claims of Paulson and Bernanke are highly optimistic, to say the least. After the boom overproduction phase of the capitalist business cycle comes the overproduction crisis, and then the recession or depression. The latter phase is absolutely critical to eliminating overproduction and laying the basis for a sustainable economic upturn. While major sectors of the U. This has been the case whether Republicans or Democrats occupied the White House or controlled Congress. To the extent that this policy succeeds, it forces other governments to do the bidding of the U. Such imperialist aims will continue to be pursued whether John McCain or Barack Obama wins the upcoming presidential election. This ruinous course will only change when the organized working class establishes a government and state that represent us, taking over the economy and running it in our interests and not those of Wall Street. We must also continue and step up the struggle to force an end to the criminal occupations of Iraq and Afghanistan. The money being squandered on these wars would go a long way to meeting our needs at homeâ€”needs now greatly magnified by the economic crisis.

2: Overproduction | Define Overproduction at www.enganchecubano.com

In economics, overproduction, oversupply, excess of supply or glut refers to excess of supply over demand of products being offered to the market. This leads to lower prices and/or unsold goods along with the possibility of unemployment.

The following article was mostly written before Donald Trump became president-elect. His electoral victory if anything strengthens the thesis presented that imperialist governments, led by the U. Marxist economists often use the terms overproduction and overproduction crisis. But what exactly is overproduction? What is being overproduced, and in relation to what? Why does overproduction inevitably lead to a crisis and contraction of the capitalist economy? How do overproduction crises re-balance and stabilize the economyâ€"a prerequisite for renewed growth of production? Productive of surplus value workers receive in wages and benefits only a fraction of the value they create in the course of the work day. In effect, they work for themselves for part of the day in return for wages paid labor and for the capitalist the rest of the day free of charge unpaid labor. Demand in the economy fluctuates based on expanding and contracting credit and rising and falling interest rates, at least partly controlled by the central bankâ€"in the United States the Federal Reserve System. When workers take on debt, it expands demand for cars and housing and enables other major purchases. Millions of workers are laid off, and the economy plunges into recession. The crisis itself causes interest rates eventually to fall and forces many businesses and individuals into bankruptcy, wiping out substantial amounts of debt. The basis is thereby laid for economic recovery, a renewed expansion of credit and debt , and a new upturn in the cycle. A major flaw A major flaw in this underconsumptionist explanation of overproduction crises is the notion that it is only, or mainly, workers who contribute to aggregate demand. However, capitalists as well as their unproductive of surplus value hangers onâ€"not least the government and its dependentsâ€"also contribute, and not in a small way. When the capitalists corporations are collective capitalists realize in money the surplus value contained in the commodities produced by their workers, they allocate part of it in the form of dividends, interest, rent, bonuses and the like to their own lavish consumption, adding to demand. The larger part of realized surplus value, however, is re-invested productively through the purchase of machinery, raw and auxiliary materials such as energy , and labor power hiring more workers to further expand production. Such productive new investment also contributes to aggregate demand, effectively demolishing the simple underconsumptionist explanation outlined above. She also argued that inherent in a pure capitalist economy is a deficit of demand for all the commodities produced. Only the existence and purchasing power of pre-capitalist economies in the world, she said, could make up this deficit. This in turn explained, she argued, the mad scramble of the leading capitalist powers in preceding years to conquer, colonize and divide up the globe. The claim was that with the right mix of central bank monetary and government fiscal policies, serious economic crises would be a thing of the past. This view was generally accepted, with some variations, by the ruling capitalist class. Production outruns the market In simplest terms, overproduction is a rise of production of commodities relative to the market for those commodities. In other words, it is production of commodities in excess of what can be sold at a profit. This is an inherent feature of the capitalist economy, both in its competitive and its monopoly phase. But why is that, and is there a solution short of abolishing capitalism? Clearly, if the problem is insufficient wages of workers, then a general rise in wages should be sufficient to overcome the problem. This was the solution put forward by Keynes and now by neo-Keynesians and post-Keynesians. But exactly this solution was tried in the s and led to stagflation economic stagnation and soaring inflation , followed by the vicious crisis of No solution within capitalism In reality, there is no solution within capitalism. To understand why, we must clarify what is production and overproduction from a scientific standpoint. Production within capitalism is production of commodities, which possess both use values utility and value being a product of abstract human labor, labor in general. According to the law of labor value, perfected by Marx, commodities exchange based on the relative value socially necessary human labor on average contained within them. Money, as defined by Marx, is a special commodity that arose in the development of simple commodity production to facilitate exchange of commodities and serve as the universal equivalent and measure of valueâ€"since the abstract labor that goes into the production of commodities cannot be directly measured. Because of its unique physical qualities, gold emerged as the main money commodity. As explained in a previous article , this remains the case today, despite the fact that the U. Otherwise, economic chaos and anarchy would prevail and capitalism would be impossible. Less commonly understood is that something similar occurs on the level of the economy as a whole, involving the prices of all non-monetary commodities relative to the sum total of their values. The sum total of these prices can and do also rise and fall above and below their values. And here is the key to understanding not only the inevitability but actual necessity of capitalist crises of overproduction to regulate capitalist productionâ€"that is, keep production roughly within the bounds of the market. But what determines the market and why does it inevitably lag behind the tremendous productive capabilities of capitalism? The answer is that monetarily effective demand in a capitalist economy is over the long run determined by the rate of growth of the global supply of moneyâ€"that is, the global supply both official and private holdings of the money commodity gold. For further details on this critical point, see previous article. Ultimately, a crisis of generalized overproduction results from the overproduction of allâ€"or at least mostâ€"commodities relative to the special commodity that serves as money. Overproduction What I want to do now is focus more precisely on what overproduction is based on the law of labor value. First, how do we know when general overproduction of commodities has begun? There are several typical signs: The rise of prices in terms of gold cause the profitability of gold mining and refining to fall, since the costs of these industrial capitalists now also rise. Gold production then rises more slowly or actually begins to fall, thereby slowing the growth of the global supply of the money commodity. This ends the boom phase of the industrial cycle and an overproduction crisis ensues. Production is cut back, massive layoffs are carried out, millions lose their homes through eviction or bankruptcy, and many companies go belly up. Prices in gold terms fall back to their underlying values and then below them as the crisis deepens. The crisis itself, along with the following depression phase of the cycle, lays the basis for an eventual recovery. For more on the phases of the industrial cycle, see here. Applying theory to recent industrial production trends Consulting firm Yardeni Research, Inc. The first shows world industrial production excluding construction going back to the beginning of through August of this year. Global industrial production has continued to rise up to the present, though at a slower rate in the past two years. This revealing chart shows clearly that the advanced mostly imperialist countries have still not fully recovered from the crisis, and remain mired in the depression phase of the industrial cycle with production flat, at best, over the past several years. The emerging mostly oppressed countries, in contrast, had fully recovered by and continue to show a steady, though somewhat slowing, rise in industrial production. The colonial revolution A longer-term, more fundamental factor was the wave of national liberation struggles coming out of World War II. However, beginning with the great Chinese Revolution of , and subsequently the heroic and victorious struggle of the Vietnamese people, both having benefited from substantial material aid plus military protection from the then-existing, nuclear-armed Soviet Union, the previous industrial monopoly enjoyed by the imperialist countries was progressively undermined. The demise of the Soviet Union and East European socialist governments in came at an opportune time for U. These trends demonstrate the progressive character of the national liberation struggles, even if, as in most cases, they ended up developing their economies on a capitalist basis. The trends also demonstrate the reactionary character of all the bloody, costly efforts by U. The rise has been steady and strong with the only pause in the upward movement occurring during the global Great Recession of But even that was more a leveling off than a sharp contraction such as occurred in virtually all other countries. For comparison, according to the Federal Reserve , during the s U. The comparison is relevant because the U. That pause would likely have been an actual sharp, if brief, contraction if the Communist Party-led government had not resorted to drastic Keynesian-type deficit spending on major infrastructure projects. The CCP-led government mobilized major banks and other large state-owned enterprises to support the effort. No such policies were necessary in the U. S over the preceding years. This ensured that the Chinese currency, the yuan, or RMB, would not go into freefall as a result. Stagnation in the U. In sharp contrast to the chart of industrial production for rising China, the following chart shows industrial production over the same period for the leading imperialist powerâ€"the United States. As previously explained, this trend is at least partly explained by the austerity policies implemented by governments in virtually all these countries, necessitated by their earlier bank bailouts, though the impact has been somewhat less severe in the U. These policies have mainly impacted social programs benefiting the working class, but military spending as been affected as well, though to a lesser extent. Next overproduction crisis The hopes of the policymakers of indefinitely staving off another overproduction crisis will not be fulfilled. To understand why another crisis in the relatively near futureâ€”probably within the first term of President Trumpâ€"is inevitable, we need to determine not only where we are in the year industrial cycle but also where we are in the long price cycle of the global capitalist economy, known as the Kondratieff cycle, which reflects longer-term trends in the economy. These articles also point out the correlation that has existed historically between sustained increases in gold production, along with cheapening of the money commodity in value terms, and relative capitalist prosperity. I will not repeat these explanations here but will examine in more detail the most recent trends in the longer- and shorter-term cycles, both of which are fundamentally determined by underlying, objective laws governing the economy, and only secondarily by government policy and who occupies the White Houseâ€"even a Donald Trump. In writing the above-mentioned articles, my assumption was that the dominant faction of the U. The long cycle The first of the above-mentioned earlier articles includes a chart showing U. Below is an updated chart showing U. As this chart indicates, U. In any case, this confirms that the global economy has been weakening. Such a crisis would drive real prices in terms of gold down past the low point to a level where the profitability of gold mining and refining due to greatly reduced costs of production would exceed the general profitability of producing other non-monetary commodities. The result would be for capitalâ€"always seeking maximum profitsâ€"to flow out of non-monetary commodity production into greatly expanding the production of the money commodity gold. Sooner or later, barring a socialist revolution, runaway climate disaster or a nuclear holocaust, this would lay the basis for a new sustained period of rising real prices and relative capitalist prosperity on a global basis. Fighting deflation It is interesting to observe that the period of the Great Moderation is generally said to have extended to But real prices, as shown in the producer price chart above, peaked in and then began a sustained decline. The initial drop in real prices resulted from the recession-depression of But between and the beginning of the Great Recession, the monetary authorities and capitalist governments attempted to defeat the continuing deflationary trend in real prices by depreciating the U. The dollar price of gold soared during this period, reflecting that depreciation, which then forced the Federal Reserve to raise its policy federal funds interest rate sharply to avoid a run on the dollar and its collapse, along with the collapse of the U. Beginning after the recession-depression of had run its course, the Federal Reserve kept its policy interest rate red line below the market-based three-month Treasury Bill rate blue line , until mid, when it was forced by the soaring dollar price of gold reflecting depreciation of the dollar to push the fed funds rate slightly above and then, by mid, substantially above the rising market-based short-term interest rate. The soaring interest rates, partly caused by Federal Reserve tightening but more fundamentally by the industrial cycle entering its boom phase, soon caused the housing bubble to burst precipitating the Great Recession. The end of overlending by the banks and other creditors then precipitates the crisis, making it appear that the banks and not the capitalist system as a whole is the cause of the crisis.

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3: Overproduction and Crises

Ultimately, a crisis of generalized overproduction results from the overproduction of allâ€”or at least mostâ€”commodities relative to the special commodity that serves as money. Overproduction What I want to do now is focus more precisely on what overproduction is based on the law of labor value.

Bankers, bosses, politicians and economists talk about it but none of them know what to do. Karl Marx has now been dead for years; yet his ideas, and in particular his analysis of the capitalist crisis, are alive, while those of our contemporary defenders of bourgeois rule have only a zombie-like existence. Nevertheless, the flood of anxious reports on the state of the world economy has not ceased. A month later March 21 it added that capital spending in will fall by 8. A CIA official, releasing a follow-up study, underlined the point: As well, he justifies his enormous military build-up by arguing that forcing the USSR to match the U. It reflects the growing sentiment within the U. All the bourgeois spokesmen, whether pessimists or optimists, agree on one thing: But working-class people must be immediately suspicious of such rosy claims. The crisis has brought depression conditions, not just a mere downturn, to whole regions of the U. Even though Reagan has found a few positive statistics to crow over lately, the fact remains that massive unemployment, prohibitive consumer interest rates and deteriorating public services are still with us and are showing no signs of improvement. Moreover, very few people believe in the economic wisdom of any of the official or unofficial ideologists of capitalism any more. The recent CIA reports had to acknowledge this decline while seeking to bury its significance. The decline was reconfirmed by Soviet figures in early With open variants of bourgeois ideology floundering, it is no accident that pseudo-Marxist theories are becoming popular again. As world capitalism careens toward collapse, obviously tinkering with the external manifestations of its crisis will not suffice. With the class struggle threatening to heat up, a theory that can influence masses becomes necessary. As in the past, the system will attempt to save itself by resting on the appeal of pseudo-Marxist ideology and pseudo-Marxist political forces to masses of workers. Thus the seemingly arcane task of disassociating authentic revolutionary Marxism from its corruptions is critical. In sharp contrast to Marx, they all stand for the reform of capitalism, not its overthrow. The only analysis that can come to grips with the world crisis is Marxism. Western and Eastern social patriots alike have a vested interest in denying any inevitable revolutionary showdown in theory and in fact. They also share a common interest in treating East and West as separate, distinct systems in order to suppress their increasingly visible similarities and their symbiotic roles in the preservation of world capitalism at the expense of the working classes. We have to review the classical cycle in order to see how the development of capitalism has compelled it to change. This comes about because capitalism, on both the domestic and international scale, is a system of separate and independent ownerships. When times are good, all resources are strained to bring new fixed capital into production; but once this capital starts producing, a flood of commodities is brought onto the market, and the crisis ensues. Unemployment, which falls during the boom, rises again; the high rate of profit that stimulated the boom declines, first when the low level of unemployment strengthens the bargaining power of workers, and further when the crisis forces production to slacken off. The crisis eventually takes its toll: But the effects of the slump enable profitability to revive: So the slump is followed by a new recovery period and in turn by a new boom. Typically, in the course of the boom period, the competition among capitalists stimulates new productive techniques that advance the level of productivity. This leads to the program of persuading wise managers and concerned capitalists to advance their own self-interest by paying the workers more; the workers will then be able to consume and purchase more, and thereby crises will be forestalled or dampened. There are insoluble problems with such a theory. First of all, as Marx pointed out, crises arise in the wake of cyclically high wages for labor, not low. As well, much of what is produced and overproduced under capitalism is means of production, not simply commodities meant for working-class consumption: If underconsumption were the cause of crises, then crisis would not be cyclical but permanent. Overproduction demonstrates the necessary contradictions of a system that has the potential to produce real abundance, yet under which that very potential causes a breakdown every time it builds up. The class struggle compelled the capitalists to advance productivity, accumulate more and more means of production and therefore to produce useful commodities more cheaply. For the first time in history, scarcity â€" with all its endemic misery, starvation, wars and pestilence â€" was no longer an inescapable part of human life. The Epoch of Capitalist Decay The history of the capitalist cycles changed around the turn of the century. It was Vladimir Lenin, leader of the Russian Bolshevik party, who observed during the First World War that the imperialist policies being carried out by all the major capitalist countries were signs of a new stage of capitalism: For Lenin, the modern capitalist epoch is one of reaction, counterrevolution and world wars. At the same time it also makes possible the proletarian revolution and the transition to socialism. The contradictions of capitalism have matured to their fullest. The imperialist stage, the new epoch, is chiefly characterized by the straitjacketing of free competition by monopoly: It is the qualitative extension of the tendencies of concentration and centralization. The hegemonic power of giant capitalists within each country is mirrored by the international hegemony of a handful of states. The result, both domestically and internationally, is that the surplus-value produced by workers everywhere is siphoned away from the weaker capitalists and disproportionately into the pockets of the dominant big capitalists in the imperialist countries. The result is that further economic growth in the non-monopoly industries and in the non-imperialist countries is severely hampered â€" as we can see in the present day, when none of the ex-colonial countries has been able to rise to the level of the economically advanced, despite the long boom of the post-World War II years. Lenin actually expected that the uneven growth characteristic of the epoch of capitalist decay would work out differently: While both of these trends have occurred, the predominant tendency has been the opposite: In this, he was following the logic of Marx himself, who foresaw the decay and breakdown of capitalism decades before it came about. As soon as capital begins to sense itself and become conscious of itself as a barrier to development, it seeks refuge in forms which, by restricting free competition, seem to make the rule of capital more perfect, but are the same time the heralds of its dissolution and of the dissolution of the mode of production resting on it. Society-wide economic organization is a condition of socialism and working-class rule; by keeping industry out of the hands of the proletariat capitalism sought to prolong its own existence and use the new forms against the workers. And imperialism had a similar response: The Marxist-Leninist assessment of the epoch of imperialist decay was confirmed by World War I and its aftermath: The system defended itself by relying on the Social Democracy, the reformist parties who held their grip on sectors of the working class by means of benefits paid for out of the superprofits imperialism extracted from the colonial countries. Reformism rested on key layers of workers who felt that they had an interest in defending capitalism. In line with the new epoch, the Depression; among other things, totally altered the behavior of the business cycle. There were ups and downs within the overall depression of the decade, but the normal processes of capitalist recovery never took hold: The Falling Rate of Profit The chronic disease that produced such severe symptoms as world war and the Great Depression had already been analyzed by Marx. He called it the tendency of the rate of profit to fall. Bourgeois economists had previously observed this law, but Marx discovered the reasons for it. Since surplus-value is extracted only out of the labor of current workers, machinery in production only transfers to new commodities value that has been previously produced , the rate of profit as a proportion of capital invested necessarily declines. History, on the other hand, has verified it. Significant evidence is provided by statistics on capital accumulation: Consider the figures in the table taken from the book Capital in the American Economy, by Simon Kuznets, pages He observes that the percentage rate of growth in capital stock for the U. When Kuznets in separate calculations excludes military industries, the decline is even sharper. The long-term fall in the rate of profit arising from the concentration of capital is not the same thing as the short-term profit fluctuations dependent on the business cycle: But the cyclical crises and the law of the falling rate of profit are closely linked. The long-term fall is carried out, ratchet-like, by the periodic crises: At the same time, the value of obsolescent invested capital is also forced down. At the depths of the crisis, surviving capitalists can buy up cheap equipment from those who go under, and thus the rate of profit on new investment turns up again. But the strongest capitalists, because of their near-monopoly power and their influence over the state, manage to survive even when their productivity is backward. It made monopoly at home and imperialism abroad inexorable. The American victory in the war made good the U. The post-war boom began in the U. As we explained in Socialist Voice No. As well, the hegemonic economic and military power of the U. Together these factors brought together sufficient amounts of surplus-value extracted from workers to re-establish the profitability of capitalist economy. There were subsidies to industry through the arms budget and other state spending and policies like unemployment insurance to prevent working class incomes from sinking as low as before the war. But all that these Keynesian measures accomplished was to sustain the prosperity bubble once it got started; they could not create it. Only the capitalist victory in the class struggle over the workers, together with the restructuring of capital through the war, managed to do that. The boom built up a massive balloon of fictitious capital, the various capitalist claims to a share in surplus value based on waste production, overvaluation and speculation rather than productive investment. In the classical business cycles, such balloons were periodically burst by cyclical crises; in contrast, the post-war balloon has been continually inflated. The danger of a cataclysmic collapse should a severe crisis occur only encourages capitalist governments to try desperately to keep postponing the crisis â€” and thereby making its consequences even greater. Ideology of the Boom The post-war boom produced a powerful impression among people. In the imperialist countries it appeared that capitalism had solved its economic problems once and for all; so the bourgeoisie argued through its news media, schools, churches and every ideological pulpit. Indeed, the depression did seem to have been forgotten. Even today, when the slide into the next great depression is already underway, the ideologists insist that proper governmental policies will reverse it. But today the prescriptions are far from unanimous. At present, no successful capitalist solutions are available, but all the pro-capitalist theorists guarantee that they exist. The situation is little better among professed Marxists. Indeed, such a period of uninterrupted prosperity during the epoch of capitalist decay had never been foreseen by either Marx or Lenin. Europe will be thrown violently into reverse gear. Millions of European workers will die from unemployment and malnutrition. The United States will be compelled to reorient itself on the world market, reconvert its industry, and suffer curtailment for a considerable period. Afterwards, after a new world division of labor is thus established in agony for 15 or 20 or 25 years, a new epoch of capitalist upswing might perhaps ensue.

4: Capitalist overproduction and the banking crisis | Liberation School

The crisis of overproduction is however a new phenomenon, which has arisen only under the capitalist mode of production. "Therefore, while under-consumption has been a constant feature for thousands of years", continues Engels, it nevertheless "tells us just as little why crises exist today as why they did not exist before.".

Overproduction theories are one of the ramifications of the opposition to this view; they evolved through direct confrontation with the proposition they were denying, in its various interpretations. These criticisms share the general standpoint that crises or cycles are to be explained in terms of some systematic divergence between production and consumption. Where dissenting views diverge is on the specific causes of disequilibrium. Overproduction theories of crises and business cycles emphasized troubles arising from the side of production, whereas the underconsumptionists instead attributed the disharmony to lack of effective demand, often stressing distributional factors determining lack of purchasing power or excessive saving. The first representative of the latter view was J. Simonde de Sismondi; other prominent writers in this tradition include J. The distinction, however, is somewhat artificial, for there is a certain complementarity and overlapping between the causes identified by overproductionist and underconsumptionist writers. A first step taken by John Stuart Mill , Karl Marx , and Wilhelm Roscher consisted in rejecting the assumption that exchange was essentially equivalent to barter, by pointing out that money separates the acts of buying and selling and thereby makes crises possible. But this is only an abstract possibility. At the time, most authors believed that the factors turning this possibility into an actuality were linked to credit and speculation. Later, processes like hoarding, liquidation, and repayment of loans were added. His reproduction schemes showed that while harmonious growth is a logical possibility, it is not a necessity. One of the points on which Marx insisted was that advances in technology and organization imply an increase in productivity, and therefore diminish the value of wage-goods. If, in the short term, workers obtain increases in their real wages, the profit rate decreases below what capitalists considered customary, and production has to be stopped. While it was admitted that there cannot be overproduction with respect to human needs, it was pointed out by David A. Along this line we also find writers Hans Neisser, L. Birck who stressed the implications of technological progress, pointing out that when the vertical structure of production is altered, the preservation of the correct proportions becomes increasingly difficult and is likely to be disrupted by several minor causes. Another group of writers insisted instead on the fixity of fixed capital: Having acquired expensive machinery requiring maintenance costs even if not used, entrepreneurs find it rational to keep producing even at a loss Crocker, Wells. In this view, overproduction is not so much an excess of goods as of productive capacity William Smart, Scoville Hamlin. Several other authors considered systematic impediments to the establishment of a stable equilibrium between supply and demand. Time lags, in particular, were invoked in this connection by Albert Aftalion and Mentor Bouniatian. They argued that a divergence between supply and demand would generate price differences inducing an adjustment, but that as production lags behind demand due to the time required to build plants, prices send the wrong signals and induce overproduction crises. When such a view was incorporated into formal dynamics in the s in particular by Michael Kalecki , the business cycle came to be seen as resulting from the dynamic properties of the system and the need to stress overproduction gradually faded. The other contemporary business-cycle theoriesâ€”the equilibrium and the real business cycle approachesâ€”focus on equilibrium and thus dispense with an essentially disequilibriumist concept altogether. Economic Journal 37 March: Quarterly Journal of Economics 1 3: Quarterly Journal of Economics 6 3: New York and London: The Menace of Overproduction: Its Cause, Extent, and Cure. A Macrodynamic Theory of the Business Cycle. Letter to Ricardo, 7 July Piero Sraffa and Maurice Dobb, vol. Theories of Surplus Value. Bonner and Emile Burns. A Critique of Political Economy. Samuel Moore and Edward Aveling. Progress Publishers, ; reprint, London: In Collected Works, ed. University of Toronto Press; London: Journal of Political Economy 42 4: Principles of Political Economy. Henry Holt , London and New York: Can There Be General Overproduction? Journal of Political Economy 32 6: In Encyclopedia of the Social Sciences, vol. Translated in in an abridged version as Periodic Industrial Crises. Quarterly Journal of Economics 6 4: Daniele

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5: Production, overproduction and overproduction crises | Liberation School

The making of a relative excess of some things is, indeed, a real phenomenon of what are called hard times. If we can detect the actual cause of this misuse of productive energy, we shall go far toward attaining a true philosophy of crises.

What is a crisis of overproduction? Prepared by Patrick Bond Capital accumulation refers to the generation of wealth in the form of "capital. Such an emphasis by individual capitalists on continually expanding the "exchange-value" of output, with secondary concern for the social and physical limits of expansion size of the market, environmental, political and labour problems, etc. These are built into the very laws of motion of the system. Perhaps the most serious of capitalist self- contradictions, most thoroughly embedded within the capital accumulation process, is the general tendency towards an increased capital-labour ratio in production--more machines in relation to workers--which is fuelled by the combination of technological change and intercapitalist competition, and made possible by the concentration and centralisation of capital. Individual capitalists cannot afford to fall behind the industry norm, technologically, without risking their price or quality competitiveness such that their products are not sold. This situation creates a continual drive in capitalist firms towards the introduction of state-of-the-art production processes, especially labour-saving machinery. With intensified automation, the rate of profit tends to fall, and the reasons for this are worth reviewing. Profit correlates to "surplus value" which is only actually generated through the exploitation of labour in production. Why is labour only paid a certain proportion of the value produced, with a surplus going to capital? Since capitalists cannot "cheat in exchange"--buy other inputs, especially machines that make other machines, from each other at a cost less than their value--the increases in value that are the prerequisite for production and exchange of commodities must emanate from workers. This simply means, in class terms, that capitalists do not and cannot systematically exploit other capitalists but they can systematically exploit workers. Here arises the central contradiction: And as the labour content diminishes, so too do the opportunities for exploitation, for surplus value extraction and for profits. Workers as a whole are increasingly unable to buy the results of their increased production. In turn this results in a still greater need for individual capitalists to cut costs. This leads to growth in productive capacity far beyond an expansion in what consumer markets can bear. It is true that there are countervailing tendencies to this process, such as an increase in the turnover time of capital, automation, and work speed- up, as well as expansion of the credit system. But these rarely overwhelm the underlying dynamic for long, and there are limits to the height of the consumer debt pyramid. The inexorable consequence, a continuously worsening problem under capitalism, is termed the overaccumulation of capital. Overaccumulation refers, simply, to a situation in which excessive investment has occurred and hence goods cannot be brought to market profitably, leaving capital to pile up in sectoral bottlenecks or speculative outlets without being put back into new productive investment. Other symptoms include unused plant and equipment; huge gluts of unsold commodities; an unusually large number of unemployed workers; and the inordinate rise of financial markets. When an economy reaches a decisive stage of overaccumulation, then it becomes difficult to bring together all these resources in a profitable way to meet social needs. How does the system respond? There are many ways to move an overaccumulation crisis around through time and space. But the only real "solution" to overaccumulation--the only response to the crisis capable of reestablishing the conditions for a new round of accumulation--is widespread devaluation. Devaluation entails the scrapping of the economic deadwood, which takes forms as diverse as depressions, banking crashes, inflation, plant shutdowns, and, as Schumpeter called it, the sometimes "creative destruction" of physical and human capital though sometimes the uncreative solution of war. The process of devaluation happens continuously, as outmoded machines and superfluous workers are made redundant, as waste including state expenditure on armaments becomes an acceptable form of mopping up overaccumulation, and as inflation eats away at buying power. This continual, incremental devaluation does not, however, mean capitalism has learned to equilibrate, thus avoiding more serious, system-threatening crises. Devaluation of a fully cathartic nature of which the last Great Depression and World War are spectacular examples is periodically required to destroy sufficient economic deadwood to permit a new process of accumulation to begin. When overaccumulation becomes widespread, extreme forms of devaluation are invariably resisted or deflected by whatever local, regional, national or international alliances exist or are formed in specific areas under pressure. Hence overaccumulation has very important geographical and geopolitical implications in the uneven development of capitalism, as attempts are made to transfer the costs and burden of devaluation to different regions and nations or to push overaccumulated capital into the buildings especially commercial real estate , infrastructure and other features of the "built environment" as a last-ditch speculative venture. Moreover, the implications of overaccumulation for balance in different sectors of the economy--between branches of production mining, agriculture, manufacturing, finance, etc. Indeed, because the rhythm of overaccumulation varies across the economy, severe imbalances between the different sectors and "departments" of production sometimes termed "disproportionalities" or "disarticulations" emerge and introduce threatening bottlenecks in the production and realisation of value, which further exacerbate the crisis. These processes enhance the control and speculative functions of finance. The argument, simply, is that as overaccumulation begins to set in, as structural bottlenecks emerge, and as profit rates fall in the productive sectors of an economy, capitalists begin to shift their investable funds out of reinvestment in plant, equipment and labour power, and instead seek refuge in financial assets. To fulfil their new role as not only store of value but as investment outlet for overaccumulated capital, those financial assets must be increasingly capable of generating their own self-expansion, and also be protected at least temporarily against devaluation in the form of both financial crashes and inflation. Such emerging needs mean that financiers, who are after all competing against other profit-seeking capitalists for resources, induce a shift in the function of finance away from merely accommodating the circulation of capital through production, and increasingly towards both speculative and control functions. The speculative function attracts further flows of productive capital, and the control function expands to ensure the protection and the reproduction of financial markets. Where inflation may be a threat, the control functions of finance often result in high real interest rates and a reduction in the value of labour- power and hence lower effective demand. Where bankruptcies threaten to spread as a result of overenthusiastic speculation, the control functions attempt to shift those costs elsewhere. In sum, what we have sketched out above is a story of how crises are generated through the logical internal functioning of modern market economies, whether in national or global settings. Any clues as to why? Only the conquest and retention of political power by the working class can potentially accomplish that result. The Great Depression was a crisis of overproduction, to which many capitalist rulers responded with fascism, and many workers responded by joining and supporting communist parties. This led to the second world war, revolution in China, and revolutionary struggles in many other countries. The fact that capitalism survived all this does not call into question the concept of crises of overproduction. But it certainly does demonstrate that no economic crisis, regardless of how severe, destroys capitalism. Political action determines the outcome of any crisis, no matter how severe the crisis might be. Uchitelle has written several other pieces about glut or excess capacity during the past few years. His point in this most recent piece was that the "jobless recovery" is occurring not only because of the export of jobs to China, but because the crisis of overproduction within the U. David Fasenfest clarified some of the differences between "overproduction" and "underconsumption. David wrote, "Overproduction refers to the building of excess capacity as a result, perhaps, of productivity gains leading to unsold products. To expand market share, capitalists must invest in expansion of their productive capacity. The world auto industry is a classic example. The biggest automakers have built plants in all the large world markets--in North America, Europe, Asia, etc. Each capitalist has a simple solution to excess capacity. If their rivals would just disappear, the problem would cease to exist. Thus, there is the potential for competition to become ugly and, at the extreme, to lead to "trade wars" and eventually to "shooting wars. Although many factors and contingencies shape the particularities of this process in the relatively short run, I think the argument is probably correct in the relatively longer run. Crises of overproduction, with their glut of productive capacity, are the underlying cause of frenzies of financial speculation, because capitalists must try to conjure profits out of various forms of trickery and thievery. The bursting of bubbles in Asia and in the U. It is a very solid, lucid analysis of the many relationships between the actions of U. The difference between this analysis of "overproduction" and non-Marxist analyses of "underconsumption" is, I think, a difference between a revolutionary and a reformist analysis. The result is a pressure to expand markets to sell the products elsewhere, and can lead to excess inventory. It often takes the form of calling upon capitalists to be less greedy, so that workers can have a greater share of what they produce and perhaps thereby be less alienated from capitalism. The Manic Logic of Global Capitalism, exemplifies this approach. He beseeches the capitalists of the world to stop the race to the bottom, lest their greed rekindle class struggle, nationalism, fascism, and a new revolutionary communist movement. That requires not only anticipating and dealing with the decline of U.

6: Karl Marx and the World Crisis

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If it were possible to increase productivity in husbandry in like proportion with the increase in population, why does not this increase take place on the Rhine, where the price more than half again as high certainly strongly incites and urges the agriculturist to it? Rent is constantly rising in kind and in money, while wages and interest, reckoned by raw materials, are constantly falling. While genius and application augment productivity in all branches of industry, while all classes should enjoy a flow of prosperity, it is the landowner who interposes an ever-growing dam to this stream of happiness. It is natural that it is not the labourer only, but the capitalist also, who suffers by this. The great capitalist, however, with his large income, does not feel this; the small artisan and the labourer, on the other hand, live a life in which the main part of their income is spent on food. The small artisan spends three fourths of his yearly income for potatoes, bread, butter, oil, and fuel, and only a quarter for clothing, dwelling, and little, simple, social pleasures. This disproportion is still greater in the case of the labourer. He expends seven-eighths of his wages upon food and fuel. What does it avail this class, which comprises seven-eighths of the nation, that the price of calico, cloths, sugar and coffee, knives and scissors is lowered, while that of potatoes, grain, wood, oil, leather is constantly rising? The little that is gained in the purchase of clothing is far from counterbalancing the increased rate of food products; their only recourse is to dress worse than before, live in worse dwellings, and eat less and worse food. Hence the misery of these poor mechanics and of the labourers. Notwithstanding that the nation has been freed from its shackles of slavery and hereditary subjection, the labouring classes of the population are materially still for the most part in the old depressed condition. They have been given the right to freedom, but the means wherewith to enjoy this freedom the landlord reserves now, as he did before, to himself, and this supremacy of the landlord is the more dreadful, as it is based upon the apparently unalterable laws of nature and of trade. Ireland offers an awful instance of this increase of rent, one that must with mathematical certainty be developed in every country having a rapidly growing population, unless, as in England, it is tempered by a great expansion of manufacturing industries. It is rent alone which is the source of the dreadful destitution of Ireland, not the splitting up of the land. Its prosperity, its strength, lies simply and alone in the fact that rents do not as yet exist in the greater part of the Union, and are, in the remaining portions, very low. The rate of interest and the rate of wages are both, as is well known, very high in America; the usual rate of interest is from eight to twelve per cent. But what would this high rate of interest and of wages avail if rents stood in the proportion in which they do in Western Germany? It is well known that wages and the rate of profit are the factors which determine the price of all goods, including the products of the soil; these last because those produced upon the poorest soil set the price, and yet yield no rent. Now, when interest and wages are high, the price of all products is high also; the labourer gains nothing in consequence; his wages are three times as high, but so also are bread, cloth, the rent of his dwelling, light, and wood three times as dear, and thus he can procure no more indulgences for himself than before. This result would be literally verified in America were the rents the same as in Germany. But the superabundance of fertile soil relatively to the present population, together with their excellent and cheap means of transportation, enable them to raise sixteen bushels on an acre, whereas, with the same amount of capital and labour applied to the last grade of land, we should, here in Germany, produce perhaps two bushels. Though the rate of interest and of wages be, therefore, three times as great as in Germany, their returns from the soil are eight times as great, and consequently the price of corn three-eighths of the price in Germany. This holds good, of course, of all products of the earth, as well as of corn; that is why meat, leather, and all raw materials are also only half as dear as in Germany. Now, since in such products as cloth and shoes a great part of the value consists in the raw material, it follows that these products, too, in spite of the high wages and interest, can be manufactured lower than in Germany. Those goods alone form an exception where the work required to transform the raw material is very great articles of luxury, and those demanding skill, which, therefore, are lower in Germany than in America. His wages are three times as great and the prices of all his necessaries only half as high as in Germany. He can eat more meat every day, drink more beer, and, if he chooses, need not work as much as does a very well-to-do mechanic and citizen with us. There, wretchedness and men lowered to the state of brutes; here, prosperity, activity, stirring, happy life everywhere. Towards the conditions prevailing in Ireland, or towards those in America? To one who understands the state of society the answer cannot long remain doubtful. The tendency is a downward one, towards the misery of Ireland. It is beyond doubt that in Germany, too, and particularly in Prussia, rents are regularly rising; all the miseries, therefore, attendant upon an excessive increase in rent the future, though it may be only a distant one, holds in store for our country also, should the present conditions continue. I shall give a faithful abstract of this theory also. You put as the brunt of your argument: The evils of that so much abused competition even disappear with the certainty of a market; its good features alone would remain; the emulation to provide good and cheap wares; but the life-and-death struggle which is caused solely by the want of a market will disappear. Products are bought only with products - production, therefore, constitutes its own market - and where on one side there appears to be an overproduction, there is, on the other, but too little. You show how these propositions, universal as their truth may be, "do not exhaust the actual facts," and add: To one who understands that the two factors which alone regulate the price of goods are wages and rate of profit, this proposition may appear strange; if wages are low, so also is the price of goods low; if, again, the former are high, the latter, too, will be high. Wages and prices, then, are in a direct proportion and compensate each other. This view is correct, however, only in part, and does not touch upon the proportion, which here is the only thing to be considered, the proportion in which production is divided between capital and labour. This assertion is so important that it demands an exact proof. Let us assume, to simplify the proof, that the inhabitants of a certain place supply all their own wants by their own production; that this production consists of three kinds only: In each one of these departments of production there is an entrepreneur who furnishes the capital and the raw material, and workmen who do the mechanical part of the work. The result in each one of these departments is that the workman receives as his wages one-half of the yearly products, and that the entrepreneur gets the other Half as interest on his capital and profit on his undertaking. This locality, then, possesses all the conditions requisite to secure a general well-being for all its inhabitants. All, accordingly, start out fresh and full of courage to their work. But after a few days the matter appears in quite a different aspect; those workmen have only the very scantiest clothing, food, and dwelling-places, and those three entrepreneurs have their warehouses filled with clothes and raw materials, and houses standing vacant; they complain of the lack of a market, and the workmen, on the contrary, of their inability to satisfy their wants, just as is the case in actual life to-day. How does this happen in a place where the forces and means of production are so justly employed and apportioned that, taking all the inhabitants and their wants into consideration, nothing could be better? We see that in this place the trouble does not lie, as Say and Rau hold, in the fact that too much is produced in one branch of industry and too little in another, or that there is a deficiency in the aggregate means of production. The means are just so great, their apportionment to the different industries just so arranged, that all of the inhabitants could procure for themselves good and ample clothing and nourishment, and good and ample dwellings. That, in spite of all, this does not take place, that there is an obstruction, is due simply and solely to the way the products are divided; the distribution is not an equal one among all, for the entrepreneurs retain as interest and profit half for themselves and give only half , to the workmen. It is clear that the man engaged in working on clothes, therefore, can get in exchange for half of his productions only half of the products required for nourishment, dwelling, and so on, and it is clear that the entrepreneurs cannot get rid of the other half, because none of the workmen have any products left to exchange with him. The entrepreneurs are lost with their abundance, the workmen with their hunger and their nakedness. If he divided equally, without such deduction, every man engaged in making clothes would be able to obtain his own clothing with one-third of his product, exchange his second third for food, fuel, and light, and, using his remaining third as rent, procure for himself a healthy and comfortable dwelling. The workmen in the other two branches of production would be in the same position, and all the inhabitants of the village comfortable and happy; they would be plentifully nourished and clothed, and have good dwellings, without having to work one moment longer than where the entrepreneur retains half as his profit. Now, it may be said that this surplus would at once disappear if half of the workmen, instead of making such ordinary goods, would manufacture articles of luxury, which require more capital and labour; those workmen would, in consequence, produce no more goods than the entrepreneurs can consume. It is in the nature of luxuries that they enable the consumer to utilize more of the producing power of capital and labour than is possible in the case of ordinary goods. The entrepreneur, consequently, decides to employ these 1 50 and the same amount of capital with which these men had worked before upon the manufacture of articles of luxury. He employs them, for instance, in making fine embroidery, elegant laces, costly shawls, and handsome carriages. Conducting his enterprise in this manner the entrepreneur thus obtains, instead of a surplus of ordinary clothes, just the quantity of rich clothing, cloths, carriages, and so on, that the three entrepreneurs of the place can conveniently make use of themselves. The wages which he is to pay these workmen, engaged in manufacturing luxuries, he gets from the clothing which the other workmen are obliged now, as before, to deliver up to him. You revert to that fundamental example in which you showed that the luxury of the three entrepreneurs obviated over - production, and continue: In this case the entrepreneurs say: We do not wish to consume our income down to the last penny in luxury and show; we shall use it again in productive investments. What does that mean? It means nothing but the founding of new productive enterprises of all kinds, by means of which commodities will again be obtained; the sale of these commodities is to furnish the interest on the unconsumed capital of the three entrepreneurs which they have saved and invested. The three entrepreneurs determine, accordingly, to consume the production of workmen only; that is, to materially retrench their luxuries, and to employ the labour-power of the remaining men, and the capital they had used, in the founding of new productive enterprises. But now the question arises, In what departments of industry should this capital be invested? The three entrepreneurs have the choice only of starting either manufactories of ordinary goods, or manufactories of luxuries. They choose at first the former. The first year is devoted to setting up the new factories; constructing workshops for tailors, shoemakers, and so forth; preparing the new ground for grain and raw products; establishing new quarries for building houses; constructing new machines for the manufacture of household implements and utensils. The second year, the arrangements being completed, the men are employed in producing the new commodities. But the three entrepreneurs soon notice with dismay that they are confronted with the same difficulty as in the first instance; for there is no one who could purchase their stock of them. The workmen, in consequence of their scant pay, are only able to buy the products of the workmen who have continued in their old industries; that which the additional men have now produced, much as they would like to consume it, much as they may feel the need for it, is beyond their reach; they have no means to buy it. Neither would the three entrepreneurs buy it of each other, for they cannot consume these ordinary goods themselves. No places are fitted up for the manufacture of ordinary goods, only those for the manufacture of luxuries. All the arrangements and appliances are completed by the first year; the second, they proceed to the work. At the end of this year the entrepreneurs are astonished to see that they have by this means only reverted to the second case; for there is no one to purchase these luxuries from them, unless they should buy them of each other; and this they do not wish to do because they desire to save and not to consume, and the workmen suffice to secure them moderate comfort. Thus we see that in the simple conditions of this place it is by no means possible for this so-called productive consumption, of which political economists make so much, to ameliorate the condition of society, to promote its progress. The population is always confronted with this dilemma: The three entrepreneurs must either expend their income to the last penny in comforts and luxuries of every description, in which case all the workmen will at least be able to make a living, even though a miserable one, or if they curtail their luxuries and determine to save, they find no market, the goods accumulate, and part of the workmen will have no work and therefore no means of subsistence. The enormous accumulation of capital in recent times is, according to you, the cause of these evils. The real world you hold finds itself in the same dilemma as the village in our oft-quoted example. Such income is only possible if this capital is employed in such new enterprises as are capable of yielding the required interest. Only in thus applying it will the capital that has been saved bear interest, which is the end and aim of all saving. If they are ordinary goods the well-to-do the last one-eighth do not wish them, and the poor the first seven-eighths cannot buy them, for they do not earn any more than before; the former amount of products amply sufficed to furnish what they could afford to purchase. If, on the contrary, they are luxuries, the poor, naturally, are still less able to buy them; the rich, of course, could do so, but on account of the predominant tendency to save before mentioned, they will not. It is then quite inevitable that this predominant tendency of modern times, to save, must produce gluts in the markets, and as a consequence augment want in the labouring class. In the first place it overlooks the fact that this amassing of goods certainly does not at once follow the new accumulation of capital. The fitting up of places for business, the transformation of money-capital into really productive capital, the consequently increasing demands at first manifested for the various products and also for work, blind the eyes of political economy. The number and the circumstances of the consumers have remained totally unchanged; the former arrangements for producing commodities were adequate to supply their wants, and no one is able to buy the new increase. In order that those enterprises should secure the working-men permanent employment, a market must in addition be found for the increased quantity of goods; but with the system of wages hitherto prevailing "the labourers have no means with which to purchase. Part is applied to new inventions. New applications of capital of this kind indisputably prove most beneficial to society as a whole, for they yield cheaper and better wares, the labourer can better satisfy his wants "with unchanged money-wages"; but in exchange value he cannot consume any more than before; and his gain in the enhanced quality and usefulness of his commodities does not lessen the glut in the markets, because the increased productiveness has augmented the quantity in a like proportion. But even this species of application of capital depresses wages because it takes away work from the labourer; and even should this be the case only in the beginning of the undertaking, Proudhon is right when he says that, as inventions never cease, this beginning never ends. It is clear that this second sort of capital - accumulation must necessarily increase the piling up of stock, the glut in the market. For it does not, as has been shown, have the effect of raising wages; more goods, merely of the old familiar kinds are produced at the old rates, and no one can or no one wishes to buy them, for reasons so often stated. For when the calm observer looks upon those nations so rich in capital, he sees with astonishment on turning his attention to the individual, who hitherto has appeared to him only as a part of a great whole, that in spite of these enormous accumulations of capital, in spite of the countless inventions for the guidance and mastery of the forces of nature and of man, but a small part of the resulting advantages are enjoyed by all branches of society; that the greater part of these advantages accrue to the benefit of a chosen class only, and that, owing to the hitherto prevailing system of wages and profit, and to the tendency to save, these fortunate classes themselves occupy a paradoxical position which allows them no rest.

7: Overproduction - Wikipedia

After the boom (overproduction) phase of the capitalist business cycle comes the overproduction crisis, and then the recession or depression. The latter phase is absolutely critical to eliminating overproduction and laying the basis for a sustainable economic upturn.

Explanation[edit] Overproduction is the accumulation of unsalable inventories in the hands of businesses. Overproduction is a relative measure, referring to the excess of production over consumption. The tendency for an overproduction of commodities to lead to economic collapse is specific to the capitalist economy. In previous economic formations, an abundance of production created general prosperity. However, in the capitalist economy, commodities are produced for profit. This so-called profit motive , the core of the capitalist economy, creates a dynamic whereby an abundance of commodities has negative consequences. In essence, an abundance of commodities disrupts the conditions for the creation of profit. The overproduction of commodities forces businesses to reduce production in order to clear inventories. Any reduction in production implies a reduction in employment. A reduction in employment, in turn, reduces consumption. As overproduction is the excess of production above consumption, this reduction in consumption worsens the problem. This creates a "feed-back loop" or " vicious cycle ", whereby excess inventories force businesses to reduce production, thereby reducing employment, which in turn reduces the demand for the excess inventories. The general reduction in the level of prices deflation caused by the law of supply and demand also forces businesses to reduce production as profits decline. Reduced profits render certain fields of production unprofitable. Henry George argued that there could not be any such thing as overproduction in a general sense, but only in a relative sense: Is there, then, such a thing as overproduction? Manifestly, there cannot be, in any general sense, until more wealth is produced than is wanted. In any unqualified sense, over- production is preposterous, when everywhere the struggle to get wealth is so intense; when so many must worry and strain to get a living, and there is actual want among large classes. The manner in which the strain of the war was borne shows how great are the forces of production which, in normal times, go to waste; proves that what we suffer from now is not overproduction, but underproduction. Relative overproduction there, of course, may be. The desires for different forms of wealth vary in intensity and in sequence, and are related one with another. I may want both a pair of shoes and a dozen pocket-handkerchiefs, but my desire for the shoes is first and strongest; and upon the terms on which I can get the shoes may in large measure depend my ability to get the handkerchiefs. So, in the aggregate demand for the different forms of wealth, there is a similar relation. And as, under the division of labor characteristic of the modern industrial system, nearly all production is carried on with the view, not of consumption by the immediate producers, but of exchange for other productions, certain commodities may be produced so far in excess of their proper proportion to the production of other commodities, that the whole quantity produced cannot be exchanged for enough of those other commodities to give the usual returns to the capital and labor engaged in bringing them to market. This disproportionate production of some things, which is overproduction in relation to the production of other things, is the only kind of overproduction that can take place on any considerable scale, and the overproduction of which we hear so much is evidently of this character. Solutions[edit] John Maynard Keynes formulated a theory of overproduction, which led him to propose government intervention to ensure effective demand. Effective demand are levels of consumption which corresponds to the level of production. If effective demand is achieved then there is no overproduction because all inventories are sold. Importantly, Keynes acknowledged that such measures could only delay and not solve overproduction. Keynes summarized this "law" as asserting that " supply creates its own demand ", though this interpretation has been criticized. Because goods can only be paid for by other goods, no demand can exist without prior production. Demand shortfall , microeconomic form, focused on demand side Underconsumption , macroeconomic demand side.

8: Capital accumulation refers to the generation of wealth in the form of

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The Great Depression was a crisis of overproduction, to which many capitalist rulers responded with fascism, and many workers responded by joining and supporting communist parties. This led to the second world war, revolution in China, and revolutionary struggles in many other countries.

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A crisis of overproduction and collapsing farm prices is devastating American agriculture, compounded by the short-term effects of this summer's drought in the East and a heat wave in the Midwest.

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