

# Secular Stagnation and Rosa Luxemburg's Breakdown Theory

Category: Political Economy

written by newpolitics | July 22, 2016



The editors of these volumes have provided an invaluable service, bringing renewed attention to the highly original and enduringly contentious critique of *Capital* that arose from one of the most universally revered figures of the revolutionary movement. The introductions to the two volumes do great justice not only to the breadth and sweep of Luxemburg's own theories, but also to the inspiration they continue to provide researchers and socialist militants alike, often far afield from the actual problems she directly addressed. In her time, Luxemburg's magnum opus, *The Accumulation of Capital*, met with almost universal opprobrium, not so much because she dared criticize Marx but because she employed her theories to justify a form of class politics diametrically opposed to the reformism that had come to dominate social democracy.

Eight years after the Great Recession, a still sluggish recovery has reawakened a mainstream debate over secular stagnation. This debate has called into question the continued efficacy of traditional monetary and fiscal tools to bolster a system whose advanced degree of decay and collapse may be, it is feared, beyond repair. Academic economists and the business press have weighed this contention in terms of technological and innovative exhaustion—the long-anticipated, job-destroying effects of automation or some variant of a dysfunctional labor market.

Marxists, especially of the Baran and Sweezy school, have attributed secular stagnation to the problems of excess capacity arising from the monopolization of the productive structure. Advanced capitalism, they argue, finds itself unable to absorb the rising surplus originating in production and therefore seeks other avenues for investment—hence the financialization of the surplus, which channels investment away from the expansion of output and redirects it into the expansion of portfolios.

In either case, stagnation is seen as an unavoidable stage in the evolution of technology or of capitalist competition. It is therefore quite understandable that Rosa Luxemburg's economic writings, a pioneering analysis that called into question the long-term economic viability of capitalism, should come back into fashion to be mined for additional insights, for she argued the larger proposition that the deficiency of capitalist expansion is genetically programmed into the accumulation biases of capitalism.

Capitalism, Luxemburg posits, is a historically unique dynamic system, but one that is unable to regenerate itself and expand from within to become a universal form of production. Accumulation is critically dependent on the existence of precapitalist markets, of societies otherwise stagnant insofar as they are capable of, at most, simple expanded reproduction, of growth without development. This imperialist nexus, therefore, brutally draws historical latecomers into the orbit of capitalism as dependent economies, while concomitantly narrowing the terrain of potentially available, remaining precapitalist terrains for these newcomers, in turn, to colonize. They therefore have the historical misfortune of being cut off from the necessary precondition for independent development.

Because these capitalist stragglers could not develop independently, the struggle for independence itself had ceased in the modern era to be progressive, and proletarian revolution, Luxemburg insisted, must be the only aim of all revolutionaries. She drew out the revolutionary interplay of conflicting forces with her usual eloquence:

The more violently capital uses militarism to exterminate noncapitalist strata both at home and abroad, and to worsen living standards for all strata of workers, the more the day-to-day history of capital accumulation on the world stage is transformed into a continuous series of political and social catastrophes and convulsions, which, together with the periodic economic cataclysms in the form of crises, will make it impossible for accumulation to continue, and will turn the rebellion of the international working class against the rule of capital into a necessity, even before the latter has come up against its natural, self-created economic constraints.

Luxemburg, contrary to the assertions of many Marxists, never actually put forward, nor did she ever attempt, a coherent theory of economic crises. Neither, to be fair, was that ever her focus. She made this clear at the outset:

The attempt to solve the problem of reproduction in terms of the periodicity of crises represents just as vulgar an economic approach as the endeavor to solve the problem of value in terms of fluctuations in supply and demand. Nevertheless, it will be seen that, as soon as it has established the problem of reproduction in a halfway conscious manner or at least has some intimation of it, economic theory consistently reveals an unwitting tendency to transform it into the problem of crises, thus barring the way to its own solution. In what follows, capitalist reproduction is always understood as the average or the mean, given over the course of the alternating phases of expansion and contraction within an economic cycle.

Her concern instead was the trajectory and ultimate limits of capitalism, in which, she posited, the increase of productive capacity and the extension of production are necessarily conjoined to a desperate, ongoing expansion into noncapitalist foreign markets. It was her analysis of this drive to plunder and redivide the world that lent the theory its majestic arch, at once an explanation for militarism, colonialism, and protectionism, and a rebuke to all forms of reformism that downplayed or denied the central imperative for capitalism of imperialism, immiseration, and war.

This thesis gained great plausibility when, scarcely a decade after the Russian Revolution removed nearly a sixth of the earth's land surface from the grasp of capitalism, the world was plunged into an unprecedented economic crisis and remained mired there until the outbreak of war. It was perhaps the apparent convergence of her breakdown theory with the outbreak of crisis that led to the widespread, subsequent belief that Luxemburg was, to quote Paul Sweezy, the "queen of underconsumptionists" following a long line of Marxists, such as Cunow, Schmidt, and Kautsky (the Kautsky of 1901, but not 1902), who adorned the propositions of Sismondi, Malthus, and Rodbertus with a Marxian twist. Restating, as she did, what was by then the commonplace, universally voiced justification for underconsumptionism, "the immanent contradiction between the unconfined capacity for expansion of the productive forces and the restricted capacity for expansion of social consumption under capitalist relations of distribution," no doubt reinforced that interpretation.

But, insofar as accumulation is by definition the excess of production over consumption, no theory of crisis—of the cyclical interruption of economic activity—can be properly derived from the precondition of investment itself. If Luxemburg appeared to be an "underconsumptionist" it was only because she remained indifferent to the prevalent views of crises within social democracy at that time. These were less explanations than heuristic expedients and descriptive portraits tailored to contrast market anarchy, disproportionality, and underconsumptionism—basically variants of a single theme—with the desirability and superiority of an economy consciously planned to serve

human needs.

What, in any case, separated revolutionary Marxists from reformists did not revolve around the noncontroversial proposition that capitalism was a crisis-ridden system, nor around the superiority of a democratically coordinated economy. Trustification, according to Bernstein, introduced an element of planned coordination arising from capitalism's own inner dynamics, paying inadvertent homage to social democracy's basic contention. But even Bernstein refrained from arguing that such limited stability was sufficiently transformative as to dispense with the need for a socialist movement to assert control from below incrementally.

Rather, the crux of the division between Marxists and revisionists was whether a necessary downfall of capitalism can be posited from laws immanent to the accumulation process, a downfall that drives workers, before that breakdown erupts, into rebellion as both a necessary and an urgent means of self-defense and survival. Are there, in other words, objective social limits to capitalism's self-expansion that hurl workers into a decisive break with the existing order? If not, according to Luxemburg, there is no material basis for revolutionary Marxism.

An ever-expanding planned capitalism capable of yielding improved living standards, driven by its own immanent tendencies to concentrate and centralize production, would, perhaps, have to be pushed from below to complete its democratic, piecemeal, evolutionary trudge into socialism. But a socialism seen as ethically and socially desirable but no longer materially necessary is a throwback, according to Luxemburg, to the utopians and an implicit repudiation of Marxism.

Luxemburg, revisiting Marx, divides the gross social product of a given capitalist economy into four parts: the first replaces consumed means of production (constant capital) in value and in kind; the second and third correspond, both in value and in kind, to the personal consumption of wage-earners and capitalists; the fourth to provide extra means of production and workers' subsistence needed for any expansion of production. If it is assumed that the correct use-value composition of the first three parts is assured, then this "realization" of values can take place on the home market. Nonetheless, Luxemburg argues, the absorption of the residue—even if the use-value composition of that residual also corresponds to the technical demands of accumulation—is completely impossible.

In a closed system, she states, the circular flow of incomes can only realize the sum of values advanced (including that sum of values that the capitalists pay themselves). There is no internally generated source of additional monetized demand—effective demand—for accumulation beyond the incomes initially propelled into circulation. It is a system genetically plagued by a permanent tendency toward overcapacity.

Never mind Marx's schemes of expanded reproduction in the second volume of *Capital*, she argued, which seemed to demonstrate the possibility of limitless accumulation. These schemes only demonstrate the ex post facto condition of equilibrium that could be satisfied were purchase and sale actually able to complete their circuits on an expanded scale and in the proper distributions. Consider a meticulously described series of differently sized beakers into which the contents of a sealed bottle (that portion of surplus value to be capitalized) might be emptied without under- or overflows, while failing to first specify how the seal itself is broken. This, after a mountain of logical detours, endless nitpicking and 200 pages of secondary objections to the construction of the schemes both by Marx and his "epigones," is precisely what Luxemburg ultimately finds so inadequate in Marx's presentation.

In a closed system, to follow Luxemburg's argument, purchase and sale are only possible up to the limit of simple reproduction. But since simple reproduction is an abstraction invented by Marx for

analytical purposes and capitalism is by its very nature inseparable from production on an extended scale, the system cannot work. It is compelled to open itself to foreign, noncapitalist outlets, captive markets that guarantee a stable and ongoing balance of trade surplus for the imperial power.

Luxemburg is, nevertheless, parsimonious in the extreme with her explanation as to how the existence of noncapitalist markets grandly settles the overwhelming problem of inadequacy in the circular flow of income for capitalism. But where we can find a key, it consists in this: "The portion of surplus value that has been determined as being for capitalization must be realized 'externally.'" It is a proposition truly astounding in its sheer absurdity, for it clearly makes no sense to picture a dynamic resolution, where the entire net output destined for investment, considered from both its material and value dimensions, is simply sold outright on noncapitalist markets. Aside from the questions of what use preindustrial societies might have for this output or how such societies could finance such massive purchases without recourse to capitalist loans—loans that might incidentally serve the same internal purpose in the absence of trade—it raises the obvious question: How can capitalism expect to accumulate by purging itself of the very material means needed for such expansion? After accounts are settled, capitalists would have simply amassed a pile of IOUs useful only insofar as they could repurchase the very elements of accumulation they previously dumped on their colonies.

It is only in the *Anti-Critique* that she walks back these extreme assertions. Thereafter, she poses a slightly modified approach, more clearly expressed in the earlier, Ken Tarbuck version: "We do not see any customers for the latter portion of commodities, who could *initiate* [emphasis added] the process of accumulation." The shift is subtle, but decisive. Capital must find some means of selling before it can accumulate. She begins to consider such sales less a solution than a lubricant for expanded reproduction and makes this modified insight even clearer just a few pages on:

The aggregate amount of commodities will not increase, expansion of production cannot take place, because in capitalist production the essential precondition for this is conversion into money, the universal realization of profit. The sale of increasing amounts of commodities, and the realization of profit from A to B, B to C, and from C back again to A and B, can only take place *if at least one of them* [emphasis added] can in the end find a market outside the closed circle. If this does not happen the roundabout will grind to a halt only after a few turns.

Yet even this does not fully resolve the problem, as she lays it out, unless what are exported to noncapitalist markets are luxuries, which are not part of the accumulation process and therefore represent no net offset to capital formation. If in exchange for luxuries there is a counter-flow not only of money but also of raw materials and other industrial inputs, the accumulation process is that much augmented.

To summarize, Luxemburg's problem is one of finding an external source of demand for the internal market, one that is not conditioned by a prior sale within the closed system of capitalism. To fulfill this requirement, she surmises, there must be a demand for which there is no corresponding supply to counteract a supply for which there is no demand. This, Luxemburg maintains, is what necessitates the shotgun marriage between capitalism and the noncapitalist colonies. No longer is it a matter of selling the entire output of new capital. Rather it is a desperate search for an external source of stimulus and pillage significantly powerful to propel the accumulation process in the imperialist economies, if need be at the expense of one capitalist empire against the other, and to renew that process on an expanded basis over time.

Luxemburg's case stands and falls on the proposition that there are no internal sources of demand that can provide this stimulus. She rightly dismisses third parties such as clergy, state officials, soldiers, servants, and other dependents who live directly or indirectly off the tax revenue or income

of capitalists (or workers). But that does not exhaust the search. And this is crucial.

Production is a time-consuming process. Workers' pay is generally distributed in regular intervals that do not coincide with the time needed to produce goods and sell them. It might, for example, take years to build a shopping mall and fully sell the space. Obviously this creates a demand on behalf of workers that exceeds the value of yet-to-be marketed output. Fixed capital depreciates over time and may not be replaced for years. During that time, amortization funds are accumulated in anticipation of future investment. In the meantime these funds must be lent and earn interest if they are to preserve their character as capital. Resulting loans in the form of commercial paper, bills of exchange, and so on represent an independent source of demand—independent insofar as they are unmatched by a corresponding supply of marketed output. And, of course, there is an entire financial section of capitalism whose sole function is to lend money into existence in order to create a demand that previously did not exist, as well as an entire sector of merchant capital whose sole purpose is to provide a demand for industrial output prior to final sales.

But Marx incorporated this into a more systematic answer. Capital passes through multiple circuits on its way to realizing a profit: as money acquiring and assembling means of production including labor power, as value-augmenting production, and as value-enhanced output successfully sold in the marketplace. The many units of capital in motion that comprise social capital confront and interact with one another as cogs in a cascading series of gears, each confronting the others in a different phase of its metamorphosis—as sellers, later to become buyers, only to meet again at the other end of the sale. If Luxemburg failed to appreciate this, she did so because she insisted on treating social capital as a collective unit that must—in a single stroke—sell before it could buy, ruling out the very perspective needed to solve the problem she found so vexing. Once she began to pare down her analysis to the level of many capitals, embracing as in the passage quoted above how A interacts with B, B with C, and so on, she nevertheless clung to imperialism as a *deus ex machina* for a problem that does not exist and could not, in any event, be solved in the manner that she conceived it.

The fundamental flaw in Luxemburg's system is that she stands Marx's problem on its head. For if there is a breakdown theory in Marx, it rests on the developmental tendencies inherent in capitalism, where the production of surplus value and the difficulties it encounters as accumulation proceeds are expressed in a tendency for the profit rate to decline. The problem of insufficient market demand remains latent until the divergence between profits produced and the surplus value requirements of extended reproduction paralyzes the accumulation process, leaving idle vast quantities of values, both as capital that can no longer be placed into profitable production and as commodities that cannot be sold. Capital desperately calls forth counter-tendencies to offset and postpone this breakdown tendency, the most dramatic of which are crises themselves, which periodically purge the system of excess capital; financialization that redistributes values upward; and imperialism, which, through a variety of ugly historical expedients, drains value from the peripheries. Capitalism without imperialism, as Luxemburg well understood, is as inconceivable as capitalism without crises.

If Luxemburg's approach was a false start, she, alone among her contemporaries, asserted that capitalism did not tend to greater stability, that the concentration and centralization of production could not overcome the fundamental inadequacies of capitalism. More important, she insisted that no economic system, no matter how hobbled by its own breakdown tendencies, could ever collapse on its own. It requires the active participation of a politically conscious mass working-class movement.