The Present Imperialist Crisis: A New Great Depression

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The question of crisis is basically the question of the conditions under which the capitalist system fails to reproduce itself. Once the conditions under which the system *can* reproduce itself is understood, the conditions under which it cannot, become clear. Imperialism is expression of the fundamental tendencies inherent in the movement of capital, namely, the law of value, the law of accumulation, tendency of capital to expand endlessly, increasing concentration and centralization of capital, the law of tendential fall in the rate of profit and the resultant recurrent crises. In one sense, the monopoly stage of capitalism or imperialism can be called a result of the crisis of capitalism at a certain stage of accumulation of capital and concentration and centralization of capital. Imperialism emerged towards the end of the 19th century as a natural response to the stagnation of capital accumulation within national boundaries and the need of capital, due to crisis of profitability, to expand beyond the national boundaries. Imperialist crisis is nothing but the occurrence of crisis of profitability on international level and its expression in intensified competition between associations of monopolies for remaining opportunities of profitable investment, cheap labour and raw materials, markets and strategic commodities like oil, certain minerals, etc. The associations of monopolies are represented by certain capitalist states or certain blocs of capitalist nation-states who strive to control certain portions of world, in the past, in the colonial, neo-colonial and semi-colonial form and now in the form of spheres of influences. Imperialist crisis in its various economic and political manifestations has broken out in full-fledged form since 2007-08 and all those who since the collapse of the Soviet Union were talking about 'Pax Americana', 'unipolarity', etc., are now obliged to eat their own words.

The current crisis that began with the subprime mortgage crisis in the US financial markets and then spread to the rest of the world has proven to be the most serious and systemic crisis since the Great Depression of 1930s. In some senses, this crisis is also different from the Great Depression. It is much more protracted and structural, though it is not cataclysmic like the Great Depression. That is the reason, why it is also being called ‘the Long Depression’. Some have also called it ‘the First Great Depression of the 21st century’, the previous two major depressions being the depression of 1870s and the depression of the 1930s. Economists have differentiated between recessions and depressions. Recessions occur at smaller intervals and signify a fall in the growth rates. Depressions are much more structural phenomenon and occur when many factors coincide: a long-term decline in the rate of profit, fall in investments, sharp decline in employment, etc. Recovery from such depressions occur with cataclysmic slumps which, through large-scale devalorization of capital, extremely high unemployment, sharp fall in wages and sometimes major technological innovations, restore profitability. There has been and is a continuing debate on the nature of present imperialist crisis, the immediate causes of it, the long-term underlying causes of it; whether Marx had a theory of crisis or not, if yes, what is Marx's theory of crisis and how can it help us understand the present crisis. Before we go into the details of the present crisis, it would be imperative to have look at this debate and give a theoretical overview of Marxist crisis theory and positively present our own views about Marxist theory of crisis.

Reclaiming the Marxist Theory of Crisis

There has long been a debate among Marxists: what is the Marxist theory or Marx's theory of crisis? Or, is there any Marxist theory of crisis at all? If yes, is it complete? Also at stake are some controversial issues of Marxist economic theory like the so-called 'transformation problem' and its solution given by Marx, Marx's Law of Value and his theory of Law of Tendential Fall in the Rate of Profit (LTFRP hereafter). These issues have remained at the centre of the debate right since the late-1890s itself in different forms. The debate on these issues was renewed after the 1970s and now, especially after the publication of Michael Heinrich's works, first in German and then in English, the works of David Harvey as well as the likes of Anwar Shaikh, Andrew Kliman, Alan Freeman, Guglielmo Carchedi, Michael Roberts, Fred Moseley, etc., this debate has resumed with renewed vigour.

This debate has been there right since the crisis of 1970s, but at that time there was a broad consensus regarding the reason of the crisis to be the declining rate of profit. In the early-twentieth century different explanations of crises dominated at different moments. Sometimes the Marxist underconsumptionism was dominant, at others the disproportionality theory and the overaccumulation and profitability theory. Since the decline of the capitalist triumphalism in the late-1990s with the East Asian Crisis and its definitive end by the time of Crisis of the early-2000s, the debate on the real nature and causes of capitalist crisis renewed. Basically, the questions on the real cause(s) of crisis can be summarized as follows: (a) Is Marx's law of tendential fall in the rate of profit (LTFRP) explains the recurrent crises of capitalist system and is it the main or underlying reason of crises? (b) Can capitalist crises be explained by such a "monocausal" interpretation or do we need to develop a “multicausal” explanation? (c) Does each crisis have different causes or set of causes that we need to understand separately? (d) Is LTFRP indeterminate, invalid, or obsolete and did Marx really drop this law towards the end of his life, which he once claimed as the most important law of capitalism, as Michael Heinrich claims? (e) What is the role of financialization in the economic crisis?[i]

There are other issues also involved in the debate that are related to the above issues such as what is the relation between LTFRP and other expressions of crises such as overproduction, underconsumption, disproportionality, etc; how do we understand the cycles of financial boom and bust from the perspective of LTFRP, underconsumptionism, overproduction, or disproportionality theorists? However, these issues can be discussed as part of answering the above five main questions.

Let us begin with Michael Heinrich's reading of *Capital* and the controversial issues that it raises.[ii] The most important target of Heinrich's 'new reading' is Marx's theory of LTFRP. Heinrich argues that Marx actually did not develop a complete or finished theory of crisis and he certainly dropped or was about to drop LTFRP towards the end of his life. On the one hand, Heinrich's claims have found supporters in the form of Monthly Review School as well as the likes of David Harvey, and on the other, his approach has been severely criticized by Andrew Kliman, Michael Roberts, Guglielmo Carchedi, Alan Freeman, Fred Moseley etc. Kliman and Freeman have argued that LTFRP is discarded at the very door by Heinrich; it is not tested empirically or discussed with logical rigor. Presenting alternative theories or critiquing Marx's theories on the basis of empirical analysis is totally acceptable. Then one can test the relative merits or demerits of the different alternative theories. However, the LTFRP is trashed and disqualified at the very opening door of discussion, which is what Kliman calls the "suppression".

The very assumptions of Heinrich are manufactured in a way to dismiss the LTFRP. These assumptions raise incorrect questions and make illogical demands. Heinrich, for example, claims that Marx failed to prove this law because he could not show that the rate of profit *must, under all circumstances,* fall, in the long run. Kliman *et al* correctly argue that the law is not a prediction of what *must* inevitably happen, but an explanation of what, actually, *does* happen. From the times of Adam Smith and David Ricardo it was empirically seen that the rate of profit falls. Marx was not the first one to notice it. It was a well-recognized phenomenon. Marx only rejected the interpretations offered by Smith (increased competition and increased wages lead to fall in the rate of profit) and Ricardo and Malthus (the law of diminishing returns and rising population) and gave a correct interpretation of the fall in the rate of profit. Marx also showed that this law is essential to understand the transitory nature of the capitalist mode of production; any other interpretation of crisis is insufficient to do so. Marx, of course, showed that there are countervailing factors that counterbalance the fall of profit but, ultimately, they cannot *overcome* the law; what they do instead is to transform the law into a tendency. Thus, Marx's LTFRP was not a prediction of what must happen but an explanation of what does happen. Heinrich's demand that Marx must show that the rate of profit must fall, in the long run, under all circumstances, is childish and inappropriate.

Second assertion of Heinrich that the 'law as such' (law in its simplest form) is a failure because Marx included the increases in the rate of surplus value in the 'law as such' instead of considering them as countervailing factors. In other words, Heinrich claims that for Marx, increase in the rate of surplus value due to rising organic composition of capital is not a countervailing factor but was in-built in the 'law as such'. He argues that Marx could not prove that the increasing rate of surplus value cannot stop the decline in the rate of profit because he could not prove that (c+v) must increase faster than (s). Consequently, the law becomes indeterminate. And even before we consider the countervailing factors, the 'law as such' falls apart. Heinrich later argues that Marx did include increasing rate of surplus value among the countervailing factors, but he was actually referring to the absolute surplus value not the relative surplus value, not caused by increasing organic composition but by lengthening of the working day or intensification of labour. However, this is a simple misreading of Marx on the part of Heinrich. Marx did indeed include the increasing relative surplus value in the countervailing factors. Kliman and Freeman have argued that even if the rate of surplus value increases due to the rising organic composition, the *mass* of surplus decreases and this can lead to decline in the rate of profit even when the rate of surplus is increasing. Secondly, as Michael Roberts has shown, Marx had clearly shown that there is a limit to the increase in the rate of surplus value by increasing relative surplus value (24 hours). Let us see what Marx has to say on this:

> "two workers working for 12 hours a day could not supply the same surplus-value as 24 workers each working 2 hours, even if they were able to live on air...In this connection, therefore, the compensation of the reduced number of workers by a rise in the level of exploitation of labour has certain limits that cannot be overstepped; this can certainly check the fall in the profit rate, but cannot cancel it out." (Karl Marx, *Capital,* volume 3, Penguin, London, 1991, p. 355-56)

In the long run, ultimately, the rate of surplus value cannot increase faster than the rising organic composition.[iii] Heinrich argues that this does not prove that (c+v) will increase faster than (s) and it is possible only if (c+v), i.e., the advanced money capital, necessary to employ the two workers in Marx's example is of an amount at least as great as that required to employ twenty-four workers before. However, as we can see, the very assumption here is that accumulation of capital has been reversed because only then advanced capital needed to employ the two workers will be less than the advanced capital needed to employ twenty-four workers. Thus, Heinrich here is assuming *disaccumulation* of capital, *which is opposite to one of the basic assumptions of LTFRP, namely, the accumulation of capital and expanded reproduction.*

There are also other countervailing factors. The other immanent countervailing factor is decrease in the price of means of production due to increasing productivity. However, as Marx demonstrated that the machines become cheaper than the old machines by cost-per-unit, but the new *system of machines* is always of more value than the older system of machines in the last analysis, if we are considering expanded reproduction and accumulation. Secondly, the rise in productivity and thus decline in the value of machines affects the next turnover of capital, not the current turnover.

Heinrich has claimed that the proof of the fact that LTFRP is valid and is the underlying cause of the recurrent crises are logical errors and absurd assumptions. However, on this point Heinrich is certainly incorrect. Excellent empirical studies by Anwar Shaikh, Andrew Kliman, Guglielmo Carchedi, Michael Roberts, Esteban Maito and many others have shown with well-researched empirical data from the US, UK as well as the world economy that the rate of profit does actually fall and is the main underlying cause of the recurrent crises for past at least seventeen decades!

Another point on which Heinrich is criticized is his (and many other's) claim that Marx did not have a theory of crisis, or it was incomplete. Kliman correctly argues that the theory of LTFRP is complete in the *theoretical* sense. Heinrich's claim that Marx was having serious doubts about the validity of LTFRP towards the end of his life, especially from the 1870s, has been systematically refuted by evidence from Marx's writings and correspondence from that period. Heinrich also blames Engels for editing the third volume in such a way that LTFRP looks as the most important law of capitalist accumulation for Marx. However, subsequent research based on the manuscript by many scholars has shown that Engels did a solid editing job and this editing was only stylistic, not content-editing. Secondly, Kliman *et al* are totally justified in arguing that it does not make any difference even if it was not Marx's but Engels' law or even if it was Andrew Kliman's law! The point is to refute the law on its logical basis. In this, Heinrich has miserably failed.

Nobuo Okishio's theorem (famous as Okishio Theorem) was a polarizing event on the question of Marx's LTFRP. On the basis of Okishio's theorem, three positions on LTFRP emerged. The first was represented by J. Roemer and S. Bowles who simply argued that Okishio's theorem is right and LTFRP is disproved by it. The second position was represented by the likes of D.Foley, Dumenil and Levy, that though the assumption of Okishio that real wages are fixed is unrealistic, yet the LTFRP is indeterminate. And the third position was represented by the likes of Shaikh, Kliman, etc and before them, R. Rosdoslky who proved that Okishio's theorem itself is incorrect. We cannot go into the details of Okishio theorem and its effective refutation, but we shall focus a little bit on the interpretation of crisis, especially the most recent one, by Dumenil and Levy here because it has been extremely influential in Left circles.

Let us first summarize the views of Dumenil and Levy. They argue that capitalism passes through many phases and neoliberalism is its latest phase characterized by its aggressive and violent attacks on labour (Thatcherism, Reagonomics, etc). The US became the locus of neoliberalism because it is the centre of financialization which is the core feature of neoliberalism. Dumenil and Levy contend that capitalist crises can be caused by many reasons and it would generally be different every time. They identify four major structural crises in the history of modern capitalism, of which the latest is the crisis of neoliberalism. They are structural crises because they were crises of the prevailing capitalist social order, not just ordinary recessions. These four crises are the crisis of 1890s, the Great Depression of 1930s, the collapse of 1970s and the early-21st century crisis. The first was caused by the lack of profitability (LTFRP), the 1930s crisis was a financial crisis because the rate of profit was rising till 1929; the 1970s crisis was one of profitability again and the latest, i.e., the early 21st century crisis is the collapse of neoliberalism because the rate of profit, again, was rising till 2006. Thus, profitability is not always, not even often, the cause of crisis. They argue that Marx did not talk about profitability crisis in *The Communist Manifesto* where they talk about credit crisis. However, Dumenil wonders why structural crises have a pattern of occurring every 30 or 40 years.

The crisis of neoliberalism occurred when the capitalists lost control of the credit system. That is why, according to Dumenil and Levy, the crisis of 1970s took the form of a "collapse" whereas the present crisis has assumed the form of an "explosion". As pointed out earlier, Dumenil and Levy opine that the US became the centre of neoliberalism because the US capitalism was uniquely placed for financialization and its spread globally. This made the US economy disbalanced which was reflected in the trade deficits, relying on capital flow from the rest of the world, excessive consumption, and inadequate productive investments. Debt was increasing whereas savings were decreasing. That meant slow accumulation of capital in the productive economy and need for more financialization for raising the profits. It was this imbalance of financialization which finally led to the crisis of 2007-08 not the rate of profit which continued to grow between 1982 and 2006. The trigger of the crisis was the residual subprime loans and spread of toxic loans to the world through devices like collateral debt obligation (CDO). Dumenil argues that the social order is comprised of the capitalist class, the popular classes (workers and low salaried employees) and the managerial class. This managerial class sides at different moments with the capitalists or the "popular classes". In 1930s, it sided with the "popular classes" and that is why we witnessed the inauguration of welfarist policies, state regulation of finance, etc. In the 1970s Crisis, the managerial class sided with the capitalists which led to the beginning of the neoliberal era and pushed the "popular classes" on the backfoot. In the 2007-08 crisis, this managerial class is returning to the "popular classes". Dumenil concludes that this shift might lead to the restructuring of the capitalist social order. However, this will not solve the crisis of neoliberalism. Among major scholars, Costas Lapavitsas has whole-heartedly supported the interpretation of Dumenil and Levy by arguing that they have conclusively shown that LTFRP is not the cause of the crisis because decline of rate of profit after 2005-06 was too short to cause a recession like 2007-08 crisis. Moreover, the idea of LTFRP is comparatively new one and between the two wars the major interpretations were either underconsumptionsim (R. Luxemburg) or disproportionality (Hilferding and others). Lapavitsas also commends Dumenil and Levy for showing how capitalism passes through different phases and social orders and the latest phase was neoliberalism. In this phase finance controls production and we need to return to Lenin and Hilferding to understand it properly and, also, comprehend the fact that the reason of crisis now must be searched for in the arena of circulation and distribution rather than production. It is surprising that Lapavitsas links this line of argument with Lenin, who clearly saw profitability as the reason behind crisis and also as the reason behind financialization.

Andrew Kliman and Michael Roberts have criticized the positions of Dumenil and Levy. Kliman points out that Dumenil and Levy, focusing on neoliberal policies and financialization, arrived at the conclusion in 2004 that capitalist system has been successful in averting crisis through its neoliberal offensive, i.e., financialization. However, they admit in their new book published after the crisis of 2007-08 that this very neoliberal policy of financialization which seemed to them the successful strategy of capital to avert crisis in 2004 has caused the crisis of 2007-08. Therefore, they try to find the reason of the crisis in the same factor that actually led them to conclude that capitalism was resurgent. The reason for this is that they are looking at the wrong place for the causes. They focused on the sphere of circulation and distribution (finance) to account for a crisis whose reasons lie in the sphere of production: the falling rate of profit. Since their diagnosis is based on financialization, their solution is at best reformist: financial regulation and a demand for a 'new New Deal' (just like David Harvey who in this regard follows Dumenil and Levy closely). They have confused the proximate cause of the crisis, which of course change with every crisis, with the main underlying cause of crisis, that only acts indirectly and whose phenomenal expressions keep changing. Michael Roberts, in the main, agrees with the critique offered by Kliman.

Roberts argues that Dumenil's reliance on the example of *The Communist Manifesto* to prove that Marx did not believe in the LTFRP to be the sole explanation of all capitalist crises is ahistorical and incorrect; namely, their invocation of Marx's quote to show that even Marx did not consider LTFRP to be the cause of the crisis, and crisis of the credit system was identified as the reason by them at the time they were writing *The Communist Manifesto*. However, we must not forget that it is only towards the mid-1850s that Marx's economic views assumed a concrete shape, as a number of Marx-scholars have clearly demonstrated. Roberts argues that the question is not whether to offer a monocausal or multi-causal interpretation but to understand that there is an underlying cause and there are other proximate causes (we will come to this bifurcation later).

Guglielmo Carchedi critiques the opponents of the so-called monocausal interpretation based on LTFRP in these words:

> "some Marxist authors reject what they see as “mono-causal” explanations, especially that of the tendential fall in the rate of profit. Instead, they argue, there is no single explanation valid for all crises, except that they are all a “property” of capitalism and that crises manifest in different forms in different periods and contexts. However, if this elusive and mysterious ‘property’ becomes manifest as different causes of different crises, while itself remaining unknowable, if we do not know where all these different causes come from, then we have no crisis theory”.

Carchedi argues further:

> “if crises are recurrent and if they have all different causes, these different causes can explain the different crises, but not their recurrence. If they are recurrent, they must have a common cause that manifests itself recurrently as different causes of different crises. There is no way around the "monocausality" of crises.”

One cannot agree more.

Roberts is right in arguing that neoliberalism is, definitely, a new ideological offensive of the bourgeoisie. However, Dumenil and Levy do not answer what was that crisis, in response of which the new policy of neoliberalism was introduced? Is it not the crisis of profitability? Marx had clearly shown that the “plethora” of capital that cannot be invested profitably in the productive economy is pumped into money-markets, i.e., finance and speculation. Dumenil's theory of three classes ("popular classes", the capitalists and the managerial class) smacks of Weberian kind of sociologism. I would add that the influence of Laclau also cannot be ruled out here who gave the theory of "popular -democratic" classes whose drift to the bourgeoisie or proletariat determines the relative weight of reaction and progressive forces. Though, there are intermediate classes in a capitalist society between the working class and the bourgeoisie, their constitution is not independent but derived from the contradiction between labour and capital; secondly, they are in the process of constant bifurcation and do not have relatively higher permanency in their internal structure like the proletariat or the bourgeoisie. In terms of political economy, we cannot talk about the three classes that Dumenil and Levy have talked about.

Whether the rate of profit actually increased between 1982 and 2006 as Dumenil and Levy and also others have argued, is an issue of contention. Kliman, Carchedi, Roberts and many others have shown in their different ways, that it was not so. There is a consensus between them that the rate of profit certainly did not rise till 2005-06 if calculated correctly with Marxist yardsticks. Let us see the data and the facts calculated with different assumptions in the context of the positions of Sam Gindin and Leo Panitch and the rebuttal by Roberts and Kliman.

Gindin and Panitch have presented their views regarding the recent crises in their book *The Making of Global Capitalism: The Political Economy of American Empire* and some articles. According to Gindin and Panitch, the reason for the crisis was wage stagnation, rising mortgage debt and then collapsing housing prices causing a dramatic fall in the consumer spending. Their interpretation too focuses on the factor of financial crisis. They argue like Dumenil and Levy that profitability increased since the early-1980s and it continued to increase till 2 years before the outbreak of the latest crisis. Only after the outbreak of the crisis, the profits began to decline. Gindin argues that there was no crisis in the 'real economy'. Kliman argues that had financialization been the main cause of the crisis of 2007-08, we should have witnessed a recovery by 2009-10 when the anomalies in the financial system were fixed. But we did not see any recovery. Gindin ignores the factor of government borrowing on a large scale, increase in easy money and other expansionary monetary policies introduced by the State like loose credit standards. These factors were *artificially* stimulating production, demand, and employment. However, even the establishment economists like Summers agreed that the expected boom is still elusive. Kliman argues that this shows that stagnation has become the new normal even before the crisis of 2007-08 erupted. Secondly, the claim of Gindin and Panitch that wages had stagnated does not hold water. Real income of the working class had increased, even if their share in national income might have declined.

Michael Roberts argues that to show that profits continued to rise between the early 1980s and 2005-06, Gindin uses the *after-tax rate of profit* because that affect the business decisions of corporates. However, while analyzing the capitalist economy in totality, it is the *before-tax profits* that should be taken into consideration. If we take the before-tax rate of profit we find that between 1946 and 2012, the US has seen *a secular decline in the rate of profit.* It increased between 1982 and 1997 but not to the previous high of 1960s. From 1997, the rate of profit has been flat or in slight decline except when they rose between 2002 and 2006. Roberts goes on to show that from the 1960s to early 1980s, the decline in the rate of profit was due to the fact, that the organic composition of capital continued to rise faster than the countervailing factors like increasing rate of surplus value and decreasing cost of the fixed capital. From 1980s to the late-1990s, the rate of profit increased because the above-mentioned countervailing factors dominated the decline in the rate of profit. This was the heyday of the neoliberal era, ending with the 1997 crisis. From 1997 onwards, the rate of profit has continued to fall because the countervailing factors were too weak to counterbalance it. It has been shown that the increasing profit rate between 2002 and 2006 was due to the *fictitious profits.* If we subtract the fictitious profits, we will find that the rate of profit was either stagnant or increased very slightly. This fictitious capital only delayed the occurrence of the crisis, that was caused by the fall in the rate of profit in the productive economy. The 2008 crisis was triggered by huge expansion of fictitious capital that collapsed when the real value expansion could no longer sustain it. The underlying cause was the LTFRP.

Gindin and Panitch argue that investments did not fall till 2008 which according to them shows that profitability was healthy. Roberts responds that it is natural because the GDP and rate of investment *follow* the rate of profit. Therefore, if profitability is declining, the investments will not decline simultaneously with it, but will follow it with a time-gap. Some scholars have also shown that irrespective of the measure that we use to calculate the rate of profit (historical cost or current cost, after-tax or before-tax) it can be shown that there has been a secular tendency of decline of rate of profit between 1946 and 2011. The increase in the rate of profit between 1982 and 1997 can be explained by the drastic cuts in tax and interest rates after the inauguration of the neoliberal policies. Therefore, the argument of Gindin that the real economy was healthy is misleading if we look at the state of things more closely. These faulty foundations lead not only Gindin but other Marxists too, like Dumenil and Levy, Harvey, Wolf, etc to conclude that every crisis has a different reason. As we mentioned earlier, this method fails to distinguish between the immediate causes of crises and the underlying cause of capitalist crises in general. To stop at the immediately recognizable immediate, apparent and proximate causes cannot lead us to *a theory of crisis,* but *a description of crises.* **It is positivism and methodological pragmatism.** Such descriptions have no predictive power and it is difficult to test them empirically.

This brings us to another major and celebrated Marxist scholar David Harvey whose interpretations have unfortunately become quite influential in circles of academia as well as the Left in general, despite the apparent lack of understanding of the most fundamental issues of Marx’s political economy. Here I cannot go in a detailed criticism of the approach and method of Harvey which leads him to the conclusion that Marx was a deductivist who one-sidedly deduced everything from the sphere of production; and consequently, though he (Marx) focuses on the 'generality' (production), but misses out on the 'particularity' (circulation) and 'singularity' (consumption) and the universality (man's interaction with nature). It will suffice here to comment that anyone who has read *Capital* carefully will not make such childish claims. It is true that for Marx the sphere of production was the most important. As he himself said, “The profit of the capitalist class must exist before it can be distributed.” Therefore, the fundamental contradiction was the sphere of production though at moments the sphere of circulation or distribution may assume the status of principal contradiction. Marx clearly saw the dialectical relations between these spheres, but certainly did not shy away from seeing the dominant contradiction, which the sociologistic and geographical eclecticism of Harvey prevents him from seeing. We will focus here on Harvey’s ideas about theory of crisis.

David Harvey in clear terms argues that the LTFRP is not the only, not even the main cause of occurrence of capitalist crises. Harvey rather favors a multi-causal analysis of capitalist crises. However, it must be noted that his multiple causes dump the LTFRP in the very beginning because he says that he shares Heinrich's skepticism about the LTFRP even being a law and that Marx was about to abandon it towards the end of his life. Consequently, in Harvey's multicausality the LTFRP seldom finds a place. He criticizes those whom he calls the monomaniac theorists (but almost always the targets are those who favor LTFRP to be the underlying cause). Harvey contends that the LTFRP theorists downplay or underestimate the role played by the countervailing factors. He argues that the piles of data about the operation of LTFRP does not prove anything; that the business press shows that if not the rate of profit then mass of profits is growing without doubt. Harvey in his own analysis of crisis prefers other factors like the impact of credit, financialization, the devalorization of fixed capital and most importantly the limits on consumer demand imposed by holding down of wages relative to capitalist investments and profits. Harvey's focus is not on the circuit of production but on the secondary circuit of circulation. Harvey has argued that he considers capital as an 'organic whole' integrating the spheres of production and circulation. He is against giving primacy to the sphere of production because causality does not function in this whole in one-sided manner. He even quotes Marx from *Grundrisse* for his support. However, if one reads the quotation it becomes clear that, in fact, it shows Marx's idea of the primacy of the productive sector. Every type of production engenders a particular type of circulation and consumption. It is true that circulation and consumption act back upon the sphere of production and together they form a totality. However, this totality is not characterized by homogeneity and, we cannot shy away from determining the factor which is principal in the last analysis. Michael Roberts argues that in this quote Marx, in fact, says that production of a definite kind determines distribution and consumption and there is a definite relation between these moments, but circulation has a feedback impact on the sphere of production, especially in times of crisis.

Michael Roberts and Andrew Kliman argue that Harvey's contention that the mass of profit is rising has nothing to do with the fall in the rate of profit. In the rate of profit [s/(c+v)], the increase in the numerator itself does not tell anything about the ratio. The rate of profit is explained by the mass of profit as a share of the investment of capital. Harvey does not give any data about the increase in the denominator being lower than the numerator and the data on mass of profit itself does not tell anything about the rate of profit. Harvey is actually backing the claim of Heinrich that LTFRP is not a law, or, at least it is indeterminate, and Marx dropped this law. We have already answered these claims.

To support his argument further, Harvey gives the metaphor of a human body. He opines that a human body can die for a variety of reasons. Old age is one of them. But it can die due to sickness of various kinds. However, such an argument tantamount to a contingency theory of crises. Contingent factors cannot be predicted, calculated or tested beforehand, as a matter of law. A theory of crisis cannot be substituted by such a contingency theory. Harvey, on the basis of the above metaphor, concludes that crises can be caused by 'a chaotic mish-mash of possible factors'. However, this also is a description of the intertwining of variety of proximate causes and does not differentiate these immediate causes from the main or underlying cause. Such an analysis is metaphysical and positivistic in the garb of being non-mechanical. Harvey argues further in his response to Kliman that the LTFRP as a law functions at the interstellar level of capitalist mode of production just like the fact that Sun one day will run out of gas. However, such a law cannot explain the regular day-to-day phenomena of capitalism. Paul Mattick Jr. in his review of Harvey's book says that such an argument was put forward by Rosa Luxemburg too who argued, "there is still some time to pass before capitalism collapses because of the falling rate of profit, roughly until the sun burns out!" Bukharin gave an excellent response to Rosa Luxemburg, "It would be ridiculous to demand that the process should reach its logical conclusion. The objective tendency of capitalist development towards this end is quite sufficient. Long before the 'end', this tendency will sharpen the struggle for any possibility to gain an additional profit to such an extent, and will be accompanied by such a centralization of capital and sharpening of social relations, that the epoch of low rate of profit will become the epoch of catastrophes." Even if one does not agree with the mechanical tone and treatment of the issue by Bukharin, it is true that it is a tendency which cannot be demanded to bring the collapse of capitalism by itself. This tendency will give rise to different conjunctures of contradictions that will create new possibilities and spaces for revolutionary praxis. It cannot by itself lead to immediate collapse of capitalism. The LTFRP has been given a very reductive definition by Luxemburg to trash it. The same is done by almost all the deniers of LTFRP.

David Harvey also argues that the turnover cycle of fixed capital is an important factor in the occurrence of crises as it determines the business cycles. He wonders why nobody is undertaking empirical research on this dimension. First of all, a number of scholars *have* done such empirical research. Secondly, the turnover cycle of fixed capital is not an independent variable, but it is determined by the fluctuations in the rate of profit. Harvey focuses on everything except the law of accumulation of capital, the resultant rising organic composition and fall in the rate of profit. For example, he also talks about the role of 'accumulation by dispossession' and redistribution of value through this process, where wealth is accumulated by force or seizure and not by exploitation of wage labour as in fully developed capitalism. This logic is highly problematic. First of all, the concept of 'primitive accumulation' is not a chronological but a logical concept. The moments of advanced capital accumulation have almost always comfortably co-existed with the moments of the so-called 'primitive accumulation' even in the 'fully developed capitalism'. Secondly, the process of 'primitive accumulation' is constitutive of the formation of proletariat and the contradiction between labour and capital. Thirdly, such processes of 'primitive accumulation' that are going on in 'fully developed capitalism' in America as well as in countries like India and Philippines where capitalist mode of production is the dominant mode of production now, cannot explain the occurrence of crises as such.

Harvey also argues that limits to profitability can be caused not only by rising organic composition of capital but due to the neoliberal policies that have suppressed wages and promoted fictitious capital. This eventually leads to decline in effective demand and thus collapse of profitability. Thus, low wages and financialization due to neoliberalism also might be a cause of decline in profitability. We have already shown that all these variables are derivative of the movement of profitability rather than being independent variables.

Following this brief review of different Marxist positions of multicausality, we can argue that there is one thing that they share. Their diagnostic always makes some kind of reforms within the ambit of capitalism possible to get rid of crises: underconsumptionism (increase the effective demand by increasing real wages), disproportionality (planning through state intervention or monopolies), financialization (state regulation of finance), inequality (progressive taxation *a lá* Picketty). All these theories see the root of crises in the sphere of circulation and consumption, whereas the real roots of crises lay in the capitalist production itself. As Marx said, the limits to capitalism is capital itself.

Ernest Mandel also gave a theory of multicausality. So did Alex Callinicos recently in his book *Deciphering Capital*. We will come to Callinicos a little later. First let us consider the propositions of Mandel regarding the multicausality of crises.

First Mandel accepts the validity of the LTFRP as far as the long waves are concerned. He argues that the increase in the rate of surplus value slows down as the capitalist development progresses because there is a physical limit to increasing the rate of surplus value. He systematically dismantles Okishio Theorem and shows that any countervailing factor, in the long run, cannot overcome the tendency of the rate of profit to fall. In the post-war Long Boom, many Marxist theorists like Sweezy, Baran, Gillman were confused and agreed finally that LTFRP did not work. However, their arguments were shattered by the crisis of the 1970s. Mandel then refutes all the arguments put forward by neo-Ricardians to disprove LTFRP. However, in the end Mandel argues that howsoever tempting it might be to see in LTFRP the mainstay of Marx's crisis theory as David Yaffe, Paul Mattick, etc have done, it is harmful to do so. Such a monocausal explanation somehow ignores the sphere of circulation and forgets the nature of capitalist mode of production as a generalized commodity production. It somehow assumes that realization is not a problem. Mandel finally presents a critique of Yaffe's insistence on LTFRP as the principal reason of crisis, however, it must be acknowledged that it is a very poor critique and does not answer the basic questions raised by Yaffe. Mandel argues that he is not in favor of any monocausal theory and every capitalist crisis is at the same time a crisis of overproduction (as different from underconsumption) and overaccumulation (that leads to rising organic composition and declining rate of profit). It is only pure underconsumptionist theory that Mandel rejects in unequivocal terms but at the same time accepts that disproportionality between production and consumption can be avoided only theoretically and in practice capitalism does need exogenous sources of consumption to avoid underconsumption, as Luxemburg has argued. So, even Luxemburg's underconsumptionism has some grains of truth!

Mandel first discusses the three monocausal theories: the pure disproportionality theory (Tugan-Baranowski, Hilferding, etc), the pure underconsumptionist theory (Rosa Luxemburg, Paul Sweezy) and the pure accumulation theory (the LTFRP which is here represented as a theory which resembles the "profit squeeze" theory). Then he presents his own theory of multicausality by arguing that all the monocausal theories have some elements of truth in it. His inclination is more towards the relative weight of the LTFRP, but he is cautious enough not to sound like what some people have called 'monomaniac'! However, it must be noted that his theory of multicausality is not like Harvey's or Dumenil's theory and he determines *an order of succession* between the three different factors, namely, realization problem, disproportionality and LTFRP. He accepts that Marx in Volume-III gives primacy to LTFRP and therefore the above three explanations should be integrated by distinguishing between the forms taken by capitalist accumulation in the different phases of capitalism.

In the first phase, that is of boom, demand is high, business is brisk, rate of profit is high resulting in investment boom. Department I by nature responds in a much lazier fashion to these developments. As a result, additional investments flow to Department I which leads to accumulation of capital in this department on increasing scale. Consequently, more means of production have to be produced to produce more means of production for production of consumer goods. Hence, a shift of investment towards Department I takes place in a big way leading to problem of disproportionality.

In the second stage, when the increased productivity due to additional means of production comes into play, production outpaces the capacity to consume by the workers and capitalists even if production grows less rapidly in Department II than Department I. As a result, the disproportion between production and consumption arises, i.e., relative underconsumption due to overproduction or the realization problem. With massive increase in the organic composition due to large-scale introduction of machinery the rate of profit tends to decline because in the period of boom it is not possible to increase the rate of surplus value in a big way. Consequently, the new accumulated capital cannot be reinvested at an average rate of profit or not invested at all. This accumulated capital then is pushed into the sphere of financial speculation. Overproduction now tends to spread from Department II to Department I. The disproportionality that earlier emerged now reappears in an inverted form. Now Department I instead of being over-extended becomes under-developed. Investment falls more rapidly than current output. The result is a crash leading to devalorization of existing stocks and fixed capital, decline in investments, decline in employment and decline in wages until the rate of profit is restored and to use Marx's words, the same crap begins all over again. In this way, crisis plays its cathartic role in the capitalist economy. *For Mandel, thus, LTFRP is less of a direct explanation of crises than a revelation of the basic mechanism of the industrial cycle.* It uncovers the disharmonious uneven character of capitalist production which unavoidably leads to successive phases of decline in the rate of profit and then revival. Here Mandel is *almost* accepting that the underlying main and indirect cause of crises is, definitely, the LTFRP. However, he still calls his scheme a multicausal explanation of crises.

This scheme is neat and it is difficult to find any immanent logical inconsistency in it. However, there is one problem: the different causes are analyzed in a metaphysical fashion and even if apparently their interrelation is probed, it is not probed in a systematic manner. We will come to this later. First let us briefly discuss Alex Callinicos' recent work on Marx's *Capital*.

Callinicos refers to Mandel's model of multicausal explanation and agrees that crises can only be explained by multicausality. He presents his own model of multicausality. In the process, he rightly criticizes various scholars like S. Clarke (who argues that towards the end of life Marx had abandoned the idea of crisis as a cataclysmic event and rather focused on crisis as a permanent tendency which keeps the life in a bourgeois society destabilized) and Reuten and Thomas (who contend that still at the time of *Grundrisse* Marx did not have a proper economic theory of crises and it was more like a political rhetoric). *Callinicos argues further that Marx had a multi-dimensional theory of crises in which LTFRP played a decisive role.* Following D. Bensaid, Callinicos argues that Marx's analysis functions at different levels of determinations and consequently he arrives at a multi-dimensional theory. According to Callinicos there are six determinations of crises in Marx: two of them are formal possibilities of crises inherent in commodity exchange and modern capitalist credit system, and, the possibility of disproportionality inherent in the exchange between the departments. These two are *enabling conditions* of crises. Then there are factors of fluctuations in wage rates and in the size of reserve army of labor and the turnover of fixed capital. These two factors are *conditioning factors*. And finally, there is the interplay between the LTFRP and the cycle of bubble and bust in the financial crises that are the *decisive causal mechanism* at work in crises. On the basis of these six determinations, Callinicos identifies *four crisis theories of Marx*: first is overproduction (competitive accumulation drives production beyond the possible limits of consumption). Marx never abandoned this theory though he accepted that overproduction itself is a manifestation of deeper contradictions, as Callinicos himself shows by quoting Marx from the *1861-63 Manuscripts*; second is the theory that Callinicos finds in Volume I of *Capital*, that is fluctuations in the reserve army of labour regulates the business cycle. Here Callinicos has totally misunderstood Marx. It seems to me that the causal relation here has been made to stand on its head. It is the fluctuations in the accumulation of capital that determine the fluctuations in the wages along with reserve army; wages can never fluctuate so much as to transcend the limits of accumulation.

The third theory that is implicit in the second volume of *Capital* is the turnover and reproduction of capital. Here according to Callinicos, the determining factor is the turnover period of fixed capital. However, as we have shown the turnover of fixed capital itself is determined by the fluctuations in rate of profit. The second important factor affecting crises is disproportionality which according to Marx was the general law of capitalism, rather than equilibrium. The fourth theory inherent in Marx's economic writings and the most important theory according to Callinicos is LTFRP and its connection with boom and bust in the financial markets.

However, in explaining the LTFRP Callinicos talks about three types of organic composition: technical, organic and value. This is a misreading of Marx. Marx talks about the organic composition of capital which has two aspects, first the technical composition which is the physical composition of means of production employed per worker, and second, the value composition that is the ratio between variable capital and constant capital. Marx makes it clear that the technical composition might rise while the organic composition remains the same or even decreases (due to decrease in the value of means of production owing to increased productivity) or it can decrease while the value composition increases. However, in the long run, these divergences cannot continue in a one-sided way.

Similarly, while describing the way in which the law acts as a tendency due to the countervailing factors, Callinicos quotes Ben Fine and Lawrence Harris to demonstrate his point. Fine and Harris, taking under consideration the contradiction between the law of fall in rate of profit and the countervailing factors conclude that 'The law in its broad definition is in fact 'the law of the tendency of the rate of profit to fall and its counteracting influences." This is a gross misunderstanding as this argument is purely tautological. The law acts as a tendency precisely because of the counteracting influences. Therefore, when we talk about the *tendency* of rate of profit to fall, it is understood that the counteracting influences have already been taken into account. Callinicos also quotes Fine and Harris in an affirming way that LTFRP functions only as an abstract tendency and it is 'a proposition developed at a certain level of abstraction which by itself yields no general predictions about actual movements in the rate of profit.' This argument is inherently flawed. It is true that LTFRP is a law that functions at the most general level; however, precisely for this reason, in the long run, and indirectly, it not only plays the role of the main underlying factor but also enables us to broadly predict the future movements of rate of profit.

Callinicos' model of multicausality in my opinion is much more arbitrary and descriptive than Mandel's. The factors that he counts as six determinations are mostly linked with each other and all of them are closely related with problem of profitability. However, they are studied in a metaphysical fashion, not revealing their interrelations. One wonders that every Trotskyite is in some way or the other affected by the mechanical, deductive and metaphysical method of Trotsky. In comparison, Mandel's model of multicausality (which in reality comes closer to what Kliman, Roberts etc are proposing: differentiating between the underlying factors and the proximate factors or different expressions of the underlying factor) is much more balanced, however, if we see look closely, it is not a multicausal model.

Callinicos also refutes the 'breakdown theory' in a way which leaves breathing space for the possibility of Capitalism surviving indefinitely by the cathartic mechanism of crisis. Recurrent crises do not reset the counters to zero. Crisis cannot simply be reduced to a violent mechanism to restore equilibrium *ad infinitum* (Callinicos does not say that it will happen *ad infinitum*, but his logic leads naturally to this corollary). The fact is that the occurrence of crises does not only happen in cycles, but in a spiral. And this is a downward spiral. Arguing for the 'inevitability of collapse' is not equivalent to arguing for the 'inevitability of socialism'. The recurrent crises of ever greater magnitude periodically create conjunctures of social and political contradictions through a complex mediation of historical, economic, and social factors, which lead to a crisis of capitalist economy, society, and politics, i.e., a total crisis, when, to borrow from Lenin, 'the ruling classes are not able to extend their rule'. Such a situation of class struggle might lead to a socialist revolution, but it might also lead to barbarism and mutual destruction of warring classes. Therefore, every crisis is pregnant with dual potential: the progressive potential as well as the reactionary potential. Which potential is realized depends on the relative preparation of the vanguard forces of proletariat and the bourgeoisie. Callinicos is right in arguing that crises do not affect the questions of revolutionary organization of proletariat directly. He is totally correct in emphasizing the relative autonomy of constitution of revolutionary subjectivity. Revolution and revolutionary organization of proletariat is a conscious political act rather than an automatic outcome of occurrence of crises.

Despite these serious problems, Callinicos however has done a commendable job in critiquing the multicausal model of Harvey as well as in critiquing Heinrich's claim that Marx was abandoning LTFRP. He has also presented a brilliant critique of Negri's misreading of Marx which led him to his theorization of immaterial labour. Similarly, he effectively refutes Fredric Jameson's argument that *Capital* is not about labour, or the existential experience of labour. Wherever and whenever Callinicos drifts further from the domain of pure political economy into the domains of political and social theory, he is much more correct and balanced. For example, while analyzing production and exchange in chapter 4 on 'Value', Callinicos badly confuses individual value (the value determined by quantity of labour contained in it), market value (socially necessary average labour contained in it), prices of production (socially necessary quantity of labour modified by equalization of rates of profit between different branches, i.e., average costs of production + average profit of all branches of production), intrinsic market prices of commodities (prices of production of a given commodity expressed in quantities of money) and fluctuating market prices of commodities (intrinsic market prices modified under very short-term fluctuations of supply and demand, i.e., fluctuating around the intrinsic market prices). First Callinicos claims that Marx talks about individual value in Volume I and it would have been better had he talked directly about market value. In fact, Marx is actually talking about market value in Volume I and not individual value, though he uses the term 'value' for it because it was demanded by the level of abstraction at which Volume I operates. Secondly, Callinicos confuses market values with market prices when he argues, "But demand plays a necessary explanatory role in determining the market value of a particular type of product." It can be reminded here that it is market price that fluctuates due to supply and demand, not market value. There are other such mistakes also and we cannot discuss each one in detail.

In the end I would briefly summarize my views on the controversy over the LTFRP and Marxist theory of crisis. **In my opinion, any multicausal model is methodologically non-Marxist, metaphysical, descriptive, positivist and empiricist.** A Marxist cannot content herself with describing the immediate phenomenal expressions or proximate causes or triggers of the crises and would penetrate the layers of phenomena to reach the underlying essential factor; secondly, a Marxist cannot be satisfied with listing the different proximate causes and saying that a *combination of these causes* led to crisis without determining the fundamental contradictions and the principal contradiction; she must explain their interrelations and in turn their relation with the main underlying cause. Most of the factors represented by these multicausal theorists are, in fact, derived from the law of accumulation and the LTFRP. However, they fail to see the interrelations between these and present a laundry list of causes of crises. This approach is mechanical and metaphysical and lacks the Marxist dialectical method.

Anwar Shaikh seems to me one of the rare exceptions to this trend, at least to a certain extent. He, first of all, recognizes that LTFRP is the underlying cause of recurrent capitalist crises. Secondly, he has shown this in his earlier writings as well as in his latest book, his *tour de force, Capitalism: Competition, Conflict, Crisis* which is a product of 15 years of labour and it shows. One might not agree with every proposition that Shaikh makes, yet any serious student of Marxism must agree that it is a must read. It refutes the underconsumptionist, harmonicist and neo-harmonicist, Keynesian, neo-Keynesian and post-Keynesian arguments, neoclassical axioms effectively as well as old orthodoxies and their new versions, like the Say's Law. He has shown in his earlier writings also (like 'A Brief History of Crisis Theories') that as far as crises are concerned, the *master* discourse is LTFRP; underconsumption, disproportionality, financialization, the turnover cycle of fixed capital, are the *derivative* discourse. For example, in his latest work he has successfully argued that profitability drives the cycles of growth and these are expressed in business cycles as well as the turnover of fixed capital. Evidently, considering turnover of fixed capital as a separate factor in the crises by the likes of Harvey is a faulty understanding that does not see the link between profitability and the turnover of fixed capital. Again, devaluation of fixed capital or existing assets too is a function of fluctuations in profitability contrary to what Harvey believes. Dumenil and Levy have focused on financialization as one of the main causes of crisis of neoliberalism. It can be shown logically that the financialization too is linked with profitability, as Callinicos has argued. Similarly, the disproportionality too is a function of profitability as Marx has himself shown:

> "The periodic devaluation of the existing capital which is a means immanent to the capitalist mode of production for delaying the fall in the profit rate and accelerating the accumulation of capital value by the formation of new capital, disturbs the given conditions in which the circulation and reproduction process of capital takes place, and is therefore accompanied by sudden stoppages and crises in the production process..." (Capital, Volume-III)

Similarly, Shaikh has shown that underconsumption is definitely a fact of capitalist society, but it is not the cause of crises but a symptom. In fact, it is a variable dependent on the crisis of profitability. He opines,

> "...it is worth noting that, when as a consequence of declining profitability, capitalists curtail their investment expenditures, part of the product available will not be sold and it will appear that the crisis is caused by lack of effective demand, by "underconsumption". But, in fact, this "underconsumption" is only a reaction to the crisis in profitability. It is a symptom, not a cause."

In brief, it can be shown that underconsumption, disproportionality, financialization, credit crisis, turnover of fixed capital and most of the other "causes" of crises as mentioned by multicausality theorists are not unrelated to profitability and in fact they are closely linked with profitability and determined by it in the long run. I called the approach of the multicausality theorists metaphysical and mechanical precisely because they fail to see the inter-connections between these factors which prevents them from transcending the arena of what Marx called "recording and systematizing the facts."

On the other hand, barring a few exceptions, those Marxists who clearly see in LTFRP the underlying, main and indirect causes of capitalist crises have either not revealed these inter-connections between various phenomenal expressions of LTFRP and other factors, or at least, they have not done it in a satisfactory manner. The core of their argument is much more potent as compared to the descriptive analysis of the multicausality theorists; however, in my opinion, their argument will assume a much more complete form if such inter-connections are revealed in a more systematic way.

From the above discussion, a few things clearly emerge. First, most of the new "readings", new criticisms and new objections to Marx's economic theory as presented in the three volumes of *Capital, Theories of Surplus Value* and *Grundrisse*, in particular, have hardly anything new in them. Most of them are only rehashing of the old misreadings, misunderstandings, misrepresentations of Marx's work done from the mid-1890s till the Second World War. Despite their weak intellectual content, the older criticisms can at least be regarded original. The claims of inconsistency in Marx's treatment of the so-called 'transformation problem', the LTFRP, his reproduction schema, the labour theory of value have been effectively refuted time and again, since the time such claims were made. In other words, as Mandel has argued, the bourgeois economists have shown sharp class instinct in attacking the core of Marxist economic theory, even if they come from reformist or welfarist circles 'sympathetic' to Marxism. This is not to suggest some kind of intellectual dishonesty on part of all such bourgeois critics. This is how class struggle in the ideological arena takes place. I have just discussed some of the central issues of the debate, in order to show the false claims to novelty on the part of the "new" criticisms.

Secondly, it does not, in anyway, mean that Marx's theories do not need further development in line with the major changes in the *modus operandi* of capitalism and imperialism; in fact, Marx himself saw *Capital* as a continuous project. Lenin, Luxemburg, Bukharin, Grossman attempted to take this project ahead in congruence with the trajectory that capitalism took since the last quarter of the nineteenth century, even if we do not agree with everything that they said; Dobb, Mandel, Meek, etc and then Shaikh, Kliman, Roberts, Carchedi and many others have tried to develop the Marxist economic theory according to the changes in capitalist system in their own ways, often not agreeing with each other. Such debates and disagreements have only enriched our understanding of capitalism and therefore have equipped us in a better way to fight against it. Even today there is a need to develop the understanding of the system by continuing the project of *Capital.*

Thirdly, present world in some ways is much closer to the description of capitalism in Marx as compared to the period when he wrote *Capital*. Some who cannot answer Marx's economic theory on logical basis argue that present capitalism is very different from what Marx described in *Capital.* In fact, the world in which Marx lived was far more different from capitalism described in *Capital* and Marx was fully aware of this fact. He analyzed a mode of production that had taken root in a very small portion of the world. However, Marx's analysis of capitalism clearly saw in capitalism the most dynamic mode of production in the history of humanity and the first global mode of production. The basic logic of capital accumulation was such and Marx's scientific analysis revealed this fact. The maze of present capitalist phenomena, what Harvey calls 'maelstrom of conflicting forces,' often overwhelms the observers and makes them wonder how a 150 years old text can explain this muddle? However, that is how scientific analysis works. As long as capitalist mode of production is there or as long as capitalism is capitalism (!), despite its constantly changing and complex phenomenal expressions (which is not at all surprising given the dynamic nature of this mode of production), the basic analysis of *Capital* will be valid. And history, spirally developing has reached a point where this validity has become even more clearly visible.

Fourth, some people question the validity of the analysis offered in *Capital* from an infantile and deductive perspective: if *Capital* is valid, why did not revolutions take place? Well, Marx never believed in the 'inevitability of socialism'; he believed that recurrent crises will keep occurring as long as capitalism survives because crises are *immanent* to capital and these crises will become deeper and more serious in the long term; every crisis will create the dual potential, the progressive one and the reactionary one. Whether the progressive potential is realized or not, is not a question that can be decided automatically. **Revolutions are conscious political acts of the working class under the institutionalized leadership of their vanguard.** Marx understood this fact clearly and that is why, while being optimistic about the prospects of revolution and the revolutionary organization of proletariat ('optimist of will'), clearly reminded that revolutions are not inevitable, and the crises of capitalism and resultant class struggle can lead to a destruction of the warring classes, or to a state of barbarism ('pessimist of intellect').

Finally, as the foregoing analysis demonstrated, it is the law of tendential fall in the rate of profit that is the fundamental Marxist-Leninist theory of crisis. The crisis in the period of imperialism is nothing but the unfolding of this law on a global scale. Lenin and Bukharin showed that the stage of monopoly comes only as a result of unfolding of the LTFRP in principal. The phenomena of monopolies and export of capital leading to figurative and actual division of the world among capitalist monopoly associations and major capitalist powers (whether in the form of colony, semi-colony, neocolony OR in other variegated forms which exist in the period after decolonization and emergence of erstwhile colonies, semi-colonies and neocolonies as politically independent capitalist states) are nothing but outcome the law of value and the LTFRP themselves. Crisis in the age of imperialism is nothing but the reproduction of the same dynamics in new ways at the international level. When we talk about the present crisis of imperialism, we must analyze the ways in which the LTFRP has played the role of the basic underlying cause of crises, though the immediate cause might be different every time. This is what we will do in what follows by briefly analyzing the secular tendency of the rate of profit to decline in the context of world, the US economy, the EU economy, the Chinese economy as well as the Indian economy.

And yet, it falls!

Despite the refusal or failure to understand or to deny the importance of the theory of the tendential decline in the rate of profit by many bourgeois economists as well as Marxist economists, the real facts whom Marx had called “stubborn” demonstrate beyond doubt that the rate of profit under capitalist mode of production does fall. This is proved by the data regarding world rate of profit, or rate of profit in countries like the US, China, India, Japan as well as the EU, which clearly show a secular tendency of fall in the rate of profit. Before we present this data, it would be useful to have look at how the crisis happened this time.

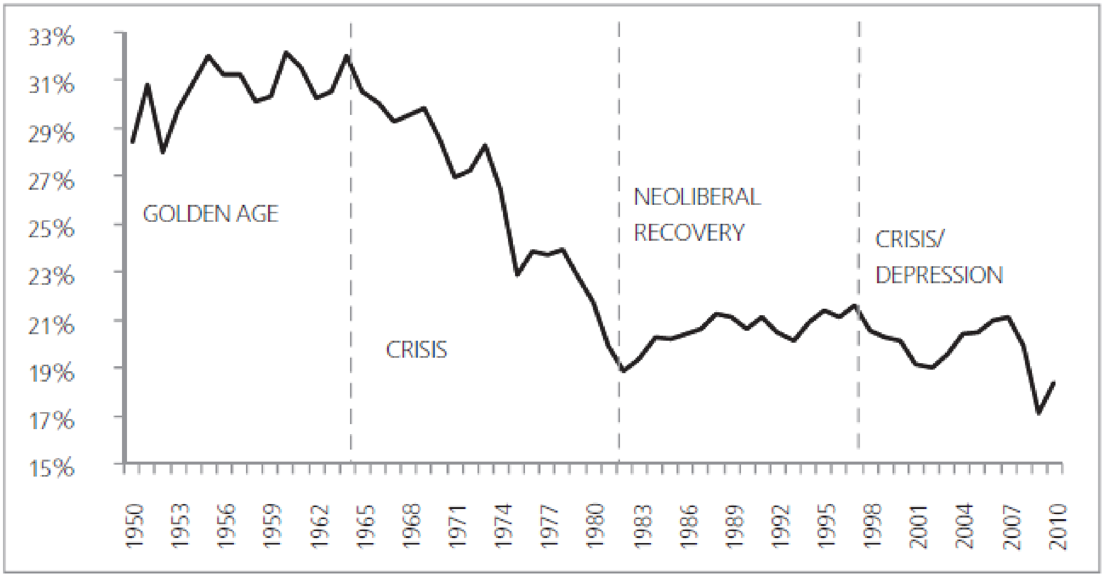
It is a well-established fact now that capital accumulation takes place in long waves of boom and slow-downs or downturns. The very movement and nature of capital accumulation is the cause of these waves. In the period of long recessions, the health of the system is unsound, and anything can trigger a crisis. This is what happened in 2007-8 when the subprime crisis struck the US financial markets and soon spread to the rest of the world. The Great Depression of 1930s was apparently caused by rampant financial speculation, but the real reason was that the state of economy was fragile and that is why the speculative activities led to the collapse. The so-called Great Stagflation too was result of the beginning of long recession. These waves are expression of the movement of profitability. In 1970s, inflation was used to hide the impact of the crisis, but it did not work. The crisis led to large-scale devalorization in the stock market, job-losses and bankruptcies. Entire Western capitalist world was shaken by this crisis and there was a general atmosphere of gloom. Japan resorted to policies of slow deflation of capital stock and low rates of unemployment. What this did was only to make the depression a long, protracted mild recession rather than a cataclysmic event. However, Japan till very recently was paying the price of these policies.

The roots of present crisis must be traced back to the crisis of 1970s itself. To get out of the crisis the capitalist class inaugurated the policies of neoliberalism. Economically speaking, these policies were identified by three features: low interest rates, financial deregulation and violent attacks on the hard-won rights of the working class. The policies of Thatcher (Thatcherism) and Reagan (Reaganomics) were the emblems of these major changes. In the 1980s, these policies led to an economic boom. The sharp decrease in the rate of interest increased the rate of profit-of-enterprises (rate of profit – rate of interest), which is the real driver of accumulation and investments. Secondly, this sharp fall in interest rates also fueled unprecedented consumer borrowing leading to financial bubbles in stock market as well as real estate. At the same time, due to attacks on labour rights the real wages were decreasing. Despite the fall in the real wages, consumer spending was riding high on the wave of debt-financing. This led to unprecedented debt-to-household income ratio in the US and other leading economies of the world. All of this led to increase in the rate of profit. Once again, the bourgeois economists proclaimed that it was the end of the cycle of crises and boom and the ultimate panacea has been discovered. However, this euphoria was ephemeral. It all began to collapse by the end of the 1990s, when this boom created by financial speculative capital was reaching its saturation point. The fall in interest rates and the rise of debt had reached the limits which were unsustainable. The rising debt mountain and financial bubble created due to this creates a confusion that the crisis occurs in the sphere of circulation and scholars like Harvey, Gindin and Panitch, and even Dumenil and Levy have been gripped by this confusion. However, it is evident that the debt-financing of consumption as well as the resultant financial bubble was only a symptom of the falling rate of profit. The interest rates had already reached to almost zero and nothing more could have been done in that regard to check the fall in the rate of profit. Moreover, the rate of surplus value also was reaching a point where it could not be increased fast enough to counter-act the fall in the rate of profit. In sum, all these counter-vailing factors (real as well as artificial) were no more able to counter-act the fall in the rate of profit. Ultimately, this artificially-created boom met its ultimate end in 2007-8.

We will now attempt to show that the underlying cause of the crisis in this case too, was the declining rate of profit. Marx taught that it is the rate of profit that regulates production in a capitalist economy. Marx also showed that the rate of interest always tends to be lower than the rate of profit. It is the rate of profit-of-enterprise which is the real driver of investment. Rate of interest is the return on passive investment, such as depositing money in a savings account or in a safe stock market investment which guarantees return. On the contrary, the rate of profit is return on active investment in production and it is obviously prone to all kinds of fluctuations and uncertainties. Thus, rate of interest becomes a safer alternative to rate of profit and rate of profit tends to be higher than the rate of interest. The rate of profit-of-enterprise is the difference between the rate of profit and the rate of interest (r-i). In different jargons, even Keynes, post-Keynesians and even neo-classical economists accept this formulation of Marx that it is the rate of profit-of-enterprise which is the driver of active investment in a capitalist economy.

A brief discussion on the rates of profit of the leading economies of the world especially since the end of the Second World War will show that the rate of profit has a clearly visible tendency to fall; secondly, a demonstration of the rate of profit of world capitalist economy since last century or so will show that there is a secular tendency of the rate of profit to fall. Let us first examine the movements of rate of profit in the US economy, since, despite being in decline, the US is still the centre of world capitalist economy and repeatedly becomes the epicenter of every economic upheaval. The following figure shows the world rate of profit calculated for the 14 major economies of the world between 1950 and 2009.

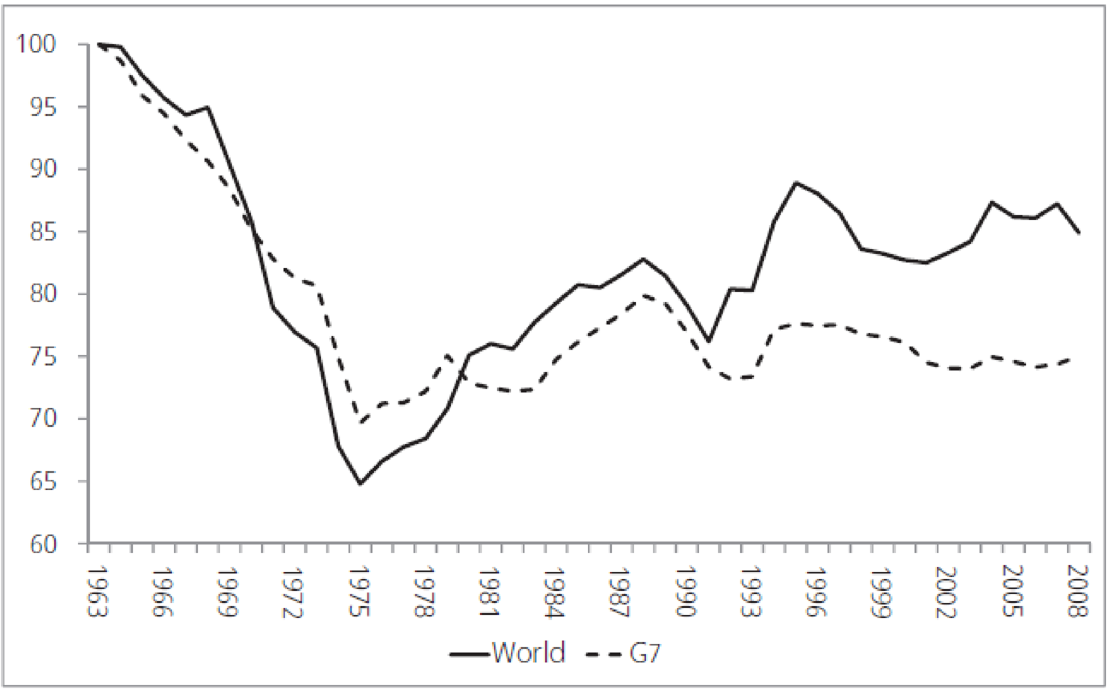
A World Rate of Profit (Simple Mean Average) of 14 Countries (%), 1950–2009



Source: E Maito

As is evident, the world rate of profit of shows a clear secular tendency to fall. The above calculations are done by Esteban Maito. Michael Roberts' calculations show us the following trend of the world rate of profit and its comparison with the rate of profit of the G7 economies since 1963. The level of 1963 has been taken as 100.

A World Rate of Profit (Indexed 1963=100)



Source: Extended Penn World Tables, Author's Calculations

Here too, it is clearly evident that the rate of profit has a secular tendency to fall. Especially, the rate of profit of the G7 economies is falling faster than the world rate of profit since late-1970s which shows the impact of 1970s crisis on the leading advanced capitalist economies of the world. Now let us have a look at the rates of profit in the US economy as a whole as well as the rate of profit of US corporations. This is particularly important as the US is still the leader of the capitalist world and centre of world finance. The following table shows the actual and counterfactual rates of profit of US corporations between 1947 and 2011:

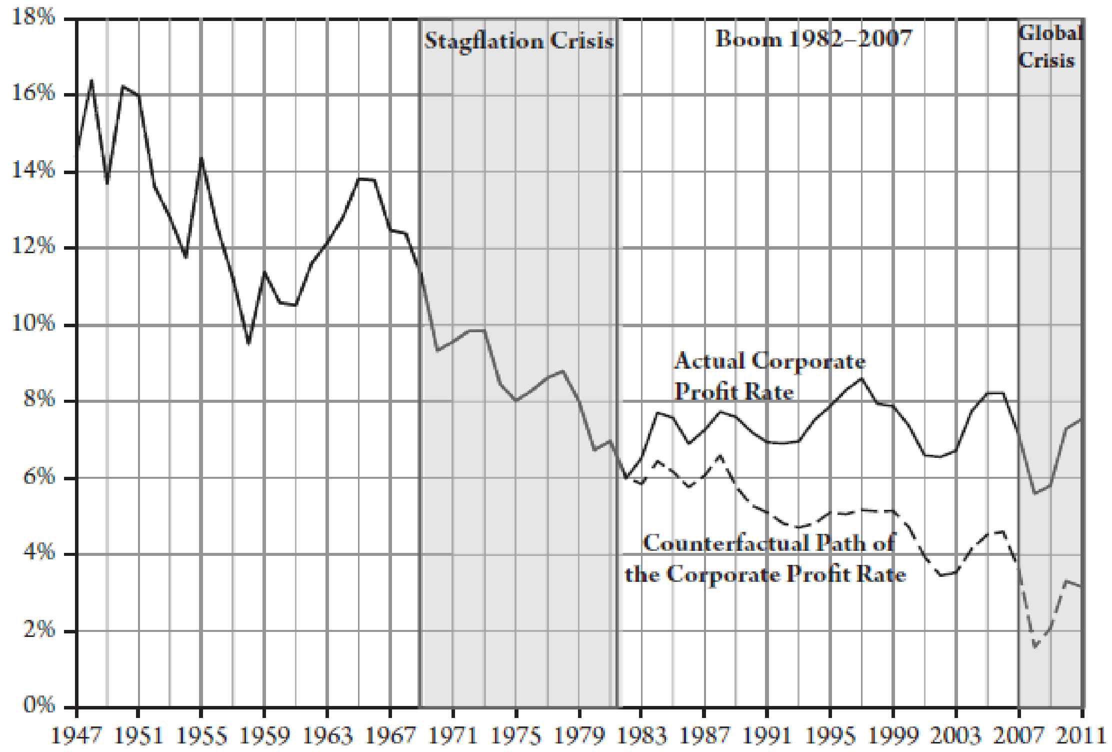


Figure 16.4 Actual and Counterfactual Rates of Profit of US Corporations, 1947–2011

As we can see, the rates of profit of the US corporations have been declining since the 1970s. In the 1980s they became stabilized due to the depression of wages due to neoliberal policies. However, the dotted line shows how the rate of profit would have fallen had the wages remained at the same level. Therefore, in the 1980s roughly till early years of 2000s, the downward pressure on wages as well as extremely low rate of interest artificially stabilized the rates of profit. However, we see a sharp decline after 2007. The following figure shows the impact of decline in the rate of interest on the rate of profit. In the above period we see how the rate of profit had stabilized between the early-1980s and early-2000s. If we compare it with the trajectory of the rate of profit in the same period, the interrelation becomes apparent.

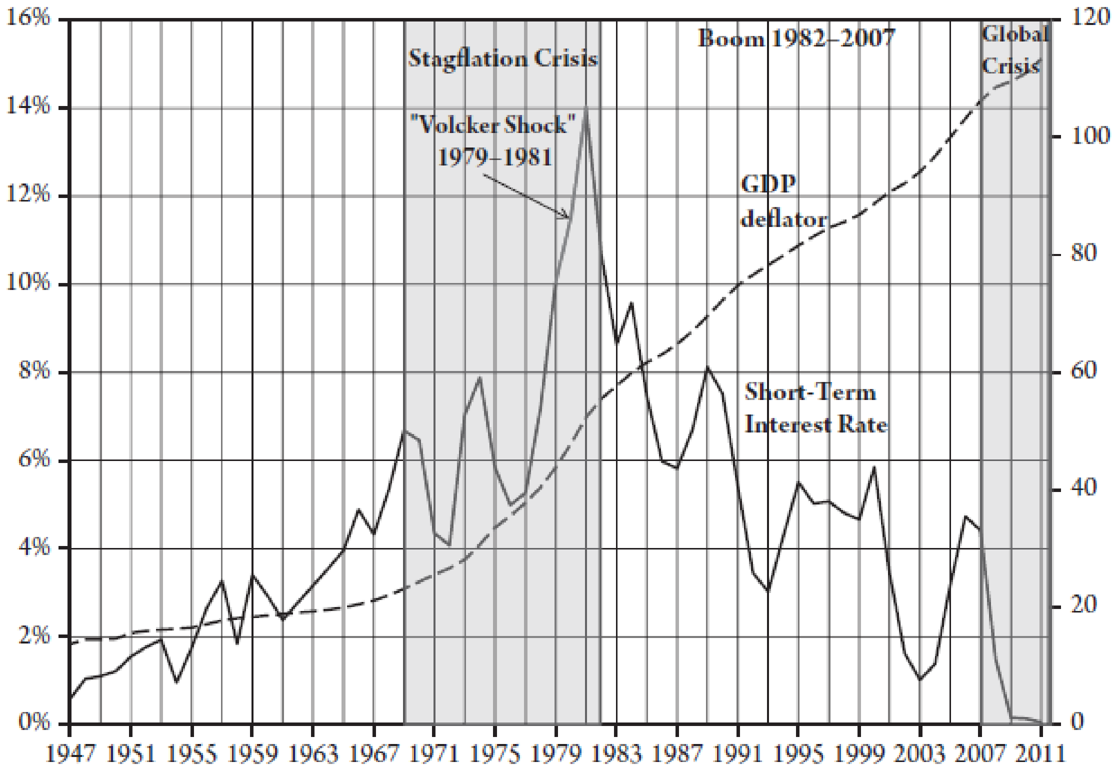
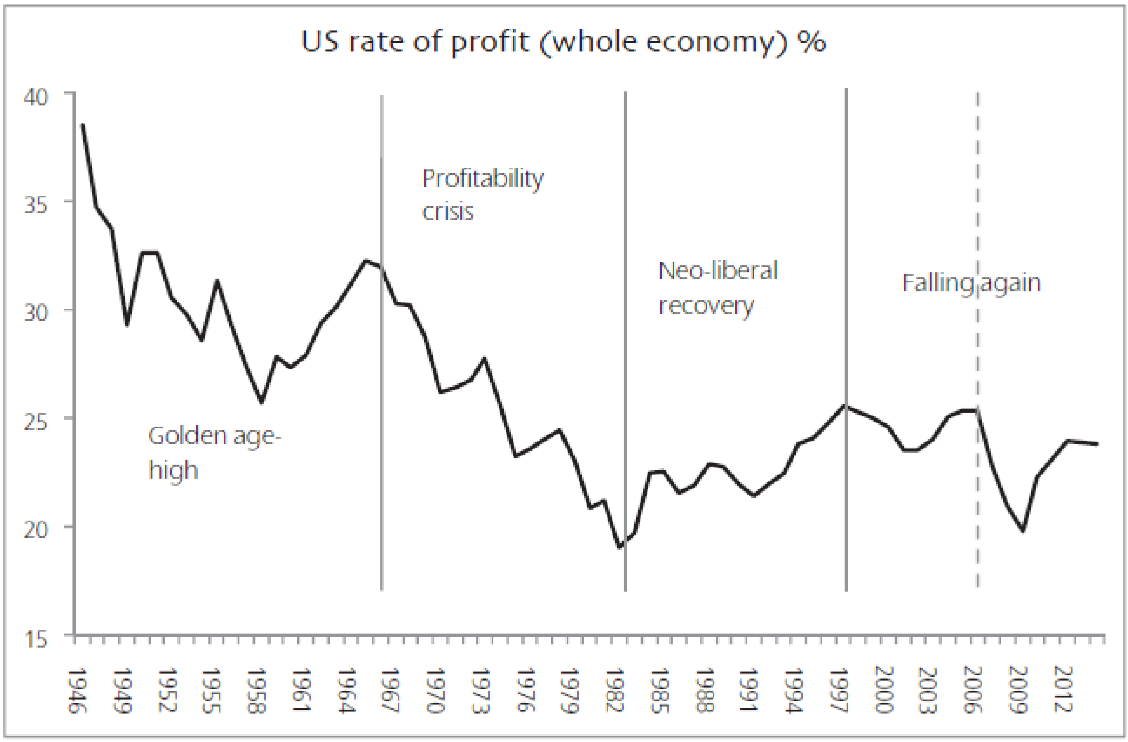


Figure 16.6 US Rate of Interest, 1947–2011 (3-Month T-Bill)

The period of boom from 1947 to 1973 exhibits increasing rate of interest, which was possibly due to increase in the rate of profit due to the post-war reconstruction plan. This allowed the increase in interest rates from 0.59 percent in 1947 to 14.03 percent in 1981. However, the crisis of profitability then was resolved by decreasing the rate of interest dramatically. “Volcker shock” refers to the dramatic increase in the rate of interest by Fed Reserve chairman Volcker, in order, to check inflation. However, the interest rates had been rising from the late-1940s itself. In combination with the decrease in wages, it was the decrease in interest rates (which decrease dramatically from 14.03 percent in 1981 to 0.06 percent in 2011) which counter-acted the decline in the rate of profit. The same trend of decline in interest rates can be seen in all OECD economies. The above two figures are taken from Anwar Shaikh’s book ‘Capitalism: Competition, Conflict, Crisis’. If we look at the calculations of Michael Roberts, we get, more or less, the same conclusions. For example, the following figure shows the US rate of profit based on current cost rather than historical cost:

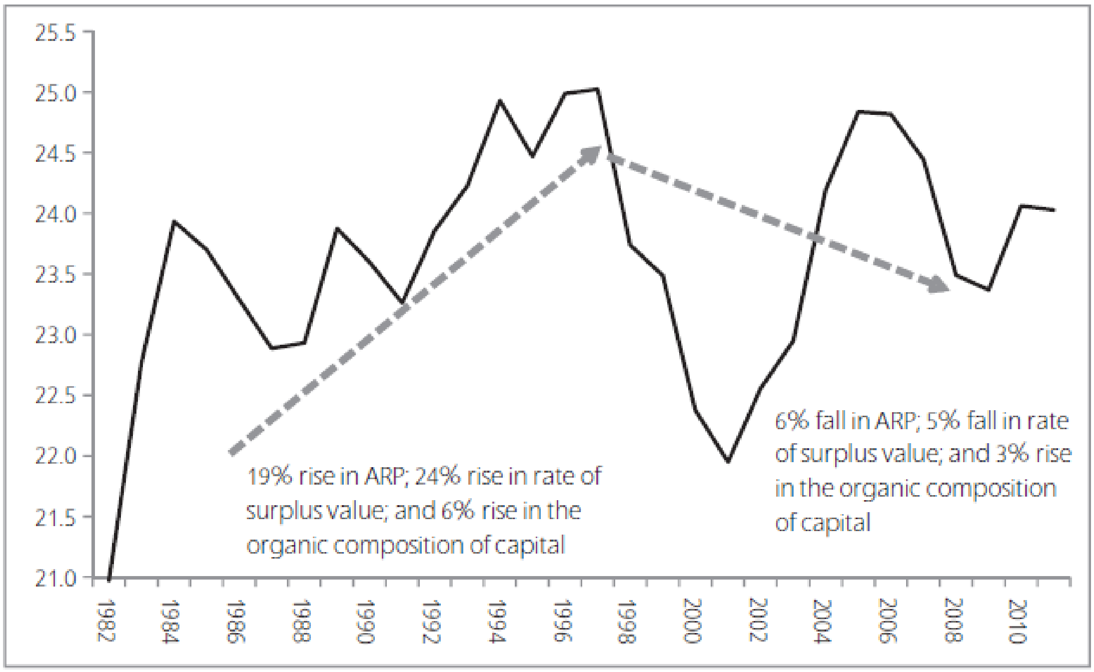
US Rate of Profit (Current Cost Measure), %



Source: BEA, Author's Calculations

The secular tendency of the rate of profit to decline in discernible here. If we compare the changing OCC and rate of surplus value, the interrelation also becomes clear. If the OCC is rising faster than the rate of surplus value then the rate of profit generally falls; if the rate of surplus value is rising faster than the OCC, then the rate of profit increases or stabilizes. The following figure of Michael Roberts captures this reality:

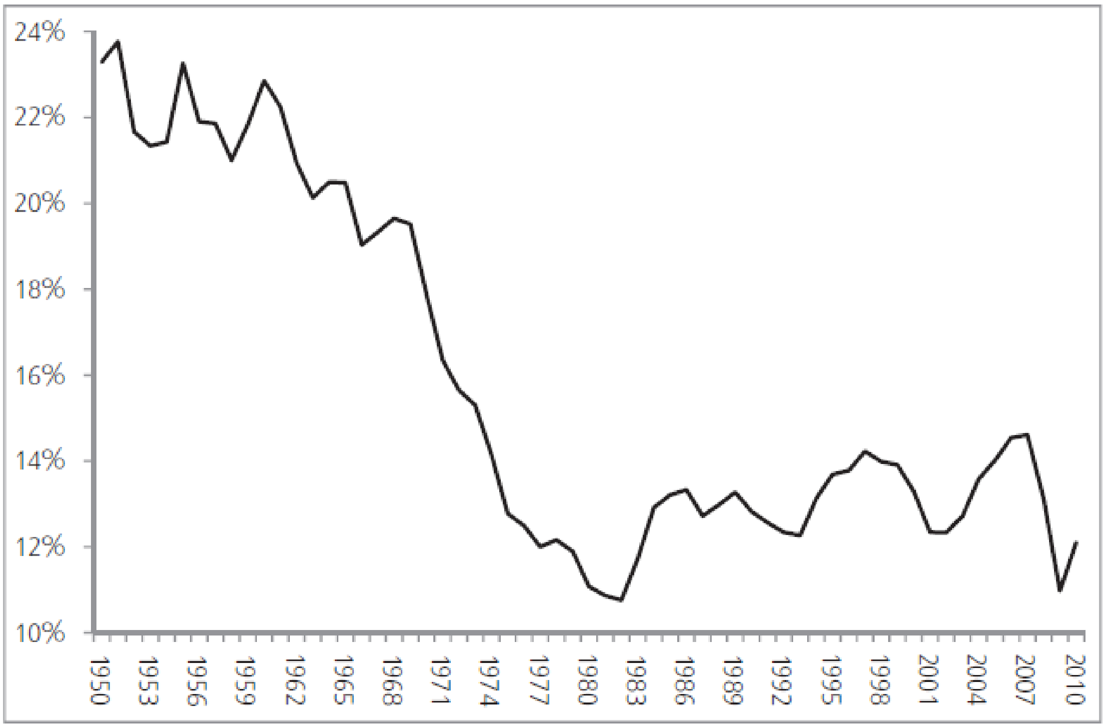
US Rate of Profit from 1982 to 2012 (%)



Source: Author's Calculations

If we look at the main capitalist economies from 1950 and 2010, which includes the US, Britain, France, Germany, Canada, Japan, etc., the decline in the rate of profit is most glaring. Let us look at the following figure:

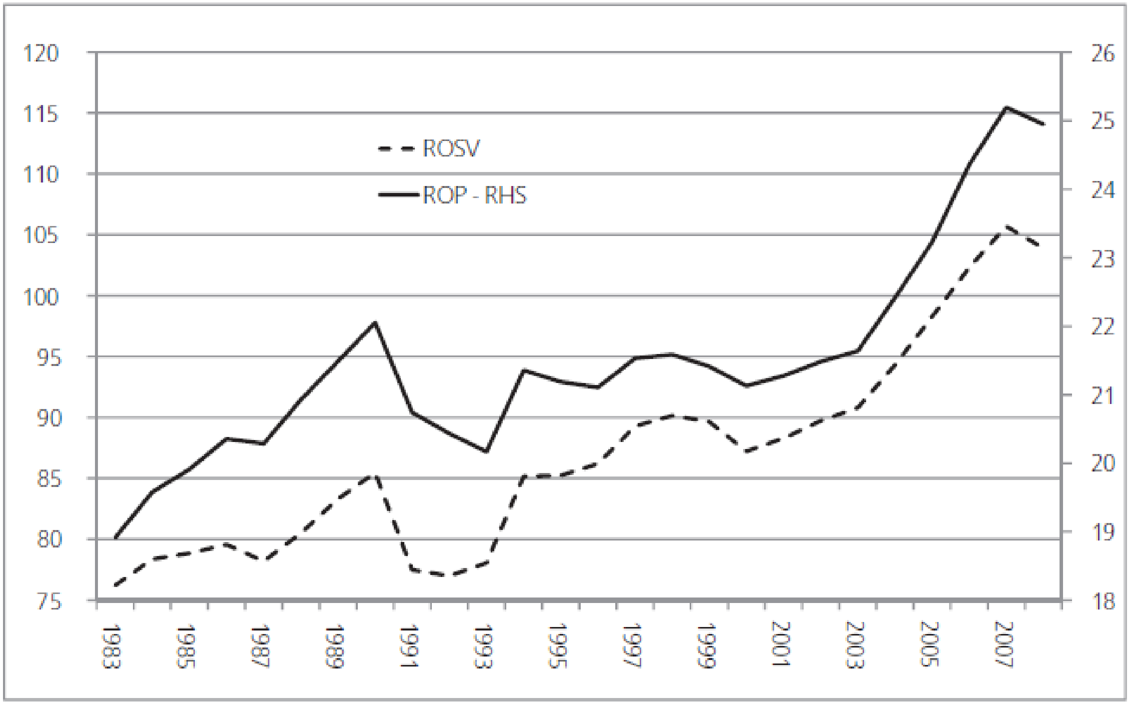
Rate of Profit in Main Capitalist Economis, 1950–2010 (%)



Source: E Maito

This figure shows beyond doubt the validity of LTFRP. Following figure given by Roberts shows the fate of another major capitalist economy in the post-War years: Germany.

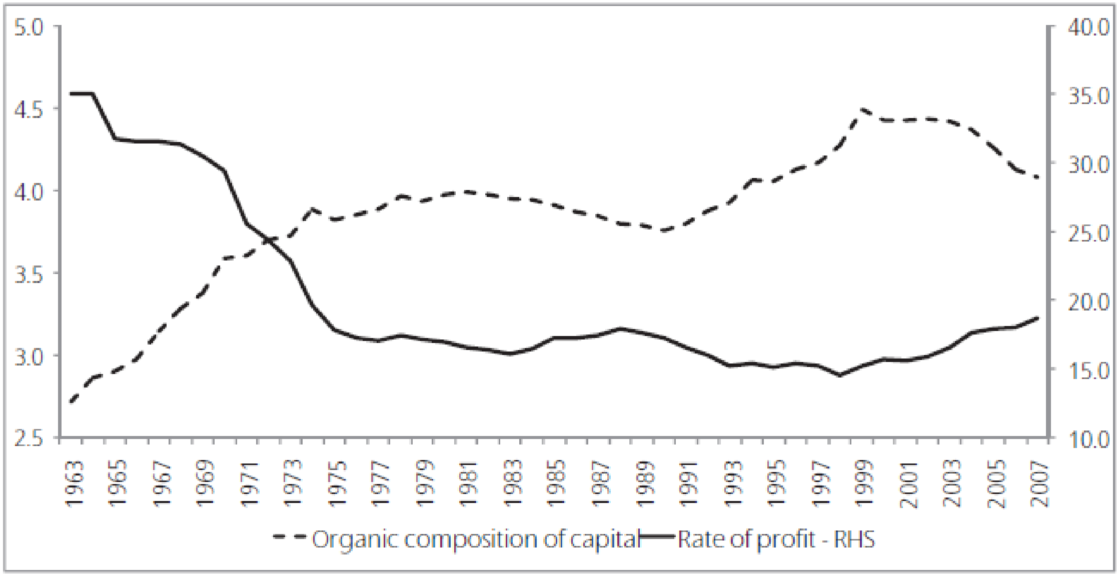
German Rate of Profit and Rate of Surplus Value (%), 1983–2008



Source: AMECO, Author's Calculations

Here too, we can see the interrelation between the rate of profit and the rate of surplus value. In another statistical data, Roberts has demonstrated that though the rate of profit increased during the late-1990s and early-2000s, the increase in the rate of profit was solely due to fictitious capital, because the investments had been falling steadily since 1989. Kliman's analysis reaches the same result. If we look at the pattern of rate of profit and OCC in the context of Japan too, the results are the same.

Japan Rate of Proft on Capital (%) and Organic Composition of Capital

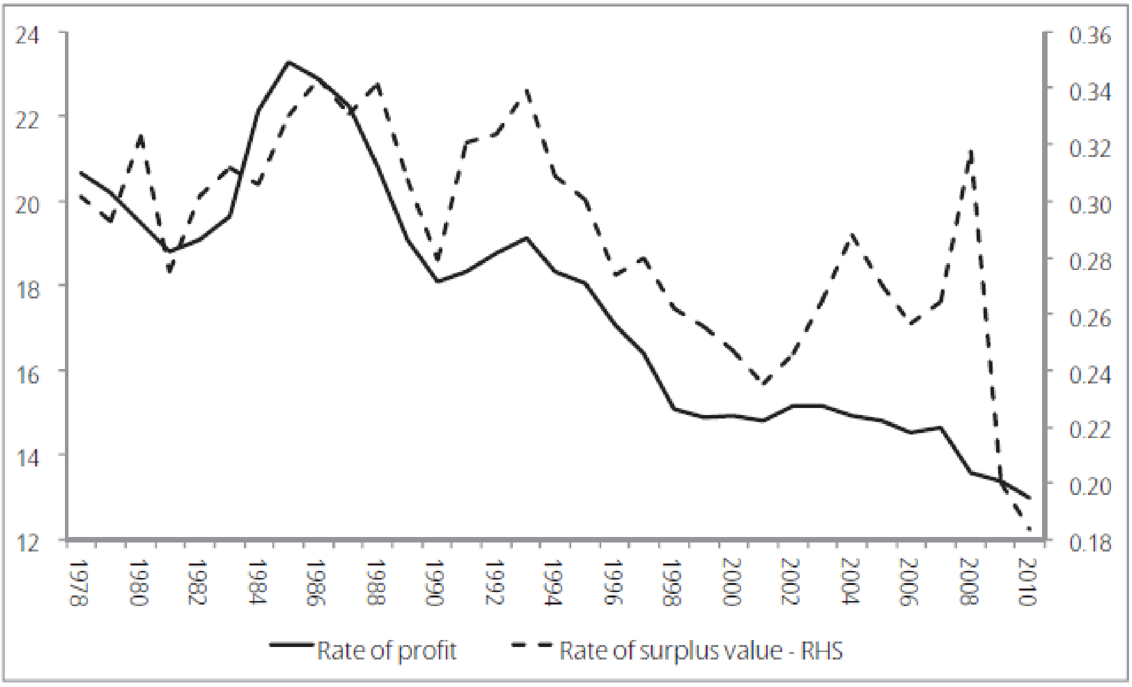


Source: Penn World Tables and Author's Caclulations

The reason the Japanese economy did not experience a cataclysmic slump like the US and major European economies was that the Japanese government followed the policy of maintaining the employment levels and very slow and gradual devalorization of capital. Therefore, though it could not avoid the crisis, but the same was stretched over a long period dragging Japan down to constantly low growth rates and stagnation. It is only now that the Japanese economy is showing some early signs of emerging from the shocks of 1970s.

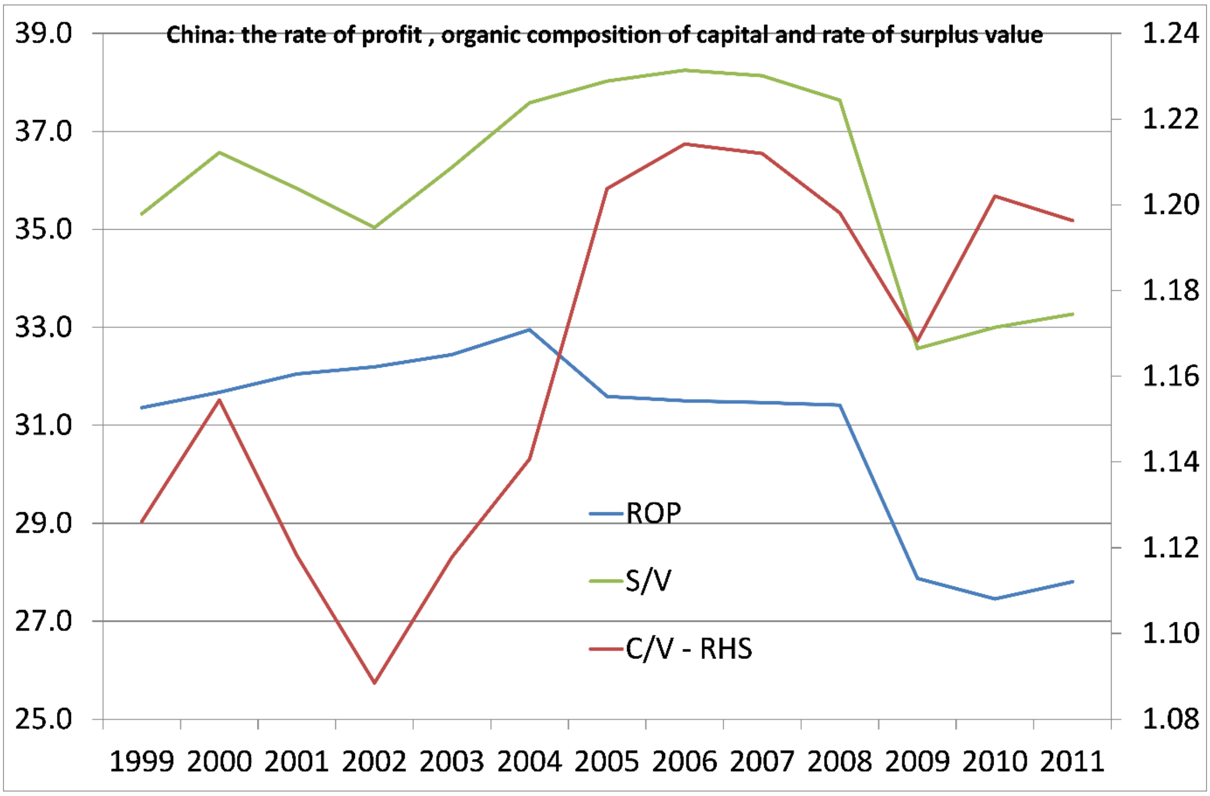
Now let us have look at the most celebrated "engine of economic growth", namely, China. The story is no different in this case.

China Rate of Profit (%) and the Rate of Surplus Value (Ratio to Wages), 1978–2010



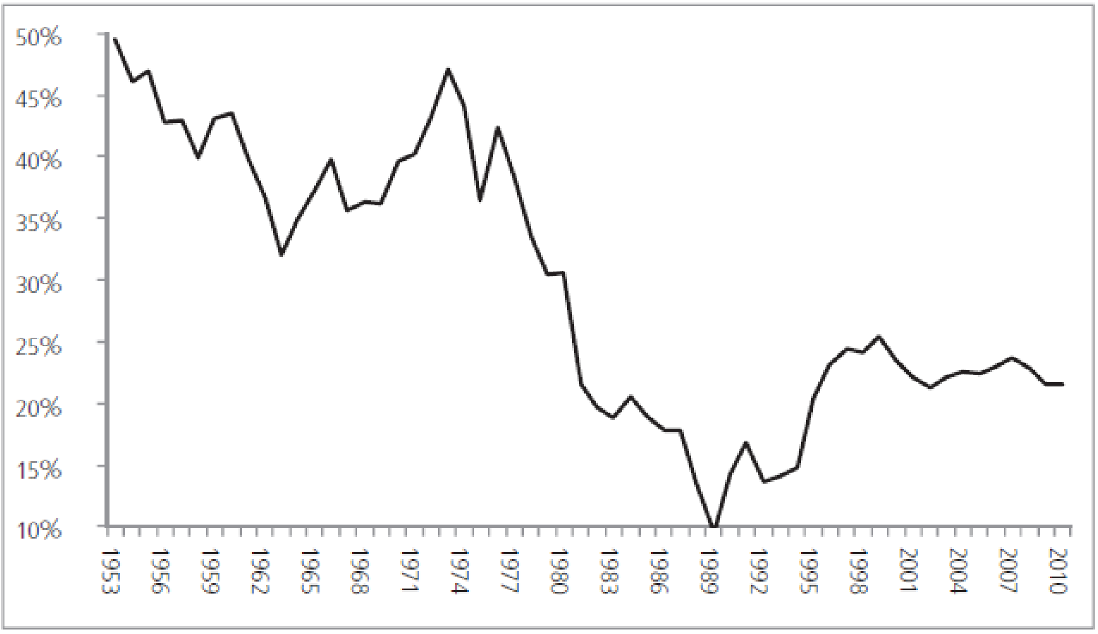
Source: China National Statistics, Author's Calculations

Just like in the figures relating to the US economy, we can see a clear correlation between the movements of rate of profit and the rate of surplus value. The following figure shows the relation between OCC, rate of profit and rate of surplus value in the context of Chinese economy.



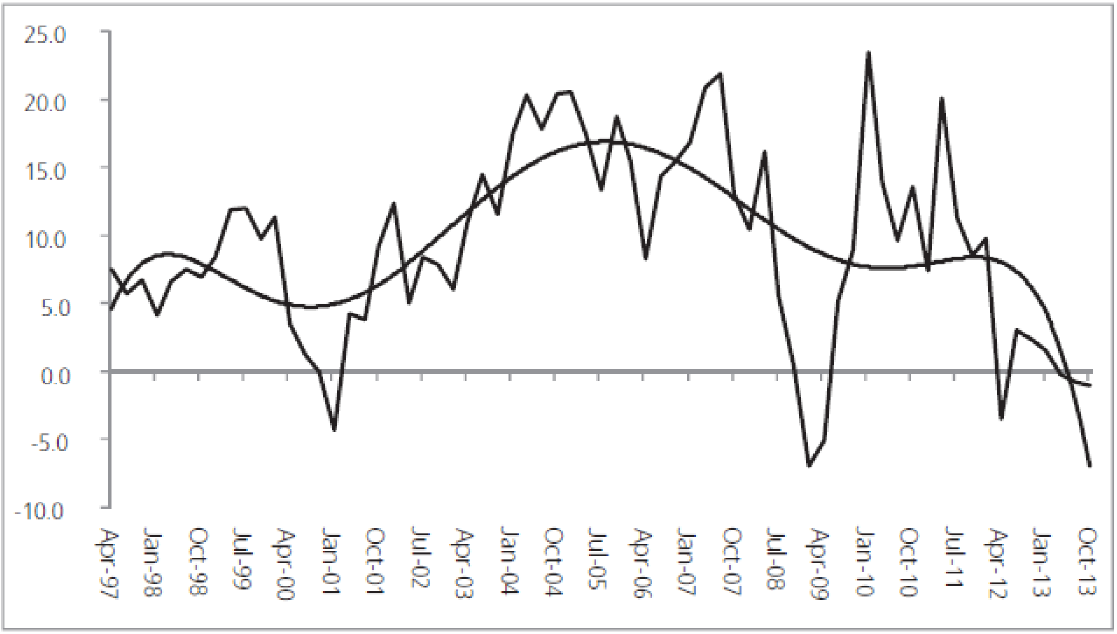
The same LTFRP can be seen unfolding in the case of the all the BRICS economies. The following figures show the patterns of rate of profit in Brazil and India.

Brazil Rate of Profit on Capital (%), 1953–2010



Source: E Maito

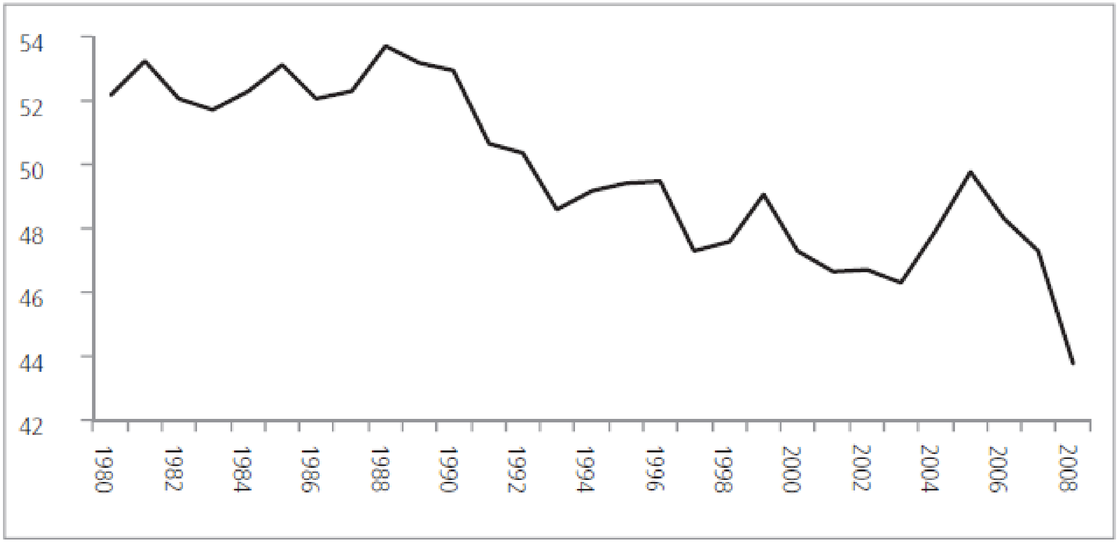
India Investment Growth (%), 1997–2013



Source: Extended Penn World Tables

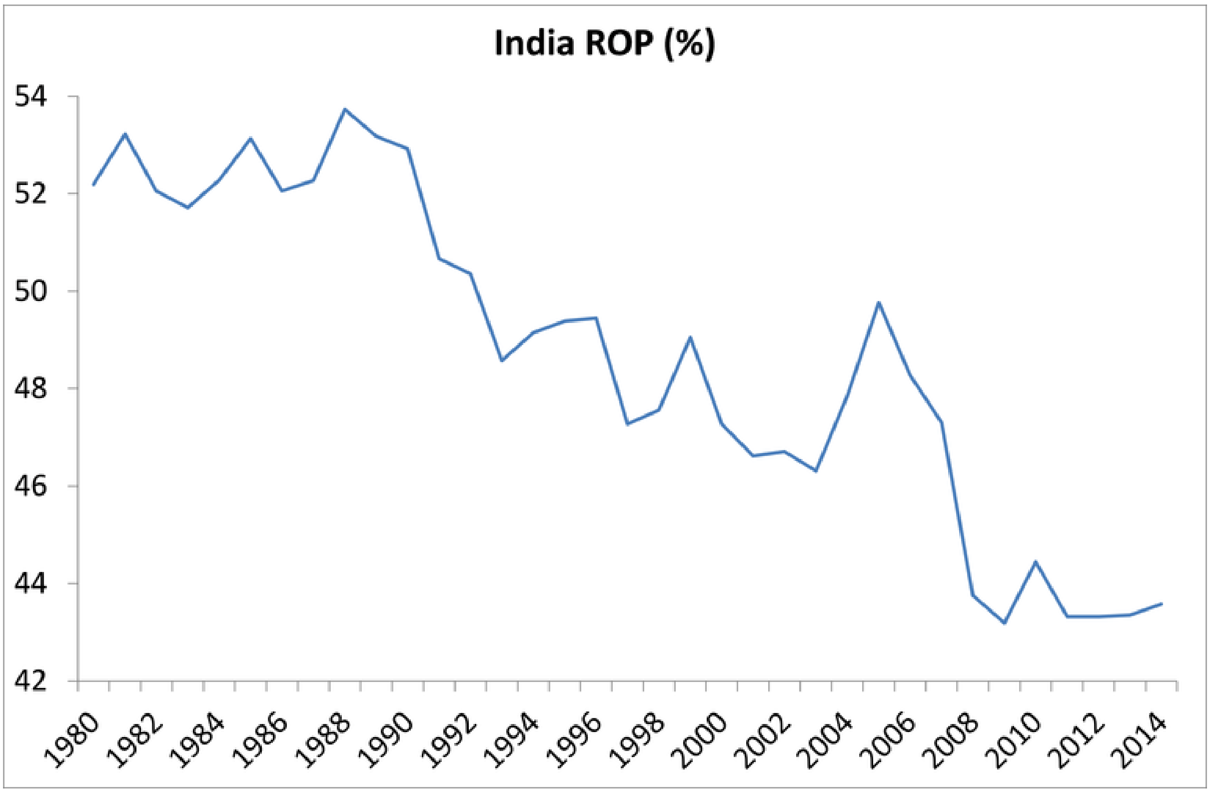
The above table shows the turbulence in the rates of investment from 1997 to 2013. The impact of declining profitability especially since July 2008 is clearly visible. Since profitability is regulator of investments in capitalism, the investments follow the rate of profit. If the latter falls, the former is bound to follow, as the above figure shows. Now let us see the movement of rate of profit on capital in the Indian economy.

India Rate of Profit on Capital (%), 1980–2008



Source: Extended Penn World Tables

The secular tendency of the decline of the rate of profit is visible. The following graph demonstrates the operation of LTFRP in the Indian economy.



Therefore, the so-called engines of growth and the so-called “super-exploitation” of labour in the countries like China, India, etc. has not prevented the rate of profit from falling. The LTFRP strikes like a law of nature under capitalism, despite the claims of the likes of Heinrich, Harvey, Gindin, Panitch, etc. Scores of graphs and tables can be presented to show that what people like Adam Smith, Thomas Malthus and David Ricardo observed can be observed today as well.

The reason is that the LTFRP is the fundamental law of capitalism. It is not the question of showing that it *must* fall, but the question of interpreting *why* it falls. Despite all the attempts to suppress this most important law of the capitalism, the law asserts itself like a force of nature. The reason why all bourgeois, petty-bourgeois (though ostensibly "left" of some kind!) political economists have shown remarkable class instinct in trying their best to refute this law of Marx is that it is this law that shows the transitory nature of the capitalism; it is this theory which shows that capitalism cannot be reformed, it can and must only be overthrown; it is this law which makes all prescriptions of Keynesian welfarism, a new "New Deal", increasing domestic demand, regulation of financial sector as romantic fantasies of the petty-bourgeoisie. That is the reason why all bourgeois and petty-bourgeois economists want to refute it at any cost and claim that the rate of profit does not fall. Had Marx been alive today, he would have said in the vein of Galileo: "And yet it falls!"

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[i] Based on Marx's *Capital*, there has been a debate among Marxist political economists since the early-20th century as to what constitutes Marx's theory of crisis: LTFRP, Disproportionality or Underconsumption. The theory of disproportionality was stressed by Tugan Baranovsky, Hilferding, etc. Rosa Luxemburg and later the 'Monthly Review School' presented an underconsumptionist theory. Lenin, Bukharin, Henryk Grossman, and now scholars like Shaikh, Roberts, Kliman, Carchedi, etc have shown that it is LTFRP that according to Marx is the basic underlying cause of crisis.

[ii] It is useful to discuss Heinrich's views on value and exchange value because it is fundamental to understand his position on LTFRP too. Heinrich criticizes the substantialist interpretations of Marx's concept of value, stemming from neo-Ricardians, Sraffians and Marxists influenced by this perspective like Maurice Dobb and Ronald Meek. Heinrich argues that while being obsessed with the magnitude of value these substantialists forget to analyze and understand the value-form. In the process of critiquing the substantialism of these interpretations Heinrich falls prey to what Alex Callinicos has called 'etherealism' and what I would term as 'dephysicalization' of the concept of value. A non-dialectical focus on the value-form has prevented Heinrich and the likes from developing a quantitative theory of capitalism, which was one of the projects of Marx. Heinrich argues that value first exists in exchange and that the substance of value is not inherent to individual commodities, but is bestowed mutually in the act of exchange. A similar idea was developed by I.I. Rubin in his *Essays on Marx's Theory of Value*. He argued that Marx's concept of abstract labour is not a physiological concept and abstract labour is not just a theoretical abstraction to arrive at a measure of value. Abstract labour is a result of *social equalization* of concrete labour which happens only through the act of exchange. It has been pointed out by many scholars that law of value comes into full operation only when commodity production becomes generalized, that is, when capitalist mode of production comes into existence. The problem with Rubin's argument is that he cannot visualize social equalization of labour without the act of exchange. Lucia Pradella and Alfred Saad-Filho as well as others have shown that the social equalization of labour takes place in capitalist mode of production even before the act of exchange. Because this argument of Rubin ultimately leads him to the conclusion that value comes into existence only in the act of exchange. The fact that this phrase 'average social labour necessary for production of a commodity' itself expresses a social equalization and it is not totally *ex-post* but becomes a real thing before exchange. It keeps changing through the repeated acts of exchange. Secondly, if we take this factor into consideration we cannot simply reject the physiological concept of abstract labour. Marx himself defined abstract labour as such. Again, in a way of contradicting himself Rubin accepts that abstract labour does have a quantitative side but the equality of these quantities can only be established by exchange; however, Rubin continues, even before the act of exchange quantities of labour can be measured by four material-technical and physiological properties: the length of labour expenditure or the quantity of work time, the intensity of labour, the qualification of labour and the quantity of products produced in a unit of time. The last two yardsticks are certainly wrong. The qualification of labour does not really affect the determination of value according to labour time because all labour can be reduced to universal social labour. The last yardstick too is incorrect because the quantity of use values produced in the same time has nothing to do with value determination because the same value (embodied labour time) will be spread over a larger mass of use values and the production of total value will be the same. It seems that after too much de-substantiation of the concept of value, he was obliged to add an arbitrary list. Still, he admitted the measurement of abstract labour before exchange within certain limits.

Heinrich differs from Rubin here and argues that abstract labour cannot be measured in labour time. Only concrete labour can be measured in labour time. Abstract social labour for Heinrich is a relation of social validation which is constituted in exchange. Heinrich continues, "In exchange the concrete acts of expended labour count as a particular quantum of value-constituting abstract labour, or are valid as a specific quantum of abstract labour, and therefore as an element of the total labour of society." However, Marx believed that abstract labour is expediture of human labour power in abstract and in general. Marx in a late writing 'Notes on Wagner' writes: "This duality of the commodity there presents itself as the dual character of labour whose product it is: of useful labour, i.e., the concrete modes of the labours which create use-values and of abstract labour, of labour as expenditure of labour power, regardless of the 'useful' way in which it is expended..." Heinrich's argument is 'etherealization' of the concept of value which tantamount to the rejection of Marx's concept of value which understands the value-form as a social relation that came into existence at a particular moment in history and will diminish at a particular moment, and also as a quantity that can be measured. Therefore, the very theory of value is at stake in this criticism by Heinrich. Christian Fuchs asks a question that in my opinion is the 'Achilles Heel' for all de-physcializationist interpretations of value-form. Fuchs comments, "The problem that I see is that Heinrich's approach implies that no exploitation has taken place if a commodity is not sold."

Michael Heinrich also critiques Marx for arguing that the universal equivalent or money must assume a form of money commodity. According to Heinrich money takes the form of money commodity in a particular phase of capitalism and it has nothing to do with general logic of capitalism. First of all, Dimitric Milonakis, Ben Fine, Fred Moseley etc have refuted this argument by saying that Marx's theory does not preclude the possibility of fiat money. It allows for the possibility of money commodity being replaced by symbols of money and symbols of value. Marx was firm that it is only Gold that can play the role of world currency for the final settlements of accounts between the central banks of different nations. Marx rejected any theory which 'explains' the value of money by convention or state compulsion. It would require a world government, which is not possible under capitalism. However, Marx recognized the role of the state in the establishment of an accepted international means of exchange and payment, credit, etc. i.e., international money. Marx believed that paper money with a fixed rate of exchange can be imposed by state authority *within given limits.* It seems to me that with the collapse of the optical illusion of 'unipolar world' which emerged after the collapse of Soviet Union, this prognosis of Marx has been proven correct.

[iii] Let us assume that the totol labour time is TLT. If the surplus is to be extracted, it must be divided into Necessary Labour Time (NLT) and Surplus Labour Time (SLT); in the former, the worker reproduces the value equivalent to the value of his labour power in the form of commodities; in the latter, he produces as gratis for the capitalist, the source of surplus value. Therefore,

SLT = TLT – NLT

Rate of Surplus value = SLT/NLT or s/v

Rate of Profit = s/c+v

s = TLT -NLT.

Therefore, even if NLT tends to become 0, the maximum limit of s will be, s = TLT.

Consequently, s_{max} = TLT.

But, the rate of profit = s/c+v; if the v tends to 0, then the highest limit of s will be: s_{max}/c. Once this limit is reached, the increase in the rate of surplus value cannot counter-act the decline in the rate of profit. Therefore, ultimately, the rate of profit will fall.