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An Introduction to Radical Theories of Economic Crisis

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INTRODUCTION

On April 20, 1987, after several years of alleged economic recovery, a *Business Week*'s "special report" on the United States economy pointed to faltering real growth, falling living standards, widening income inequalities, and the increasing debts of consumers, corporations, and the government. Notable is its title: "Can America Compete"? Gone are the days when the United States could stand aloof from the world economy and enjoy nationally-based prosperity. The world is no longer dominated by the economic might of the United States. Rather, we see intense international competition and uncertainty. In December 1986, looking from another angle, the Third World business magazine *South* warned us to "Stand by for the Crash" as the United States responds to its increasing debt to the rest of the world by cutting its imports and expanding its exports, intensifying and widening the current world depression. To banker Felix Rohatyn (1987:3), the question is, not if "a financial and economic crisis" will occur but "when and how," *despite* some short-term signs of prosperity.

To understand the predicament of the last fifteen years, to go beyond the superficial coverage of the business press, we must first move to a more theoretical level. Radical (or leftist) economists use several theories to analyze the social and economic system, including Marxian, feminist, anti-racist, Keynesian, and institutionalist ideas. But to decipher the quagmire of the 1970s and 1980s, it is Karl Marx who promises insights into "the laws of motion" of capitalism (1967a:10).

This paper surveys both Marxian crisis theory and modern leftist contributions to our understanding of how economic disaster can result from the workings of capitalism. Rather than presenting a rigorous analysis of the impasse of the late 1980s, however, this paper presents some theoretical perspectives. For more down to earth analyses of the current economic bind, see the other articles in this volume.

Before starting with theory, "crisis" must be defined. To Marxists, a crisis is a major and threatening disruption of the growth of a social and economic system, usually generated by that system itself. There are two main types. First, there are short-term or cyclical crises, such as the 1980 and 1981–82 recessions. Second, there are long-term or structural crises — often leading to deep political and social stalemates — such as the Great Depression of the 1930s and the Great Stagflation of the 1970s and its aftermath, the shaky "recovery" of the Reagan years. These will be called "impasses" below.

To analyze both short-term crises and impasses, we start with the abstract and work back to the real world of the late 1980s. This corresponds to a movement from the classical works of Marx to recent research. After a bird's eye view of Marxian crisis theory, our survey turns to the basic process of capitalist growth, the forces leading to its disruption, and the ways in which this trauma can occur.

Marx never presented a complete and unified theory of economic crises and impasses. Instead we see an often productive debate between three main schools of leftist political economy, which is discussed next. Each of the schools presents a distinct view of the forces causing impasses and long-term prosperity. This brings us back to the current quagmire of United States and world capitalism.

Two sections on vital facets of leftist macroeconomics end this survey. First, the monetary and fiscal dimensions of economic crises are discussed, making clear the limits to government macroeconomic policy. Second, the causes of inflation and stagflation are probed. These theories are useful to partisans of all schools and to the skeptical or uncommitted.

MARXIAN CRISIS THEORY: AN OVERVIEW

Marx's view of history and the internal contradictions of economic modes of production are the basis of crisis theory.[1] A "mode of production" combines forces of production and social relations of production. The former consist of the tools, machines, and buildings used in production, plus scientific and technological knowledge and the skills of working people. On the other hand, the production relations are institutions, seen in laws and property rights, organizing production — including a surplus above subsistence needs.[1] For Marx, crises arise because a mode of production generates forces of production that clash with existing relations of production (1973:749).

Crises under capitalism differ from those of other modes of production (ancient slavery, feudalism, and so forth). Feudalism, the system that preceded capitalism in Europe, suffered from agricultural underproduction (i.e., crop failure). Under feudal serfdom, neither the tillers of the soil nor the lords had much incentive to improve agricultural technology. Crises thus arose because food supplies did not grow as fast as the population (Brenner 1976). Capitalism, on the other hand, is an expansive, always-changing, and disruptive system. "All that is solid melts into air" under the onslaught of the capitalist juggernaut.[3] To Marx, capitalism does not stagnate like feudalism, but expands or accumulates too much for its own good.

The possibility of crisis arises first from the use of money, rather than barter, in exchange. This allows purchases and sales to be separated in time and space. Marx thus rejected Say's "law" which claimed that, on average, all which was supplied would be purchased (Marx 1967a:114n). Unlike feudalism, capitalism can suffer from *over*production: no matter how a crisis starts, producers find themselves unable to sell as much as they have produced and still receive the profits they crave. Because capitalism is dominated by production for profit rather than for use, consumers are denied access to useful and even necessary goods when production or sale is unprofitable.

The "anarchy of production," the fact that capitalist growth is unplanned, also encourages crises. For capitalism to grow harmoniously, the different sectors must expand in unison, in proportion. But no "invisible hand" exists to guide capitalists to expand their operations in step. So "disproportionalities" arise among sectors (Marx 1967b: Chaps. 20, 21). This makes crises normal to the capitalist system.

However, Marx argued that both the use of money and the anarchy of production explain only the possibility of crisis, not the actual crisis. Disproportionalities are *results* rather than causes. So deeper analysis is needed. In the *Communist Manifesto,* Marx and Engels blamed crises on "too much civilization, too much means of subsistence, too

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much industry, too much commerce'' (quoted in Tucker 1978:478). In a word, crises arise from *over-accumulation:* capitalism's failure is based on its previous success. Further, over-accumulation results as capitalism drives itself against barriers of its own creation, not only those imposed by nature. ''The *true barrier* of capitalist production is *capital itself*'' (Marx 1967c:250, his emphasis). This typically creates imbalances that hurt the profitability of production, slowing accumulation. Then disproportionalities arise and spread, causing a general collapse. Production and employment fall drastically.

CAPITALIST ACCUMULATION AND CRISIS

Now we investigate capitalism in more detail, to understand the accumulation process, the rate of profit, and the ways in which accumulation can hurt the profit rate. This gives us some basic ideas on short-term crises and building blocks for the next section.

Marx used the following ''circuit of capital'' diagram to examine a typical capitalist process of spending money to make more money (1967b: Chaps. 1–4):

$$M - C\ (LP, RM, MP) \ldots\ P \ldots\ C' - M + S$$

At the start of this production-realization chain, the capitalist puts out money (M) to buy the commodity inputs for production (C): labor-power (the ability to work, LP), raw materials (RM), and means of production (factories, machinery, and tools, MP). Next, in production (P), labor uses the MP to transform the RM into new commodities (C′), which are then owned by the capitalist. In this phase, some of the capitalist's money is usually tied up for a long time as ''fixed capital,'' as with machinery and factories. The capitalist's goal is to sell the new product C′ and to realize not only the initial M but an extra amount (S).

To Marx, the bonus S is surplus value: it is value that workers create beyond that needed to pay for their ability to work (their labor-power). Further, surplus value is the fount of total profit income (industrial and commercial profit, interest, and rent). The S can be positive because workers have no way to earn their livelihood but to work for the capitalists. The ''reserve army'' of unemployed workers usually threatens and competes with employed workers, so that wages are kept low enough to allow the production of S. Surplus value is the basis not only for exalted capitalist living-standards but for accumulation, i.e., expansion of their capital (LP, MP, RM). This increases their capacity to acquire surplus value. It also draws more and more of the world into the capitalist orbit.

Because capitalism is not a simple and peaceful system of small vendors (as seen in mainstream economics), accumulation can be driven to break the production-realization chain. The system suffers from two basic tensions. First, class antagonism wracks the system, since the extraction of surplus value creates enmity between classes, especially in production. Second, competition is a battle, a continual jockeying for position among businesses. No firm can keep a protected position for long. This contest imposes ''coercive laws'' on capitalists, compelling them ''to keep extending [their] capital in order to preserve it'' (Marx 1967a:592). Because of the threat to their survival, accumulation is not voluntary, unless capitalists are willing to abandon their privileges. This can drive them into crises despite all intentions.

The crisis occurs when this forced accumulation produces over-accumulation, breaking the production-realization chain and depressing profit rates. Since profits are the

main source of accumulation funds and the profit rate gives capitalists the incentive to invest, profitability's fall eventually means slower accumulation and, thus, a recession.

Before returning to the breaking chain, we examine the profit rate (r).[4] Since capitalists tie up their money for long periods in fixed capital, they care about the ratio of profit income (S) to the fixed capital (K):

$$r = S/K = (S/Y)\ (Y/Z)/(K/Z)$$

where S/Y is the share of profits in total income (Y). This ratio is directly linked to Marx's "rate of surplus-value." Second, Y/Z is the rate of capacity utilization, i.e., the ratio between actual output and income (Y) and what would be produced if capitalists were using all of their fixed capital or capacity (Z). Finally, K/Z is the ratio of the fixed capital to full-capacity output. This is directly related to Marx's "organic composition of capital," measuring the degree to which capitalists use fixed capital.

Following the lead of Weisskopf, Bowles and Gordon's article below, if we bring in the roles of foreign trade and government tax policies, then we conclude that the profit rate can be hurt by not only (1) a falling profit share of income (S/Y), (2) a falling rate of capacity utilization (Y/Z), or (3) a rising fixed capital-to-capacity ratio (K/Z) as indicated by the equation above but also, (4) a falling terms of trade (United States export prices divided by import prices) or, (5) a rising tax burden on profits. All but the last of these fit with Marx's original analysis of breaking links in the circuit of capital.

The first weak link in the production-realization chain is at M − C: capitalism can expand "too much" compared to labor-power supplies, causing wages to rise faster than labor productivity (output per worker) (see Marx 1967a: Chap. 25, sect. 1). This over-accumulation can also affect production (P): the discipline imposed by the reserve army of unemployed workers is sapped so that employed workers lose some of the incentive to labor and to produce surplus value. This "wage squeeze" depresses the rate of surplus value and the income share of profits (S/Y). If the other variables do not change, the profit rate falls. A main proposition is that capitalism cannot tolerate lasting high employment of labor-power. Either a state-planned recession, known as the "political business cycle" (see Kalecki 1943), or slowing accumulation are needed to recreate the reserve army of the unemployed and to boost profitability (Goldstein 1982). Many point to the late 1960s, when official unemployment fell below 4 percent of the labor force, as an example of this kind of wage squeeze on profits (Boddy and Crotty 1975; Armstrong, Glyn and Harrison 1984).

Similarly, in the M − C phase, over-accumulation can occur relative to raw material supplies (Marx 1968:517–519). For example, the drastic oil price hike of 1973 is often blamed on the Organization of Petroleum Exporting Countries (OPEC) or the major oil companies. But many Marxists point to the worldwide surge in energy demand as creating the conditions for the price rise (Armstrong, Glyn and Harrison 1984). This hurt the United States terms of trade, in trade with the rest of the world, and thus, the profit rate (except for oil-producing corporations and nations). This was the "oil crisis."

The second possible snag is in production (P), where class conflict or excessive mechanization can hurt profit rates. The former, the conflict in the capitalist production process, was discussed above. The latter raises the organic composition of capital and K/Z (Marx 1967c: Chap. 13). Unlike other causes of crisis, this one is usually not

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invoked to explain short-term or cyclical crises. Instead, it is seen as a long-term problem dragging down capitalist accumulation (see below).

After the supply-side links comes the demand side, C′ − M + S. Total demand for final products may be too weak to allow realization of as much profit as was produced, causing a ''realization crisis'' (Marx 1967c: Chap. 15). The utilization of capacity (Y/Z) falls, depressing the rate of profit. In classic Marxian thought, these events resulted as accumulation slowed, due to supply-side depression of the profit rate. Many modern leftists, however, see realization problems as a possible cause of the crisis itself: slow growth of wages (relative to productivity) limits consumer demand, causing *underconsumption*.[5] This problem is at the heart of the monopoly/underconsumption theory (see below). Others see underconsumption as contributing to the world collapse of 1929–33 (Devine 1983). Below, Edward Nell presents a view of the current quagmire that involves underconsumption.

At this point, a simple perspective on cyclical crises can be summarized. Accumulation can break each of the links in the production-realization chain. Which link breaks depends on the conditions capitalism encounters, which vary between historical eras. At times realization (demand) conditions allow for high profitability, as in the late 1960s. But then poor production conditions (high wages, low work effort, high K/Z, etc.) make the profit rate too low for steady accumulation. On the other hand, production conditions can be good for profits, encouraging strong accumulation, as when unemployment is high. But under these conditions, realization conditions are poor, blocking growth. Driven by competitive strife, capitalism careens between the two horns of this dilemma, what Marx saw as a contradiction between production and realization (1967c:244–245).[6]

To Marx, crises are restorative, causing the purging of imbalances created by accumulation. Capitalism's internal contradictions ''lead to explosions, cataclysms, [and] crises in which by momentaneous suspension of labor and annihilation of a great portion of capital the latter is violently reduced to the point where it can go on'' with accumulation (Marx 1973:750).[7] So ''permanent crises do not exist'' (Marx 1968:497n). Though a downturn restores more ''normal'' accumulation, the purging is hardly painless to capitalists: many go bankrupt, while financial collapse may occur. Worse, opposition to the system may intensify and crystallize, perhaps to the point of overthrow. Even without the rise of a revolutionary movement, the purging may take a long time. So, though crises may not be permanent, an impasse may last for a long time, as in the Great Depression or the Great Stagflation.

ALTERNATIVE THEORIES OF THE IMPASSE

Turning now to impasses, we must also consider their opposite, long-term prosperity such as that of the 1950s and 1960s. Here modern leftist economists present several distinct major theories, emphasizing different basic tensions driving the system and primary factors lowering the profit rate. Despite this controversy, the main modern radical views of long-term booms and stagnations have similar patterns. Each sees capitalism as suffering from a clash between, (1) an underlying tendency that hurts the profit rate and, (2) counteracting tendencies that can boost it. The former are seen as inherent in capitalism as an economic system, while counter-tendencies are assumed to exist only during a few specific historical eras.[8] The counter-tendencies can swamp the

basic drift, causing long-term prosperity. But when the underlying bias wins, profit rates fall over long periods and an impasse results. Below, Fred Moseley, Mark Glick, and Anwar Shaikh provide evidence for the profit rate's fall before the Great Stagflation of the 1970s.

Now we consider each of the main schools, which are named according to the basic tendency emphasized, i.e., the primary factor pulling down the profit rate.[9] It should be noted from the start that there are differences even within schools and that some radical economists (including this author) do not fit in any of the three camps. Still, the three-fold division does give us the broad outlines of the debates within radical economics.

First, the "rising organic composition" school — seen in the articles by David Laibman and Anwar Shaikh below — is closest to Marx in seeing crises as stemming primarily from a clash of the forces and relations of production. The competitive battle pushes capitalists to mechanize production, increasing the organic composition of capital and K/Z. Some authors see high wages as encouraging this result. Given societal limits on rises in the rate of surplus value (and R/Z) and the rate of capacity use, the profit rate falls. A long-term tendency for profit rates to fall leads to increasingly severe crises and class struggles, permanently undermining the system's viability (see, for example, Gillman 1958:Chap. 1).

But the profit rate is not *always* falling. Counteracting forces such as the world-wide expansion of capitalism can boost profit rates for a certain period of time (Marx 1967c:Chap. 14).[10] One author, Ernest Mandel, emphasizes the basic innovations in energy technology to explain the post-World War II affluence and previous long periods of growth (1975:Chap. 4). The impasse after 1970 is seen as a victory of the profit-depressing tendency over the counter-tendencies.

Second, the "social conflict" school — including the article by David Gordon, Tom Weisskopf, and Sam Bowles below — stresses conflict in social relations, in causing impasses, and largely ignores the roles of competition and technical change. They build on the theory of a wage squeeze on profits mentioned in the previous section, but see social conflict as crucial even beyond the realm of worker-capitalist relations. Not only acrimony between social groups within the United States, but also pressure on corporations from the government and international discord, tend to disrupt the system. If unchecked, the conflicts sap profitability and thus, prosperity.

As before, capitalism does not always experience conflict-induced profit squeezes. Rather, "accords" between classes, groups, and nations can temper conflict for long periods of time. Together, these implicit truces form "Social Structures of Accumulation" (SSAs). Weisskopf, Bowles and Gordon argue, below, that prosperity after World War II rested on an SSA consisting of accords between capitalists and workers, between capitalists and citizens, and between the United States and other nations. Eventually the basic conflicts made the SSA obsolete and depressed profit rates.

The third strain of leftist economics is the "monopoly/underconsumption" school, represented by John Bellamy Foster's article below. As Marx had predicted, capitalist accumulation implied the rise of the giant corporation (1967a:624–627). In the monopoly/underconsumption view, this altered the system's laws of motion by curbing competition — and capitalist dynamism. The income distribution tends to shift to help capitalists, raising the rate of surplus value and R/Y. But low wages make consumer demand grow

too slowly, which in turn makes companies afraid to accumulate (invest). Thus, demand is too weak to realize the full rise in R/Y. Because of the basic underconsumption tendency, capitalism automatically sinks into stagnation like that of the Great Depression, and stays there.

As with the other views, counteracting forces explain periods of relative prosperity. Wars, military spending, credit expansion, and epoch-making innovations create opportunities for investment and thus stimulate growth. The last counter-tendency refers to the spread of inventions such as the steam engine in the nineteenth century and the internal-combustion engine in the twentieth.[11] When these forces are depleted, stagnation returns.

Criticisms of these three schools focus on the basic tendencies. For the rising organic composition view, many have criticized the theory that K/Z rises enough to actually cause a fall in profit rates, especially since there are so many counter-tendencies. In fact, a rising organic composition encourages productivity to rise, which allows a rise in the rate of surplus value (with real wages constant). Critics of the social conflict school doubt that conflict always disrupts capitalism: divisions in the United States working class are rampant, while capitalists often compete with each other. Sometimes workers and capitalists ally with each other, for example, for special benefits from the government. Second, are there no other laws of motion of the system besides conflict? The monopoly/underconsumption view has also been subject to strong criticisms. Much doubt concerns the emphasis on monopoly, especially in a period of intense international competition such as the 1980s, and the presumed reversal of capitalism's dynamism. Second, is it reasonable to assume that the working class is *always* so weak that wages fall behind productivity?

Next, because these three views are so abstract, they are incomplete: important elements of the current impasse seem to have been missed or played down. For example, the differences between the current impasse and previous long-term crises (or between long prosperities) might be forgotten if we stay so theoretical.[12] One key historical difference between the post-World War II era and before was the United States international predominance in manufacturing. The power of United States industry can be seen as allowing the domestic accords posited by the social conflict school — or as counteracting the basic tendencies seen by the other two camps. If so, then *deindustrialization*, the relative obsolescence of United States industry and intensifying competition from abroad, must have played a role in the resurrection of fundamental tendencies toward impasse. Even if one rejects the three basic tendencies, deindustrialization is crucial.[13] The *Business Week* emphasis on boosting productivity reflects the problem of deindustrialization. Further, the growing movement of capital to more profitable climes — or at least the *threat* of capital flight — destabilized the domestic economy, as argued by Bluestone and Harrison (1982). The re-emergence of intense international competition also unhinged the international Bretton Woods system.[14] Finally, we have to probe the role of the intensifying debt crisis of the underdeveloped nations, as in Art MacEwan and Cheryl Payer's articles below.

Going further from the abstract to our own experiences, we must bring in the diverse impacts of the impasse on different groups within the working class. For example, how has the impasse affected ethnic minorities? Is the "feminization of poverty" partly the result of the economic quagmire? Have some industries and regions been exempted from

the more general mess? These issues are discussed in the accompanying volume, *Through the Safety Net*.

Despite the differences between the schools and the criticisms above, leftist economists do agree the recovery from the current impasse is far from automatic: the resurrection of tendencies promoting prosperity seems unlikely. Many predict the continuation of the current malaise for decades. Alternatively, the crisis could intensify as the world debt crisis, international rivalry and protectionism, and the plight of primary producers, stimulate economic and financial collapse.

To understand this last possibility, we must consider important aspects of the current mess, the roles of money, the government, inflation, and stagflation.

THE ROLE OF MONEY AND THE GOVERNMENT

In all the theories above, the profit rate's fall implies over-production, recession, or even long-term stagnation. On the other hand, Keynesian economics promises that monetary policy and the government's fiscal policy can prevent or at least moderate crises and impasses. All leftist economists are skeptical of this claim. Again we emphasize the work of recent authors, and play down the work of Marx himself, who wrote about a very different monetary and governmental environment. For more discussion of Marx's view of money and crisis, see James Crotty's article below.

Consider monetary issues first. The flow of M is clearly important since it appears twice in the production-realization chain. M need not be hard cash; in fact, most of it is credit (loans), allowing capitalists to spend beyond their current incomes. Leftist economists typically differ from the mainstream in seeing credit supplies as being mostly outside of the control of a central bank such as the Federal Reserve.[15] As textbooks emphasize, the banking system "creates credit" through lending. This is also true of other financial institutions, such as mutual funds. It is becoming increasingly clear that this credit creation is not predictable or regular. Being profit-seekers, financiers actively compete to loan. They then seek ways to finance their credit-creation by borrowing. Two methods stand out: the issuance of new kinds of IOUs to sell to the public (for example, Certificates of Deposit) and the use of international credit markets (such as the Eurocurrency market). All of this encourages rapid change in financial institutions, which may easily get out of the central bank's control. Nowadays, the Fed has the ability to cause only large changes in credit supplies, causing extreme pressure on the viability of the banking system, depression, or severe inflation. It is unable to "fine-tune" money supply growth (as suggested by Milton Friedman and the monetarists) to keep it on some pre-determined path.

The credit system is affected by the dynamics of accumulation. With profit rates sliding, how can industrial capitalists pay for the accumulation needed to survive the competitive battle? They increasingly turn to borrowing to pay for accumulation: Robert Pollin's article below argues that excessive corporate debt in the 1980s resulted from the long-term fall in profit rates. The banking system is glad to provide (at a price, indicated by interest rates and so forth). Because capitalists need not cut back on accumulation, growing debt puts off the onset of the crisis-and-downturn. But credit later can intensify a downturn: debts eventually have to be paid off out of profits, which is difficult with profit rates falling. Greater accumulation of debts to help paying for past ones makes the

financial system more fragile (prone to collapse). Given excessive indebtedness, a recession can be amplified by a financial panic, involving a scramble for hard cash to pay the interest and principal on the loans. Massive bankruptcies of industrial companies and runs on the financial institutions can make the recession more profound, as in the early 1930s.

Though recent experience in the United States has been milder than at the onset of the Great Depression, each of the business cycle peaks after the early 1960s, has coincided with a financial crisis as seen in Henry Martin's article below. Worse, the problem seems to be intensifying. This is the problem referred to by Felix Rohatyn at the start of this essay.

Not all financial crises result from low profit rates.[16] Financial bubbles and panics have arisen on occasion because "Wall Street" speculation about future profitability often has little connection with the real world of capitalist production. If the production-realization process is itself ready for a fall, financial panics can hurt "real" accumulation, as with the stock market crash of 1929.

If government monetary policy is weak, what about fiscal policy? Keynesian use of government deficits to steer the economy started with the early 1960s and climaxed with Reagan's record-breaking deficits. Though such policies clearly affect aggregate demand, capacity utilization, and thus profit rates, they have severe shortcomings. Keynesian policies cannot abolish the underlying crisis tendencies of capitalism; they allow greater surplus-value realization but typically do not promote surplus value production. They thus cannot erase the wage-squeeze or rises in the organic composition of capital. Even in the monopoly/underconsumption view, stabilization requires steadily increasing deficits.

Further, leftist economists point to the long-term negative results of the government policies involved. For example, because it does not compete with capitalist investments, Keynesianism is most likely to be based on military spending. Indeed, military Keynesianism is key to the dubious Reagan "recovery." Any resulting prosperity, however, is purchased at the cost of waste, inflation, or even war.

Second, state demand management become increasingly difficult in an international system of competing nation-states with capital that can easily move to more profitable locales. The limited "success" of Keynesian policies in the 1960s arose because of the United States dominance in the world at the time. In the 1980s, large United States government deficits often helped foreign economies more than domestic producers. Sectors such as the farmers and other exporting industries fell behind. United States policy-makers now try to promote domestic stability by begging foreign countries (especially West Germany and Japan) to engage in appropriate policies!

Both fiscal and monetary policies are shaped and limited by capitalist laws of motion. Because of class discord, the state's efforts to promote profitable accumulation can increase popular disenchantment with business leaders and mainstream politicians.[17] Second, competition among capitalists affects state policies: different fractions of the capitalist class press their goals through political action committees and lobbyists, often clashing with each other and with the long-term needs of the capitalist system. These so-called "special interests" sometimes ally with unorganized segments of the working class and even unions to drum up support for everything from pork-barrel programs to protectionism.

The personal goals of politicians play a role in determining the timing of booms and recessions. The current system of presidential election and the popularity of falling unemployment rates make it likely that booms will occur before elections and recessions soon after (see Tufte 1978). This helps explain the economic booms of 1972, 1976, and 1984. Sometimes, however, the threat of upcoming elections may evoke contractionary policies, as in 1980. All of this suggests that the Keynesian ideal of abolishing crises through fiscal policy will never be reached.

The shaky prosperity of recent years has been based almost entirely on large government deficits rather than in the buoyancy of the economy. Deficits have meant a growing government debt, while interest on this debt has become increasingly important in the budget. Since government IOUs are largely owned by the rich, the recent trend toward increasing inequality between the incomes of the rich and poor has intensified. Moreover, much of the borrowing was from abroad, so that the United States now owes more to the rest of the world than vice-versa — for the first time since World War I. As noted at the start of this paper, *South* magazine and many others fear the effects on the world economy as the United States pushes exports and cuts imports to pay for its foreign debt.

INFLATION AND STAGFLATION

"Inflation" is a sustained increase in most prices in the economy. The modern leftist view of inflation can be understood by examining first demand and then supply. Despite this familiar framework, leftist economists reject the mainstream view of inflation as easy to abolish. (For more on inflation, see David Kotz's article below.)

On the demand side, the hard-to-control expansion of credit discussed above sets the stage for inflation (see Lipietz 1985). Credit allows capitalists and other borrowers to buy more goods and services than is justified by their incomes — or by current output. Corporate, government, and consumer borrowing causes inflation if commodity production does not expand quickly to serve demand. Modifying the old saw, "too much credit chasing too few goods" implies inflation.

Why, then, are there too few goods? This gets us to the supply side. One option is that too few resources (LP, MP, and RM) are available to allow the increase in production as demand increases. Low unemployment also undermines workers' incentive to produce output. In sum, we should expect inflation to be higher at lower unemployment rates, as in the late 1960s. This is the familiar "Phillips curve" seen in textbooks.

But as everybody knows from the experience of the 1970s, it is quite possible to have both high inflation and unemployment at the same time. In the 1980s, we see that though inflation eased, it continued *despite extremely high unemployment*. That is, how can we have "stagflation," a combination of acute unemployment and serious inflation (*stag*nation + in*flation*)? There is clearly some cause for inflation beyond "too few goods."

An obvious culprit besides low unemployment is "supply shocks." As is so often mentioned, the oil companies and OPEC raised oil prices dramatically in 1973–74 and 1979 (encouraged by high world demand for raw materials). These events clearly boosted inflation in those years, since oil is such an important raw material. But this view does not explain why the resulting inflation was more than just a one-shot increase in prices. Nor does it explain why ridding the economy of inflation has been such a long and painful process.

To answer these questions, we must examine the kind of inflation that has become "built into" the normal workings of a capitalist economy. This is "structural inflation" that persists even in the face of severe unemployment.[15] Structural inflation results from the conflicts between groups, among them labor, capitalists, middle-class groups, and OPEC, over the production and distribution of the product. Each group tries to win a larger share of the pie by restricting output and hiking prices. But since so many sectors are raising prices, no one can win for long. This implies that they must continue to jockey to improve or protect their incomes, or to make up for losses in their piece of the pie (see Rosenberg and Weisskopf 1981).[16] Once this multi-sided conflict over the production and distribution of the product starts, it is hard to stop without a drastic recession (as in 1980–82) or good luck (the falling or low oil prices of recent years).

What starts the structural inflation rolling? Lasting Phillips-curve inflation and large supply shocks are likely suspects: both the high employment in the late 1960s and the 1973–74 oil shock can be seen as helping to start the stubborn inflation of the 1970s. But leftist economists point to deeper causes, seeing spiraling structural inflation as part of the general economic malaise of the 1970s. Those who emphasize the role of monopoly argue that recessions, far from automatically dampening inflation, encourage corporations to raise prices: falling demand hurts capacity utilization and profit rates, so corporations hike prices to restore profit rates. (Below, David Kotz presents this view.) Those emphasizing the long-term fall in the rate of profit see that fall as encouraging inflation: raising prices seems at first to boost profitability, but since it does not do so in reality, capitalists end up futilely increasing prices without solving the conundrum of low profit rates (Devine 1986). Third, the social conflict school argues that a breakdown in the SSA unleashed structural inflation, while political stalemate prevented the deep recession needed to abolish the inflation (Bowles, Gordon and Weisskopf 1983:116–119).

The last two decades have been labeled the Great Stagflation because increasing structural inflation has made state policies less able to maintain full employment, even as officially defined. Longer and deeper recessions have been needed to tame inflation (even when the United States has been lucky with oil prices). It also pushes government policy-makers and mainstream economists to weaken full-employment targets to cover up policy failures: while many talked of 4 percent official unemployment as "full employment" in the 1960s, now 6 percent or even 7 percent is targeted.[17] It is leftist economists' contention that this lowering of goals and these policy failures are reflections of the basic flaws of capitalism as a system that lead to the impasse.

ACKNOWLEDGEMENTS

I have relied on an article by Roger Alcaly (1978). See that article for further discussion. Thanks to Fred Moseley, Cigdem Kurdas, and Anwar Shaikh for their comments on an earlier draft. Of course, all sins, both venial and mortal, are mine alone.

NOTES

1. While other institutions and historically-specific events contribute to the actual form or timing of a crisis, their roles depend crucially on these contradictions.

2. Definitions come from Edwards, Reich and Weisskopf (1978:39–40). For two of Marx's exposition of these ideas, see Marx and Engels "The German Ideology" and Marx's "Preface" to "A Contribution to the Critique of Political Economy" in, Tucker (1978:146–200 and 3–6).
3. See the *Communist Manifesto* in Tucker (1978:475–477).
4. Here I ignore the difference between value and price categories. As Foley (1982) and others make clear, prices and Marxian values are connected at the level of the economy as a whole. The main difference involves the treatment of unproductive labor (labor that does not produce surplus value), a subject beyond the scope of this essay.
5. Underconsumption must be distinguished from over-production, which can occur not only due to low consumer demand but to inadequate demand of other sorts.
6. See Devine (1983, 1987) for development of these ideas. In the former article, I point to a case where production and realization conditions for profitable accumulation are both met for a few years (specifically, the 1920s). In this case, the economy is subject to increasing fluctuations.
7. Also, "crises are always but momentary and forcible solutions of the existing contradictions. They are violent eruptions which for a time restore the disturbed equilibrium" (Marx 1967c:249).
8. This is a mirror-image of the mainstream view that sees a contest between, (1) the underlying movement of capitalism toward harmony and stable growth with full employment and, (2) the counteracting exogenous shocks leading to disequilibrium. In some Marxian theories, however, the counter-tendencies raising the profit rate result from the basic tendency.
9. A fourth school is not discussed here because it is not represented below. The "regulation" school, centered in France, sees capitalist mass production as needing a stable mass consumer market in order to avoid a realization crisis such as that of 1929–33. A social system of "Fordist regulation" allows wage incomes to rise with production to avoid such a collapse. See, for example, Lipietz (1987).
10. Anwar Shaikh has argued that instead of raising the *rate* of profit, counter-acting tendencies only raise the total amount of profit.
11. The emphasis on epoch-making innovations by Mandel of the rising organic composition school and Baran and Sweezy (1966) of the monopoly/underconsumption school is akin to Joseph Schumpeter's (1939) conservative theory of long waves.
12. In their article below, Gordon, Weisskopf and Bowles do acknowledge that crises do not always arise from the capitalist class being "too weak" (as they allege took place in the 1960s). A general realization crises can result when the capitalist class is "too strong," as in the 1920s. See Devine (1983, 1987) for a different version of this idea.
13. See Brenner (1986). Cohen and Zysman (1987) argue the importance of manufacturing to national prosperity.
14. See Parboni (1981) and Cohen and Rogers (1983).
15. Marx wrote at the time of the gold standard. Nonetheless, he agreed with the Banking school of his time, which saw the money supply as hard to control. Crotty's article below suggests that modern leftists share many assumptions of the post-Keynesian school when it comes to monetary issues. For recent summaries of the latter literature suggesting that money and credit supplies are endogenous, see Sherman and Evans (1984 Chap. 17) and Lavoie (1984:771–797).
16. Note that Engels referred to crises that arise autonomously in the credit system (in Marx 1967c:236n). Minsky (1982) and post-Keynesians see fragility as mostly arising from within finance itself.
17. James O'Connor's *The Fiscal Crisis of the State* (1973) emphasizes the contradiction between promoting accumulation and the legitimation of the system.
18. Here I am following Eckstein (1981) who saw the inflation rate as the sum of three components: Phillips-curve inflation, supply-shock inflation, and core or structural inflation.
19. This theory assumes that many organizations have some power, like a monopoly, to set prices. Clearly, there are some groups who lose due to inflation, including those on fixed incomes or without bargaining power (that is, the poor).

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20. However, some, such as Krashevski (1986) stick to "old fashioned" definitions of full employment.